

Budget Address PROVINCE OF NOVA SCOTIA



Honourable J. Bernard Boudreau, Q.C.
Minister of Finance

Nova Scotia House of Assembly
*for the fiscal year **1996-97***

I. INTRODUCTION

Mr. Speaker, I am pleased and privileged to present to the Legislature, and to the people of Nova Scotia, the government's budget for the 1996–97 fiscal year. It is a budget that is historic, both for what it contains and for what it does not contain.

The financial plan we are unveiling today is an achievement more than two years in the making. Today, Nova Scotians share in an accomplishment worthy of distinction.

What this budget does not contain, Mr. Speaker, is a deficit. For the first time in a quarter century, we do not have to borrow from the future to pay for the present.

What this budget does contain, are the first tangible rewards to come from the arduous climb back to solid financial ground. Today, we can see a future with more promise than we have known for many years.

Mr. Speaker, two years ago when I stood in this House to deliver a budget, Nova Scotia was at the brink of financial ruin. Today, our finances are sound. Two years ago, our economy was foundering. Public services were in danger of collapse under the weight of massive public debt. Today our economy is growing stronger, tax relief is imminent, and our vital public services are secure.

We have come a long way. Just three years ago, deficits in the hundreds of millions of dollars were considered business-as-usual. Our debt was exploding, and payments on that debt were swallowing more and more of the money needed for services to Nova Scotians.

This government embarked, first on an emergency program and then on an orderly plan of recovery. But even with the latter, immediate and dramatic action was required. Significant and in some cases radical changes had to be made to the operations of government. Anything less would have doomed us to failure.

Today, old inefficient bureaucratic systems are giving way to new effective services to people. Public programs are safe, because we can afford them. The way has been paved to a more competitive Nova Scotia that can offer opportunity to all.

We have come a long way, but we have a way to travel yet. Our province must stay on solid financial ground and build competitive advantages that help business, industry, and individuals grasp the opportunities those advantages will offer.

*Finances are sound;
economy growing;
tax relief imminent.*

II. ECONOMIC CLIMATE

Nova Scotia's economy continued to grow in 1995. That growth moderated to 1.6 per cent, in part because of the profound structural changes that are taking place. The public sector is no longer the engine of economic growth. Private-sector productivity is the source of new wealth and lasting jobs.

This reality was reflected in the province's employment picture last year. In 1995, employment in the province grew by 1.1 per cent. The private sector created 6,000 jobs, while Nova Scotia experienced a net gain of 4,000 new jobs.

Mr. Speaker, Nova Scotians should welcome this fundamental economic shift. For too long, too much of our economy depended on government spending. Growth based on public spending was fleeting at best, phoney at worst. It was not sustainable. It was paid for with borrowed money and high taxes. The loans came due, but the economy was anaemic from over-taxation. That was the shape Nova Scotia was in when this government came to office.

Today, our economic growth is driven by increased productivity in the private sector. Government's role is to create conditions that encourage private-sector growth and new jobs. And, that is happening.

The measured economic growth of the past year will continue in 1996, at an annual pace of about 1.3 per cent. However, as the year proceeds, substantial new investment in large construction projects will accelerate, fueling more robust growth into 1997 and 1998. These positive developments include construction on Highway 104 and a major expansion at Stora Forest Industries.

In the spring of 1997, Nova Scotia's economy will begin to feel a new surge of vitality, as the largest single tax cut in this province's history takes effect. Blending the Provincial Sales Tax and the federal Goods and Services Tax into a single, lower tax on consumption is positive tax reform. But it is much more than that. It is a massive tax reduction and a massive boost to our economy.

It is estimated by all three provincial governments that are blending their sales tax with the GST, that it will increase economic output in each province by at least 0.5 per cent. Business costs will drop and investment will rise. In Nova Scotia, 3,000 new permanent jobs will be created. The hidden sales tax that was embedded in every product and service will be gone, making those goods and services less expensive for Nova Scotians, and more attractive to the world. That is real tax reform. That, Mr. Speaker, is real job creation.

A fundamental economic shift to growth from increased private-sector productivity.

Growth of 1.3% in 1996, accelerating in 1997 and 1998.

Economic surge, 3,000 new jobs result of blended sales tax.

III. FINANCIAL PERFORMANCE—1995–96

The government's priority upon assuming office in 1993 was not one of our own choosing. It was thrust upon us. Fiscal recovery was the pressing necessity. The expenditures of government had to be put in line with its revenues. On the revenue side, we were a province dependent on shrinking federal transfers. So the government had to look to its spending as the only way to achieve the essential budgetary balance.

Today, just more than two years into our four-year Expenditure Control Plan, we will post that balanced budget. Mr. Speaker, this did not happen by accident, and it could not happen without sacrifice. But surely no right-thinking Nova Scotian will argue that it was not necessary, for we were a province in danger of drowning in a sea of our own debt.

The spending reductions we made were carefully designed to protect Nova Scotians most in need, and to ensure continued and enhanced quality of service in vital programming. Look at the facts.

In 1993, 76 per cent of the province's program spending was devoted to health, education, and social services. Today, 79.3 per cent of program spending is in those three areas of service to Nova Scotians. Look back even further to gain a broader historical perspective. In 1980, health spending accounted for 22 per cent of the provincial budget. Today it accounts for 28 per cent.

In 1980, debt charges consumed only 8 per cent of the total provincial budget; today they consume 21 per cent. Therein lies the problem. It is not a problem of this government's making, but we have had, and will continue to have, the will to address it.

Mr. Speaker, there have been structural and operational changes to the Government of Nova Scotia. Those changes have helped bring spending and income into balance which, in turn, has secured the future of vital public programs and services.

When this government reduced its costs we did it with the public interest, not the provincial ledger, foremost in our minds. We reduced the size of the civil service, not through wide-spread layoffs, but through a generous early retirement offer which has been accepted by more than 3,000 public employees—some 90 per cent of those eligible.

*Nova Scotians most
in need protected from
spending reductions.*

*Increased funding
for long-term care,
home care, emergency
health services.*

We did it in our education system by taking money out of the boardrooms and spending it in the classrooms, where it benefits young Nova Scotians. We did it by cutting overall government spending by 12 per cent while increasing social services spending by 13 per cent.

And we are doing it in health care, by maintaining and enhancing access to clinical programs in every region of Nova Scotia; by increasing funding for long-term care, home care, and emergency health services; by maintaining spending levels for mental health; and through a labour adjustment plan that offers fair treatment and retraining to workers leaving hospitals.

Mr. Speaker, bold action was required in this province, and this government rose to that challenge. Fundamental change is never easy. What is easy, is sitting on the sidelines and criticizing, while preying on the fears of those who face uncertainty. Mr. Speaker, this government will not be deterred in its efforts to effect positive change by the relentless negativity of opportunistic second-guessers.

Now, Mr. Speaker, permit me to turn to the most recent successes of the government's plan for fiscal recovery. When the 1995–96 fiscal year began, we estimated a current account deficit of \$28.1 million. As the year progressed, higher-than-expected revenues from provincial and federal sources caused us to improve on that estimate in each of our regular financial updates.

Additional spending pressures since January—most notably in health programs and to support victims of past abuse in provincial institutions—have driven program expenditures higher.

*First current account
surplus in 15 years—
\$17.6 million.*

Despite this additional spending, I can report today that the province will record a current account surplus of \$17.6 million for the 1995–96 fiscal year. This represents the province's first balanced operating account in more than 15 years. We have improved on our original estimate by \$45.7 million, and improved on last year's performance by some \$102 million.

Aggressive debt management, combined with favourable interest and foreign currency levels, accounts for a significant share of this improvement. Debt-servicing costs for the fiscal year just ended will be \$45 million less than estimated at the beginning of the year.

Mr. Speaker, in 1992–93 Nova Scotia posted a record budgetary deficit—operating and capital—of \$617 million. In 1995–96 the figure was \$181 million. In just three years, \$436 million was carved off the deficit of this province.

This year we will eliminate the budget deficit entirely. In fiscal 1996–97, the government is bringing down a fully balanced budget. Indeed, we are estimating a \$2.8 million budget surplus. We are finally in a position to reverse the debilitating cycle of deficits, to begin to pay down the debt, and to reduce the debt-servicing costs that rob Nova Scotians of almost 1 billion tax dollars a year.

IV. MOVING FORWARD IN 1996–97

1996–97 marks the first time in a generation that a government in this province will achieve a balanced budget on combined operating and capital spending. The province does not need to borrow to pay for its operations or construction projects.

Revenues from provincial sources are expected to show solid growth in 1996–97. Steady improvement in consumer confidence will boost consumption tax revenue and push our provincial, own-source revenues 2.8 per cent above last year's total.

Federal transfers to the province are entering a new phase in 1996–97. The introduction of the Canada Health and Social Transfer (CHST) marks a significant departure from traditional federal-provincial cost sharing arrangements. Social welfare costs will no longer be subject to open-ended cost sharing with Ottawa.

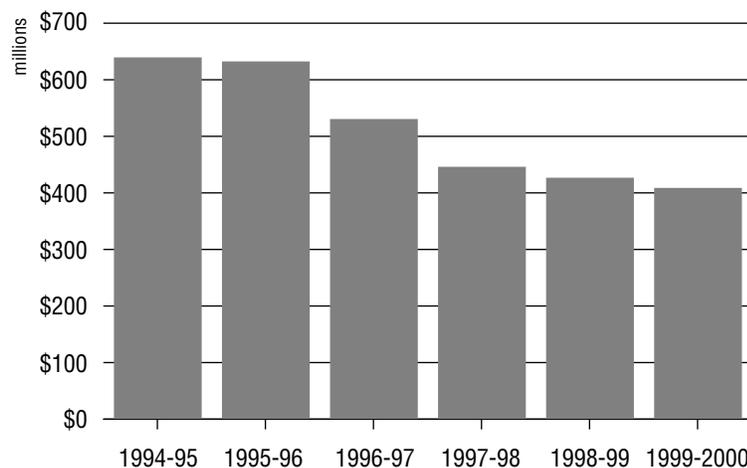
Under the new Canada Health and Social Transfer system, the federal government will provide a block fund to support health care, post-secondary education, and social welfare in all provinces. The total value of this national block fund will be \$3.5 billion less than the combined level of transfers last year. In Nova Scotia's case that means we will lose more than \$100 million this year alone.

Budget is fully balanced—\$2.8 million surplus—operating and capital.

Revenues expected to grow by 2.8%.

Federal health, education, and social funding reduced \$100 million.

Canada Health and Social Transfer 1994-95 to 1999-2000

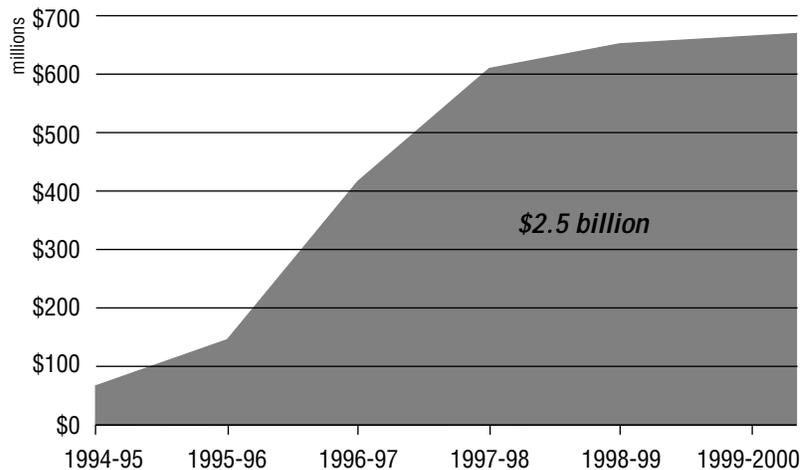


Cumulative losses of
\$2.5 billion.

Further reductions in the CHST will continue. In 1997–98 and over the ensuing five years, Nova Scotia's share of the CHST pot will decline as a per capita funding arrangement among provinces is phased in.

Other areas of federal funding have also been capped or reduced. Mr. Speaker, the writing is on the wall. This province cannot look to Ottawa to solve its fiscal or its economic problems. The combined effect of federal restraint measures, announced in recent budgets, will result in cumulative losses to the province estimated to reach \$2.5 billion by the year 2000.

*Cumulative Reduction in Federal Government Presence in Nova Scotia
1994-95 to 1999-2000*



V. KEEPING SPENDING IN CHECK

Clearly, the province must keep a firm grip on its spending in order to maintain fiscal stability. Fortunately, we can approach that task from the relative security of a balanced budget. We are not nearly so vulnerable as we were just a few years ago.

With fundamental reform well under way in all major areas of public spending, the government can now restore flexibility to the budgetary process.

The program spending reductions imposed by the Expenditure Control Plan will be lifted and replaced with new legislation that focuses on government's bottom line. The repeal of expenditure controls, two years ahead of schedule, is possible only because of the success of the program itself. Through strict adherence to expenditure controls, the government was able to apply its revenue and debt-servicing gains directly to deficit reduction. The results are evident in the balanced budget we have before us today.

Now we can restore government's ability to direct more of the taxpayers' dollars to the priorities set by the people of Nova Scotia. We will be introducing legislation that reflects the principles and actions proposed by government in the white paper, *Shaping the Future*. Those proposals have been endorsed by Nova Scotians.

A balanced budget is a major accomplishment for Nova Scotia, and a significant step toward a solid financial future. But our province must still address the legacy of more than 20 years of irresponsible spending and ever-larger deficits. That legacy is a debt of more than \$8.5 billion. That is roughly \$9,100 for every man, woman, and child in Nova Scotia. Interest and other debt charges cost the taxpayers of this province almost \$1 billion a year. Mr. Speaker, that's more than we spend to educate Nova Scotia's children.

The legislated plan for long-term financial stability will have at its core, three goals:

1. To ensure no government, present or future, takes Nova Scotia back to the brink of financial ruin;
2. To expand and enhance those vital services Nova Scotians care about, but to do so responsibly—as we can afford to;
3. To begin paying down debt so we can start to recapture the \$1 billion we lose each year to debt payments.

The new legislated program of fiscal stability and accountability will limit the growth of program expenditures to growth in revenues. Governments will have to live within their means.

The new law will limit additional appropriations. Total expenditures in any given year will not exceed the spending approved by this House by more than 1 per cent.

ECP lifted; program a success.

Legislation will set long-term plan for financial stability.

Surplus funds will pay down debt, lower taxes.

The legislation will require that, in the event a deficit is incurred, that deficit must be recovered within two fiscal years. Budgetary surpluses will be used to pay down debt or to reduce Nova Scotians' taxes.

Mr. Speaker, we've hit one milestone on the road to recovery—a balanced budget. Now it's time to take aim at a higher target. Now it's time to put Nova Scotia's future on solid ground. That is the only way to secure health care, education, and other vital services for today and tomorrow. That is the only way to lower taxes and give Nova Scotia the competitive advantages we need to prosper and create jobs. This legislation will help achieve those ends.

VI. BUILDING NOVA SCOTIA'S COMPETITIVE ADVANTAGE

Mr. Speaker, the government's role in the economy has changed, by necessity and by choice. For 20 years governments in this province threw money at economic problems. The only lasting legacy of those efforts is a huge debt and high taxes. Today, the government realizes that it can make a more positive contribution to the economic well-being of Nova Scotia, by reducing the burdens it places on economic initiative.

Reducing taxes is the greatest single contribution the government can make to Nova Scotia's economy. But it isn't the only contribution, because taxes aren't the only burden government places on business. Governments like to regulate. The problem is, regulations are regularly enacted, but rarely rescinded. Over the years, as new regulations were stacked on old, a complicated and confusing system was created.

This year the government took two important steps toward eliminating the confusion and streamlining the vast array of regulations. We created a single department that will conduct the lion's share of transactions between government and business, and we embarked on a major deregulation effort.

The Department of Business and Consumer Services is a single, open door to government. It combines nine agencies that are responsible for more than 90 per cent of the transactions between the Nova Scotia business community and the province. Soon, businesses will be able to do all their transactions with the government at a single access point, at service centres around the province, or, when the technology is in place, through on-line computer or telephone links. The dollars and time lost in dealing with the province will be dramatically reduced.

Streamlining regulations; eliminating confusion.

The new Department of Business and Consumer Services, in partnership with the Economic Renewal Agency, will spearhead a monumental government effort to review every regulation the province imposes. The objective is to eliminate, combine, refine, and streamline. Mr. Speaker, making it easier to do business in Nova Scotia, will help businesses grow and create new jobs.

Another redesign initiative that will pay off in increased economic activity is the merger of the former departments of Transportation and Communications and Supply and Services. The merger concentrates virtually all of government's capital spending in one department. That department has lead responsibility for building new public-private partnerships. We will use our capital budget to lever private investment. The result will be more direct investment in the economy of the province, more construction activity, and more jobs for Nova Scotians.

The efforts of the past two years are paying dividends right across government. The examples of better service and increased efficiency are everywhere. Many of those examples can be found on the pages of *Government By Design*, which for the third consecutive year provides a detailed view of the government's actions, plans, and goals. I am pleased to table *Government By Design, 1996-97, Building on Solid Ground*.

The conditions for growth:

Mr. Speaker, the first order of business for any government determined to create conditions that foster investment and growth, is to put its own finances in order. We are doing that. The next step is to provide business and industry with the competitive advantages they need to compete in the world, so they can grow and create jobs for Nova Scotians.

In 1995, Nova Scotia businesses competed as never before. The value of exports from the province grew by 14.5 per cent last year. That is a trend the government will continue to promote. When we export our products, our services, and our know-how, we create new wealth here at home.

The Premier has led trade missions and the government aggressively markets Nova Scotia around the world. Potential customers need to be told what we have to offer. And, what we have to offer must be competitively priced. Local, provincial, and federal taxes all add to the cost of our goods and services, and hamper the competitive position of our businesses and industries.

Capital budget to lever private investment.

Value of exports grew 14.5% in 1995.

In the past two years, the Nova Scotia government has targeted tax relief to strategic sectors of our economy and offered an equity tax credit that makes investing here more attractive. Last year alone, 32 equity tax credit applications were approved. This year we will build on that initiative.

Incentives for investing in Nova Scotia:

Community-based economic development holds the key to future prosperity. Securing capital has always been the biggest obstacle to community-based ventures. Today, we are announcing initiatives that will help bring Nova Scotians with ideas and know-how together with the capital they need to make good things happen.

To attract investment to community-based economic initiatives, we are expanding and enriching our equity tax credit program. Mr. Speaker, the improvements I am announcing today, will place eligible Nova Scotian enterprises among the most attractive investment opportunities in the country.

Nova Scotia already offers a 30 per cent tax credit for equity investment in Nova Scotia companies. This year we are greatly enhancing that tax advantage, by offering a 20 per cent guarantee on investments in qualifying community economic development (CED) corporations and cooperatives. Through the combined effect of these measures, the province is sharing the risk 50-50 with investors. To target this investment incentive to communities most in need, the guarantee will apply outside urban Halifax, Dartmouth, Bedford, and Sackville.

The province is seeking agreement from the federal government for RRSP contributions to be eligible for investment in community economic development initiatives. As we achieve that agreement, the pool of available capital will expand significantly. In addition, we are expanding the allowable investments of CEDs to include a broader range of businesses, and we will be introducing legislation to simplify the rules applied by the Securities Commission.

Mr. Speaker, the combined force of these investment incentives will open the door to a new source of capital for community-based enterprise. Communities across our province will have the tools they need to raise funds for good ideas. Good ideas, backed by the capital needed to get them off the ground, add up to new jobs for Nova Scotians.

CED initiative will attract new investment.

20% guarantee on CED investments.

A new source of capital for community enterprise.

Tax cuts for individuals:

The best economic idea any government can have, Mr. Speaker, is to put more money in the hands of the people. To do that, the government has to take less. Two years ago this government moved from single-year to four-year fiscal planning. At the same time we put in place an economic and fiscal plan with the objective of lowering taxes on Nova Scotians.

Today, Mr. Speaker, we can announce that in 1997 Nova Scotia will be in a position to reduce the personal income tax rate of every taxpayer by 3.4 per cent. That is a two point reduction in Nova Scotia personal income taxes from 59.5 per cent of the federal rate to 57.5 per cent. Nova Scotia will have the lowest income taxes east of Alberta. This broad tax reduction, effective July 1, 1997, is a tangible benefit of sound financial management. This is an historic measure, Mr. Speaker, in that it represents the first-ever rate decrease in personal income taxes in Nova Scotia.

Mr. Speaker, last year this government provided some \$13 million in tax relief to 155,000 low-income Nova Scotians and their families. Along with the income tax rate decrease, the Low-Income Tax Reduction Program will be enriched in the upcoming year.

The value of the low-income tax reduction will increase from \$200 to \$300 for adults and from \$105 to \$165 for each dependent child. A family of four with a net family income of \$15,000 will receive a tax break of \$930. The low-income tax reduction is gradually phased-out as income increases above \$15,000. Next year, an additional 65,000 Nova Scotians will qualify for this tax cut, and families with incomes of \$15,000 and less will see their taxes reduced by nearly two-thirds.

The total value of this tax reduction to low-income Nova Scotians will reach \$25 million in the 1997 tax year.

Help for the least advantaged:

Other low-income Nova Scotians, Mr. Speaker, do not benefit from tax relief simply because they do not pay taxes. This government has recognized its responsibility to these Nova Scotians. The budget of the Department of Community Services has increased over the last three years, during a time when most other expenditures of government were declining.

Personal income taxes cut 3.4%; first-ever rate reduction.

Low income tax cut enriched to \$25 million.

\$8 million for additional assistance.

The government is determined that the least advantaged Nova Scotians will not be forgotten as our fiscal picture, and our ability to respond to real human need, improves. Beginning in 1997, we have budgeted an additional \$8 million for Nova Scotians most in need. The Department of Finance will work with our colleagues in the Department of Community Services, and consult with other Nova Scotians to determine the most effective way to get this additional money in the hands of Nova Scotians who need it most.

More tax relief:

Mr. Speaker, even while it provides additional assistance to low-income Nova Scotians, this government never loses sight of the maxim that a job is the best social program. The expansion and enhancement of our equity tax credit, and blending two sales taxes into one will dramatically increase job prospects in Nova Scotia. A number of other tax initiatives will be implemented this year to build on the growing competitive advantages of doing business in Nova Scotia.

- Currently, machinery and equipment are included in business assessments for municipal property tax purposes. That burden on business was to be phased out over 10 years. To assist capital-intensive industry in becoming more competitive, the phase-out process will be accelerated. Machinery and equipment will be eliminated from the property tax base within 3 years instead of the original 10. The province will bear the cost of this accelerated timetable by compensating municipalities for the revenue loss.
- Many smaller firms are not in a taxable position in their early years and are therefore not able to take advantage of Nova Scotia's corporate income tax credit that reduces the cost of filing a prospectus. To assist these firms, we will be implementing a seven-year carry-forward provision on this credit.
- To assist first-time home buyers, and as an incentive to new home construction, the province will extend its New Homeowners' Incentive Rebate Program until March 31, 1997. This program provides a rebate of up to \$3,000 for provincial sales tax on building materials.
- New environmental standards for businesses will help protect Nova Scotia's natural heritage. To help Nova Scotia businesses become certified to ISO 14000 standards, the province will provide a 25 per cent corporate income tax credit on related costs, up to \$150,000.

New homeowners' rebate extended to March 1997.

- To encourage the use of more environmentally friendly alternative fuels, the tax rate on propane fuel will be lowered from the current 13.5 cents per litre to 7 cents per litre effective at midnight tonight.

Mr. Speaker, where possible, it is important to ensure that equity raised in Nova Scotia is invested effectively in the province. Currently, the province offers a 20 per cent tax credit to individuals investing in a Labour-Sponsored Venture Capital Fund. To date in Nova Scotia, over \$18 million has been raised for such funds. To ensure that equity does not merely accumulate and is applied to investments within the province, we will be adjusting our legislation to mirror recent changes in federal rules regarding Labour-Sponsored Venture Capital Corporations.

The Labour-Sponsored Venture-Capital tax credit for investing in these corporations will be reduced from 20 per cent to 15 per cent on a maximum share purchase of \$3,500. The holding period for shares in provincially registered LSVC corporations will be increased from four to eight years on shares acquired after today.

VII. SIMPLIFYING THE SALES TAX SYSTEM

Mr. Speaker, since the imposition of the national Goods and Services Tax in 1991, Nova Scotians, like most Canadians, have struggled with two levels of sales tax. The confusing system of tax stacked on tax is a burden for consumers and businesses alike.

Earlier this week, Nova Scotia was one of three Atlantic provinces to announce it has reached a Memorandum of Understanding with the federal government that will see these two taxes blended into one. Nova Scotia will be reducing its sales tax from an effective rate of 11.8 per cent to just 8 per cent. That amounts to a provincial tax cut of \$120 million—without question the biggest tax cut in Nova Scotian history.

Nova Scotians will benefit directly from this measure by paying less sales tax on many items. Consumers will also benefit from lower prices, as the reduction in the cost to business flows through to the retail price. After all, Mr. Speaker, a tax on business is a tax on consumers.

This measure removes sales tax from business inputs. Once it comes into force on April 1, 1997, businesses making taxable supplies in this province will be

Propane fuel tax reduced.

Blended sales tax—a \$120 million tax cut.

Growth in exports to accelerate.

rebated for 100 per cent of the taxes they pay on the goods and services they use. This Input Tax Credit will improve our competitive position in the international marketplace. Exports now account for 15.5 per cent of our economic output, and that number is growing rapidly. That growth will accelerate in the new tax climate, bringing new wealth and new jobs to Nova Scotians.

Nova Scotians will benefit again, from increased economic activity and more job opportunities, as businesses reinvest their tax savings and increase production to meet growing demand.

Mr. Speaker, the province could not contemplate a tax reduction of this magnitude without offsetting measures. As part of the package, the federal government will provide Nova Scotia with \$249 million in adjustment assistance over four years. Even that level of assistance will not nearly cover the province's revenue loss.

Tax reduction phased-in for cars, trucks, heavy equipment.

To help ease the transition, the province will phase-in the tax reduction on the lease and purchase of new cars, trucks, and heavy equipment. Currently they are taxed at the combined GST-PST rate of 18.8 per cent. On April 1, 1997, the day the blended tax comes into effect, the tax on these vehicles will be reduced to 17 per cent. A year later it will be reduced to 16 per cent, and finally, in the third year, it will be reduced to the blended sales tax rate of 15 per cent.

This measure will not only ease provincial revenue losses, it will cushion the automobile dealers from a buying lull that would have preceded harmonization if the rate were to fall from 18.8 to 15 per cent overnight.

Corporate Capital Tax to raise \$45 million.

To help make harmonization financially feasible over the longer term, the province must recapture some of the tax savings gained by our largest and wealthiest businesses. Effective April 1, 1997, the province will introduce a corporate capital tax of 0.25 percentage points on financial capital. This tax will not apply to businesses with less than \$5 million in financial capital and will be phased in for businesses with financial capital of between \$5 and \$10 million. Its full impact will be felt only by firms with capital in excess of \$10 million. About 1,000 businesses will pay the full Corporate Capital Tax. It is expected the province will raise \$45 million in revenue annually from this measure.

VIII. CONCLUSION

Mr. Speaker, Nova Scotians are now learning about the complete package of tax relief. It is the government's responsibility to ensure that the tax system treats every Nova Scotian and all segments of our economy fairly. The package of tax reform we have outlined today and this week achieves that objective.

In a year's time, and following discussions with Nova Scotians from all sectors of our economy, a single, blended sales tax will be put in place. Those discussions will centre around how to maximize our economic and collective financial benefits. We will listen to Nova Scotians' concerns and try to address those concerns in the agreement we sign with the federal government.

We will be asking Nova Scotians how best we can assist those on low and fixed incomes and ensure they too benefit from this fundamental change in our tax system.

But this government's package of tax relief only begins with the blended sales tax. Our program of tax reductions also includes a personal income tax cut for every taxpayer; additional tax relief for low-income Nova Scotians; and major tax incentives for those who invest in our province. The wealthiest companies in Nova Scotia are being asked to make an additional contribution to their province. That, Mr. Speaker, is fair.

Mr. Speaker, we can cut taxes only because we have put our financial house in order. Now that Nova Scotia is on solid ground, it is time to start building; building a more competitive economy; building secure public services; building on the new opportunities offered in our changing world; building hope for those who have lost hope; and building a better future for every Nova Scotian.

Thank you, Mr. Speaker

*Tax cuts possible because
finances are solid.*

TOTAL ORDINARY REVENUES 1996-97
Key Assumptions – April 22, 1996



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

Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the Fiscal Year 1996–97 Used in the Preparation of the Budget Address

I am required by Section 65A of the Provincial Finance 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 1996–97 (the 1996–97 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of April 22, 1996. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 1996–97 revenue estimates of \$4,178,061,000 for total ordinary revenue. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- as at the date of this report, the assumptions used by the department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 1996–97 revenue estimates; and
- the 1996–97 revenue estimates as presented reflect fairly such assumptions.

Since the 1996–97 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider the 1996–97 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

A handwritten signature in cursive script that reads 'E.R. Salmon'.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
April 22, 1996

Key Assumptions – April 22, 1996

<i>Revenue Sources</i> (\$ Thousands)	<i>Estimate</i> 1995–96	<i>Forecast</i> 1995–96	<i>Estimate</i> 1996–97
Personal Income Tax	898,707	881,294	902,012
Corporate Income Tax	110,765	99,138	106,200
Health Services Tax	741,500	741,500	749,200
Tobacco Tax	58,700	69,700	85,000
Motive Fuel Tax	197,100	197,100	199,400
Liquor Commission Profits	113,701	113,450	114,529
Gaming Corporation Profits	132,300	121,700	131,325
Equalization	1,079,966	1,126,187	1,147,906
Established Programs Financing ¹	352,900	364,695	–
Canada Assistance Plan ¹	271,348	272,248	–
Canada Health and Social Transfer ¹	–	–	529,022
Other Sources	201,821	203,286	213,467
Prior Years' Adjustments	–	51,241	–
Total Ordinary Revenue	4,158,808	4,241,539	4,178,061
Restatement for User Fees ²	(296)	(317)	–
Restated Revenue	4,158,512	4,241,222	4,178,061

1 Beginning in 1996–97, the Canada Health and Social Transfer will replace Canada Assistance Plan (CAP) payments and Established Programs Financing (EPF) transfers. In previous years, CAP payments were netted against spending. For purposes of comparability, in 1995–96, CAP is shown as a revenue item.

2 The 1995–96 estimate and forecast have been restated for user fee transfers that take effect in 1996–97.

Economic and Revenue Outlook

The revenue estimates of the province are a key component of the Fiscal Plan. In 1996–97, the province is estimating a decline in ordinary revenue of \$63.2 million from 1995–96 levels and very modest growth over the medium term. Total revenues before budget measures will fall by \$59.9 million or 1.4 per cent over a comparable forecast for 1995–96. The key economic and fiscal assumptions behind the 1996–97 budget estimates are detailed in the following paragraphs.

Economic Outlook

National Economic Conditions

Nova Scotia is a small, open economy in the international economic forum. External economic conditions, especially in Canada and the United States, exert a substantial impact on the province's economic performance and outlook.

Canada's economic growth in 1995 was much lower than had been expected by many forecasters at the start of 1995. Exports

continued to set the pace, but at a less robust rate of growth as weaker performance took hold in the United States. Economic growth in Canada will continue to be export-led in 1996 and 1997 as domestic consumer and investment spending remains sluggish. However, the increase in the value of exports will moderate significantly over this period.

Persistent weak domestic demand, coupled with quiescent inflation, prompted the Bank of Canada to move aggressively early in 1996 to push down short-term rates through the overnight financing rate, to narrow spreads sharply, and to establish a new basis for setting the bank rate. In addition to lowering short-term rates in an effort to stimulate domestic demand in a policy environment of continuing contractionary fiscal policy, it is apparent that the Bank is prepared to intervene in financial markets in a manner consistent with a dollar in the 73.5 cent range over the near term, and thereby sustain export-trade impetus in the face of moderating economic growth in the United States.

Under these circumstances, the Nova Scotia Department of Finance expects growth in the Canadian economy to ease from 2.2 per cent in 1995 to 1.9 per cent in 1996, and then to improve marginally to 2.0 per cent in 1997. Growth in corporate profits will pull back sharply from the double-digit gains of 1995. Employment will grow just under 1.5 per cent in both 1996 and 1997, and the unemployment rate will show little improvement over the 9.5 per cent rate achieved in 1995.

Personal income growth will remain positive, but is forecast to ease to 2.5 per cent in 1996 and then rise by 3.2 per cent in 1997. Consumers will remain nervous, given the high debt levels run up in recent years and the prospects for only gradual improvement in job prospects. Housing starts activity will be slow to recover, and retail sales growth is expected to be modest, at 3.0 per cent in 1996 and 3.5 per cent in 1997.

Economic fundamentals are positive for the Canadian economy. There always remains the prospect that financial markets will be influenced by developments in the political climate. However, low inflation, a favourable interest-rate environment, and strong economic underpinnings for the dollar are all conducive to continued, if unspectacular, economic growth in Canada.

The key national economic forecast assumptions incorporated into the Budget are displayed in the schedule below.

Provincial Economic Conditions

Nova Scotia's economic growth path will mirror the Canadian economy's over the short term. Economic growth is forecast at 1.3 per cent in 1996, moving upward to 1.5 per cent in 1997. Employment growth will be positive but is expected to grow at an annual rate not exceeding 1 per cent.

As in Canada, the growth in the value of exports will be less robust in 1996. The pace of growth experienced in the value of Nova Scotia exports is unsustainable, as a number of the province's export industries are at or near full capacity, and prices for woodpulp and newsprint appear to have peaked. However, manufacturing is expected to continue to grow at 3 per cent or above over this period. Transportation and communication, propelled by productivity increases, technological changes, and continued growth in market demand, will also perform in this range. Construction activity will drop overall in 1996 as housing starts weaken further; however, at mid-year substantial new capital investment projects are scheduled to get under way. This activity will gather strength in 1997, and construction will lead the economy in growth. Economic growth, overall, will be constrained by continued government spending restraint and by economic supply limitations in the natural resources sector.

Modest employment growth and minimal growth in wage settlements translate into

<i>National Forecast Assumptions</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Gross Domestic Product, 1986\$ (% increase)	2.2	1.9	2.0
Gross National Product (% increase)	3.9	3.8	4.0
Canadian Exchange Rate (US\$/C\$)	0.729	0.735	0.743
Consumer Price Index (% increase)	2.1	2.0	2.0
Employment (thousands)	13,506	13,668	13,859
Retail Sales (% increase)	2.1	3.0	3.5
Unemployment Rate (%)	9.5	9.4	9.4
Personal Income (% increase)	3.3	2.5	3.2
Corporate Profits before Tax (% increase)	14.8	6.3	3.9
Exports (% Increase)	16.1	6.6	4.3
3-Month Treasury Bill (%)	6.98	5.25	6.00
Population (% increase)	1.2	1.1	1.2

Source: Statistics Canada (actuals), Nova Scotia Department of Finance (projections). 3-Month Treasury Bill and Canadian Exchange Rate is an average of weekly Friday closing rates.

<i>Provincial Forecast Assumptions</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Gross Domestic Product (billions 1986\$)	15.1	15.3	15.5
Gross Domestic Product, 1986\$ (% increase)	1.6	1.3	1.5
Consumer Price Index (% increase)	1.3	1.5	1.5
Employment Level (thousands)	384	387	389
Unemployment Rate (%)	12.1	11.6	11.8
Personal Income (% increase)	1.6	1.3	1.9
Corporate Profits before Tax (% increase)	12.4	5.0	2.9
Retail Sales (% increase)	-1.5	1.5	2.0
Exports (% increase)	14.5	2.0	3.0
Population (% increase)	0.4	0.4	0.3

Source: Statistics Canada (actuals), Nova Scotia Department of Finance (projections).

personal income growth of 1.3 per cent in 1996 and 1.9 per cent in 1997. Retail sales will stage some recovery in 1996, but income growth will hold the advance in retail sales to 1.5 per cent in 1996 and 2.0 per cent in 1997.

Corporate profits performance follows a track similar to that of the Canadian economy over the next two years. Profits growth remains positive in both 1996 and 1997, but the sharply lower rate of growth compared to 1995 reflects a levelling off in growth in the value of exports.

The key provincial economic assumptions supporting provincial revenue estimates are displayed above. In this Budget, the output of the provincial economy is reported on the basis of Gross Domestic Product at Market Prices. This is conceptually consistent with the reported growth rates for the Canadian economy, and with the growing preference of forecasters to state economic growth on this basis.

Revenue Outlook 1996-97

Total ordinary revenues for 1996-97 are estimated to be \$4,178 million, a decline of 1.5 per cent over the 1995-96 forecast. This estimate of revenues includes the budget measures announced in the 1996 Budget Address. These measures will decrease revenues by \$3.3 million. Total revenues before budget measures and prior years' adjustments (PYA) are estimated to decrease by \$8.7 million or 0.2 per cent over the comparable forecast for 1995-96.

Personal Income Tax is the single largest source of Nova Scotia's own source revenues. For the 1994 tax year the province received a

positive (PYA) of \$6.6 million, a variation of less than of 1 per cent. In 1996-97, personal income tax is estimated to grow from its 1995-96 level of \$881.3 million to \$902.0 million, for growth of \$20.7 million or 2.4 per cent. This change is largely driven by increases in personal income. Also contributing to the growth are changes to the federal definitions of Basic Federal Tax, which is the basis upon which Nova Scotia applies its 59.5 per cent rate.

Corporate Income Tax in the 1994 tax year Nova Scotia received a negative corporate income tax prior year adjustment of \$10.5 million. This PYA was mainly caused by \$8.2 million in negative reassessments for previous tax years and by higher than expected costs for the non-refundable Nova Scotia Research and Development Tax Credit. In 1996-97 corporate income tax revenues are expected to rise by \$7.1 million or 7.1 per cent. Increasing corporate profits are the chief cause of Nova Scotia's rising corporate income tax revenues.

Health Services Tax (HST) revenues are expected to rise by \$7.7 million or 1.0 per cent to \$749.2 million in 1996-97. Positive retail sales growth of 1.5 per cent in 1996 contributes to much of this growth. The removal of sales tax on tobacco products instituted on November 6, 1995 will have a negative impact on HST revenues in 1996-97, reducing revenues by as much as \$14 million. This figure is based on the Provincial Tax Commission's belief that the province was collecting only 50 per cent of the sales tax related to legal sales of tobacco products. After removing the sales tax collected on tobacco in 1995-96, growth in the sales tax base amounts to 1.7 per cent in

1996–97. This growth rate does not include the impact of Budget measures and increased compliance. Budget measures are predicted to lead to a \$4.2 million decrease in HST revenues in 1996–97. Increased compliance due to more intense auditing efforts is expected to augment HST revenues by \$3.4 million in 1996–97.

Tobacco tax revenues are forecast to rise by \$15.3 million or 22.0 per cent to \$85 million in 1996–97. The removal of sales tax on tobacco products instituted on November 6, 1995 will inflate tobacco tax revenues by as much as \$28 million on a full fiscal year basis. The tobacco tax rates were increased by an amount equivalent to the value of the removal of sales tax on tobacco products as of November 6, 1995. Thus, tobacco tax revenues in 1995–96 will be roughly \$11 million higher than the original Budget estimate due to this change in tax treatment. The estimated increase in tobacco tax revenues between 1995–96 and 1996–97 as a result of the tax change will be approximately \$17 million. Even though the tax change was price neutral, the overall general trend of declining tobacco consumption is expected to continue. Therefore, the \$17 million gain will be partially offset by the negative impact of declining consumption. Increased compliance will boost tobacco tax revenues by \$0.2 million in 1996–97.

Motive fuel tax revenues are projected to grow by \$2.3 million or 1.2 per cent to \$199.4 million in 1996–97. Motive fuel tax revenues are directly proportional to consumption. Consumption of motive fuels is expected to keep pace with growth in Gross Domestic Product, which is forecast to increase 1.3 per cent in 1996. A low exchange rate environment will stimulate tourist activity and subsequently lead to increased fuel consumption, especially with respect to gasoline. Low exchange rates will also stimulate manufacturing and transportation activity, thereby placing upward pressure on fuel consumption, especially with respect to diesel fuel. Budget measures are predicted to reduce revenues by \$0.4 million in 1996–97. Increased compliance will raise motive fuel tax revenues by \$0.4 million in 1996–97.

Nova Scotia Liquor Commission profits are estimated to be \$114.5 million in 1996–97, an increase of 1.0 per cent from the 1995–96 forecast. Despite soft volume trends, there will

be a slight increase in 1996–97 income from operations. This reflects the Commission's attempt to minimize these soft volume pressures through merchandising and cost containment initiatives.

Nova Scotia Gaming Corporation Profits are expected to experience 7.9 per cent growth in 1996–97 revenues over the forecast to an estimated \$131.3 million. Much of this growth is due to the timing and recording of revenue guarantee payments from the Sheraton Casino. The \$100 million revenue guarantee is being recorded at \$2.08 million per month over the period of the income assurance agreement beginning August 1, 1995 (\$16.7 million in 1995–96 and \$25 million in 1996–97). Atlantic Lottery Corporation payments are expected to increase 3.4 per cent in 1996–97. This growth is lower than previous years as many of the Atlantic Lottery Corporation products begin to reach the mature stage of their life cycle.

Fiscal Equalization revenue is expected to increase by 1.9 per cent over the forecast to \$1,147.9 million. Equalization revenues reflect revised tax base and revenue information as of April 10, 1996. The 1995–96 prior years' adjustment includes \$36.3 million from equalization. The adjustments to prior years' entitlements and the growth over the forecast are primarily a result of the slower rate of economic growth in Nova Scotia relative to the standard provinces of Quebec, Ontario, Manitoba, Saskatchewan, and British Columbia.

The Canada Health and Social Transfer (CHST) is estimated to be \$529 million in 1996–97. This cash transfer from the federal government replaces Established Programs Financing and Canada Assistance Plan payments. In 1995–96, these two transfers combined were \$637 million. In 1996–97 the transfer will be allocated among provinces based on the provincial share of EPF and CAP in 1995–96 and 1994–95 respectively. Under this new arrangement with the Federal Government, Nova Scotia will receive \$108 million less than it did in 1995–96. Beginning in 1997–98 a new formula will initiate a move in the distribution of the national entitlement toward a per capita allocation.

Previously in the Budget Estimates of Nova Scotia, expenditures and revenues were

shown net of Canada Assistance Plan payments. To provide a comparable measure of revenue change, 1995–96 revenues have been restated to include Canada Assistance Plan payments.

Additional Information

In addition to the key economic and fiscal assumptions contained in the 1996–97 revenue estimates, the following information should also be taken into account when interpreting the revenue estimate.

The revenue estimates are considered to have been prepared on a basis consistent with the accounting policies currently used by the province to record and/or recognize revenue for purposes of its traditional non-consolidated financial statements. It is acknowledged that the provincial estimates, including the revenue estimates, provide information on only the Consolidated Fund.

In years prior to 1996–97, Canada Assistance Plan (CAP) recoveries have been restated so as to appear as a revenue item. This is to provide consistency with the 1996–97 revenue estimate, which includes a new federal transfer program, the Canada Health and Social Transfer (CHST). This revenue source combines transfers previously provided by the federal government under Established Programs Financing (EPF) and CAP. In previous years, these CAP recoveries were netted against current expenditures. These have been restated in both the estimate book and budget address schedules as well as the Key Assumptions table of Revenue Sources.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 1996–97 using a combination of current

internal and external models and other information available. Every effort has been taken to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

Revenues forecast to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporate official information released by the Federal Government as of March 1, 1996 and April 10, 1996. Information currently available indicates that the Province will not qualify for stabilization payments during 1996–97. Prior Years' Adjustments are normally made to federal transfers and to income tax revenues. Current official information indicates there will not be any material Prior Years' Adjustments that have not already been taken into account.

Consistent with prior years and the province's existing accounting policies and financial statement presentation, estimated income from sinking fund investments has not been included in the 1995–96 revenue estimates. Recoveries of expenditures, under various federal-provincial development agreements or from other departments or entities, and user fees have been estimated and netted against departmental expenditures for purposes of approval of appropriations in 1996–97. For consistency purposes these items are not considered part of the 1995–96 revenue forecast as reflected in the Key Assumptions table of Revenue Sources.

Any and all impacts or implications of the government's actions or plans to reduce or further control public sector expenditures have been fully considered and appropriately reflected in the specific revenue estimates.

FINANCIAL AND SUPPLEMENTARY INFORMATION
to the Budget Address 1996–97

BUDGETARY SUMMARY (\$'000)**Schedule 1**

<i>ACTUAL</i> 1994-95	<i>ESTIMATE</i> 1995-96	<i>FORECAST</i> 1995-96		<i>ESTIMATE</i> 1996-97
4,131,162	4,158,808	4,241,539	Ordinary Revenue	4,178,061
3,262,306	3,200,792	3,259,564	Net Current Account Expenditures	3,202,514
41,975	42,932	66,343	Restructuring Costs	38,600
260,196	284,980	315,688	Net Capital Account Expenditures	159,175
3,564,477	3,528,704	3,641,595	Net Program Expenditures	3,400,289
911,626	943,167	898,070	Debt Servicing Costs	896,871
109,870	129,800	117,100	Sinking Fund Earnings	121,900
801,756	813,367	780,970	Net Debt Servicing Costs	774,971
(235,071)	(183,263)	(181,026)	Budgetary Surplus (Deficit)	2,801

NOTE: In the 1996-97 Estimate, federal funding provided under the new Canada Health and Social Transfer program is included in Ordinary Revenue. For comparability purposes, the funding received under the Canada Assistance Plan has been restated as Ordinary Revenue in the 1994-95 Actual, the 1995-96 Estimate and the 1995-96 Forecast. Originally, these funds were stated as a recovery of expenditures in these years. The effect of these changes is an increase in revenue and a corresponding increase in expenditures of \$270.303 million in the 1994-95 Actual, \$271.348 million in the 1995-96 Estimate and \$272.248 million in the 1995-96 Forecast.

ORDINARY REVENUE — SUMMARY (\$'000)

Schedule 2

<i>ACTUAL</i> 1994-95	<i>ESTIMATE</i> 1995-96	<i>FORECAST</i> 1995-96	<i>DEPARTMENT AND SERVICE</i>	<i>ESTIMATE</i> 1996-97
748	645	591	Agriculture and Marketing	515
—	—	—	Business and Consumer Services	1,141,262
(2)	—	—	Education and Culture	—
784	1,310	1,310	Environment	1,339
3,977,032	4,022,039	4,106,041	Finance	2,996,788
222	69	75	Fisheries	669
1,256	1,350	1,268	Health	—
44,581	34,859	35,124	Housing and Consumer Affairs	—
10,318	9,569	9,560	Housing and Municipal Affairs	9,567
7,844	5,839	6,237	Justice	1,937
804	736	633	Labour	665
12,659	11,178	11,508	Natural Resources	9,750
2,975	12,162	12,731	Public Service	14,558
951	902	620	The Nova Scotia Economic Renewal Agency	1,011
70,990	58,150	55,841	Transportation and Public Works	—
4,131,162	4,158,808	4,241,539		4,178,061

NOTE: In the 1996-97 Estimate, federal funding provided under the new Canada Health and Social Transfer program is included in Ordinary Revenue; Department of Finance. For comparability purposes, the funding received under the Canada Assistance Plan has been restated as Ordinary Revenue in the 1994-95 Actual, the 1995-96 Estimate and the 1995-96 Forecast. Originally, these funds were stated as a recovery of expenditures in these years. The effect of these changes is an increase in revenue of \$270.303 million in the 1994-95 Actual, \$271.348 million in the 1995-96 Estimate and \$272.248 million in the 1995-96 Forecast.

NET CURRENT ACCOUNT EXPENDITURES — SUMMARY (\$'000)

Schedule 3

<i>ACTUAL</i> 1994-95	<i>ESTIMATE</i> 1995-96	<i>FORECAST</i> 1995-96	<i>DEPARTMENT AND SERVICE</i>	<i>ESTIMATE</i> 1996-97
38,803	35,775	35,681	Agriculture and Marketing	32,112
—	—	—	Business and Consumer Services	36,716
513,210	538,307	544,007	Community Services	539,537
775,295	742,000	739,882	Education and Culture	734,212
199,635	194,762	194,762	Assistance to Universities	184,015
16,744	17,895	17,253	Environment	16,463
16,684	16,049	14,474	Finance	9,342
7,064	8,269	8,181	Fisheries	6,290
1,175,862	1,146,170	1,173,675	Health	1,143,619
23,346	22,456	22,322	Housing and Consumer Affairs	—
78,917	57,808	57,015	Housing and Municipal Affairs	75,449
3,488	4,229	4,153	Human Resources	4,051
55,895	70,926	102,964	Justice	73,754
12,518	17,000	15,817	Labour	15,613
53,452	52,396	52,108	Natural Resources	53,656
59,122	43,072	45,804	Public Service	47,476
54,253	50,763	50,360	Supply and Services	—
58,362	74,278	73,908	The Nova Scotia Economic Renewal Agency	69,560
119,656	108,637	107,198	Transportation and Public Works	160,649
3,262,306	3,200,792	3,259,564		3,202,514

NOTE: In the 1996-97 Estimate, federal funding provided under the new Canada Health and Social Transfer program is included in Ordinary Revenue. For comparability purposes, the funding received under the Canada Assistance Plan has been restated as Ordinary Revenue in the 1994-95 Actual, the 1995-96 Estimate, and the 1995-96 Forecast. Originally, these funds were stated as a recovery of expenditures in these years. The effect of these changes is an increase in expenditures in the Department of Community Services of \$262.312 million in the 1994-95 Actual, \$259.507 million in the 1995-96 Estimate, and \$260.407 million in the 1995-96 Forecast. Also, expenditures in the Department of Health will increase by \$7.991 million in the 1994-95 Actual and \$11.841 million in the 1995-96 Estimate and the 1995-96 Forecast.

NET CAPITAL ACCOUNT EXPENDITURES — SUMMARY (\$'000)

Schedule 4

<i>ACTUAL</i> 1994–95	<i>ESTIMATE</i> 1995-96	<i>FORECAST</i> 1995–96	<i>DEPARTMENT AND SERVICE</i>	<i>ESTIMATE</i> 1996–97
368	400	400	Agriculture and Marketing	400
26,800	32,052	32,052	Education and Culture	34,508
4,819	4,819	4,819	Assistance to Universities	4,819
1,011	2,500	1,560	Environment	2,370
62,652	49,528	46,828	Health	18,560
39,639	53,387	55,054	Housing and Municipal Affairs	15,000
487	550	550	Justice	548
14,119	9,624	6,878	Natural Resources	200
3,850	–	–	Public Service	2,029
10,776	19,716	35,559	Supply and Services	–
258	188	94	The Nova Scotia Economic Renewal Agency	1
97,421	112,216	131,894	Transportation and Public Works	80,740
(2,004)	–	–	Proceeds on Disposal of Capital Assets	–
260,196	284,980	315,688^(A)		159,175

(A) Includes approved Carry-Forwards from 1994–95 Fiscal Year totalling \$38.256 million.

			Capital Advances under the Appropriations Act	
23	45	45	Agriculture and Marketing	45

STATUTORY CAPITAL ITEMS — SUMMARY (\$'000)

Schedule 5

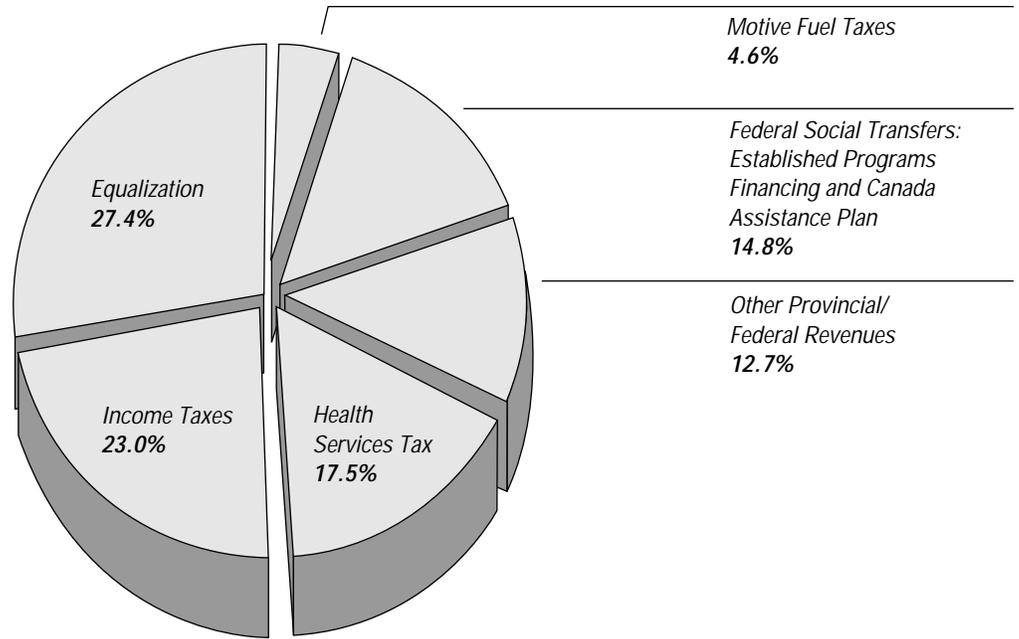
ACTUAL 1994-95	ESTIMATE 1995-96	FORECAST 1995-96		ESTIMATE 1996-97
			CAPITAL ADVANCES AND INVESTMENTS	
			for which no Vote is required under the Appropriations Act.	
			The following is given for information as to the proposed	
			program under the respective statutes.	
			ADDITIONAL ADVANCES AND INVESTMENTS	
7,251	9,000	8,500	Fisheries Development Fund	9,000
26,133	15,470	10,010	Housing Development Fund	13,002
7,266	7,000	1,000	Industrial Development Act	11,000
25,154	50,600	25,000	Nova Scotia Business Development Corporation	63,500
23,949	23,000	23,000	Nova Scotia Farm Loan Board	23,000
180	—	—	Venture Corporations Act	—
89,933	105,070	67,510		119,502
			REPAYMENTS	
8,912	8,000	9,500	Fisheries Development Fund	8,000
23,582	15,441	11,534	Housing Development Fund	12,352
—	350	1,100	Industrial Development Act	500
162	137	137	Municipal Hospitals Loan Act	92
676	563	563	Municipal Loan and Building Fund Act	536
15,645	12,750	12,000	Nova Scotia Business Development Corporation	15,200
19,119	14,500	17,500	Nova Scotia Farm Loan Board	16,218
537	80	62	Venture Corporations Act	40
1,821	1,274	1,292	Miscellaneous	1,250
70,454	53,095	53,688		54,188
19,479	51,975	13,822	Net Capital Advances and Investments	65,314
2,593	2,500	2,242	Department of Transportation ⁽¹⁾	2,700
			and Public Works machinery purchases	
			financed through depreciation charges	

(1) Spending Authority contained in the Public Highways Act.

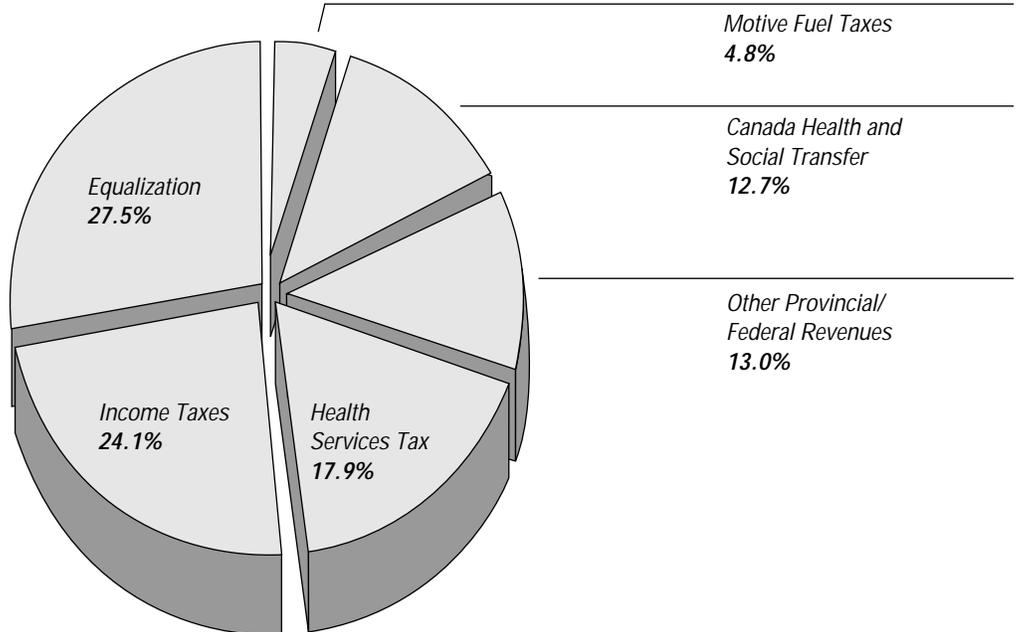
ORDINARY REVENUES BY SOURCE

Chart 1

1995-96



1996-97



NOTE: Ordinary Revenues include Prior Years' Adjustments.

HISTORICAL ANALYSIS OF TOTAL NET EXPENDITURES BY FUNCTION

Schedule 7

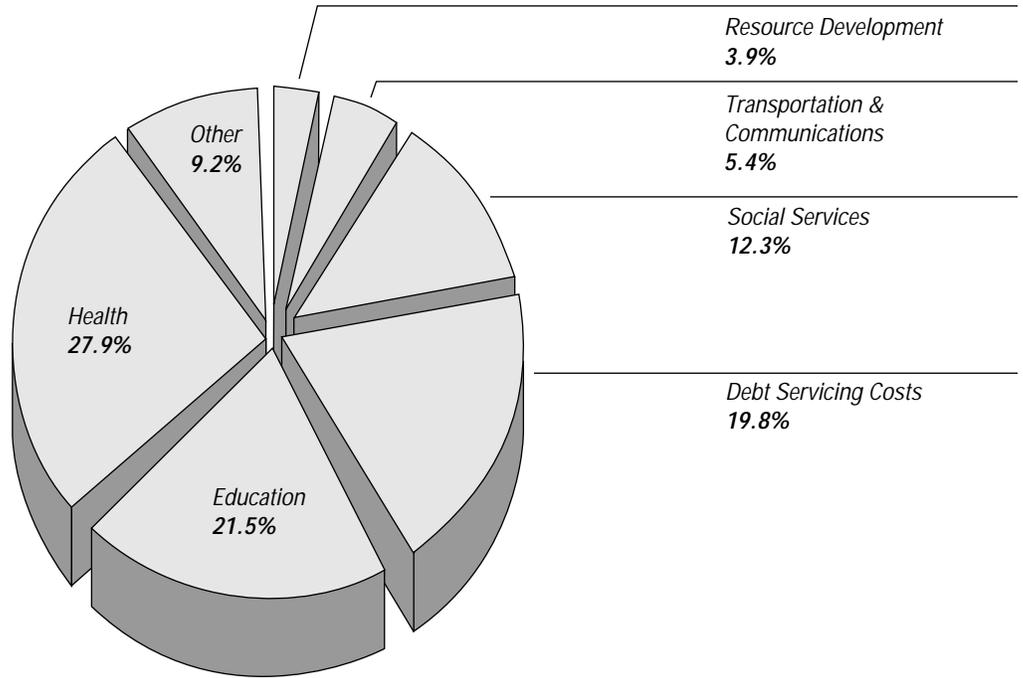
	1992-93	1993-94	1994-95	FORECAST 1995-96	ESTIMATE 1996-97
Function					
(thousands of dollars)					
General Government	121,203	117,418	111,052	111,013	110,839
Public Protection	112,004	107,676	113,871	166,979	124,143
Transportation and Communications	288,772	259,538	220,636	244,080	215,884
Resource Development	220,374	175,765	167,003	176,416	150,730
Health	1,325,969	1,273,025	1,273,596	1,264,425	1,195,750
Social Services	486,408	536,856	526,512	558,575	550,398
Education	1,015,124	1,005,308	1,003,083	977,602	949,136
Culture and Recreation	46,137	42,490	39,476	38,505	37,909
Municipal Affairs	102,082	95,639	109,248	104,000	65,500
Total Net Program Expenditures	3,718,073	3,613,715	3,564,477	3,641,595	3,400,289
Debt Servicing Costs	803,577	865,378	911,626	898,070	896,871
Total Net Expenditures	4,521,650	4,479,093	4,476,103	4,539,665	4,297,160
Function					
(as a percentage of Total Net Expenditures)					
General Government	2.7	2.6	2.5	2.4	2.6
Public Protection	2.5	2.4	2.5	3.7	2.9
Transportation and Communications	6.4	5.8	4.9	5.4	5.0
Resource Development	4.9	3.9	3.7	3.9	3.5
Health	29.3	28.4	28.5	27.9	27.8
Social Services	10.8	12.0	11.8	12.3	12.8
Education	22.4	22.5	22.4	21.5	22.1
Culture and Recreation	1.0	1.0	0.9	0.8	0.9
Municipal Affairs	2.2	2.1	2.4	2.3	1.5
Total Net Program Expenditures	82.2	80.7	79.6	80.2	79.1
Debt Servicing Costs	17.8	19.3	20.4	19.8	20.9
Total Net Expenditures	100.0	100.0	100.0	100.0	100.0

NOTE: Total Net Expenditures include Net Program Expenditures, Net Capital Expenditures, and Debt Servicing Costs.

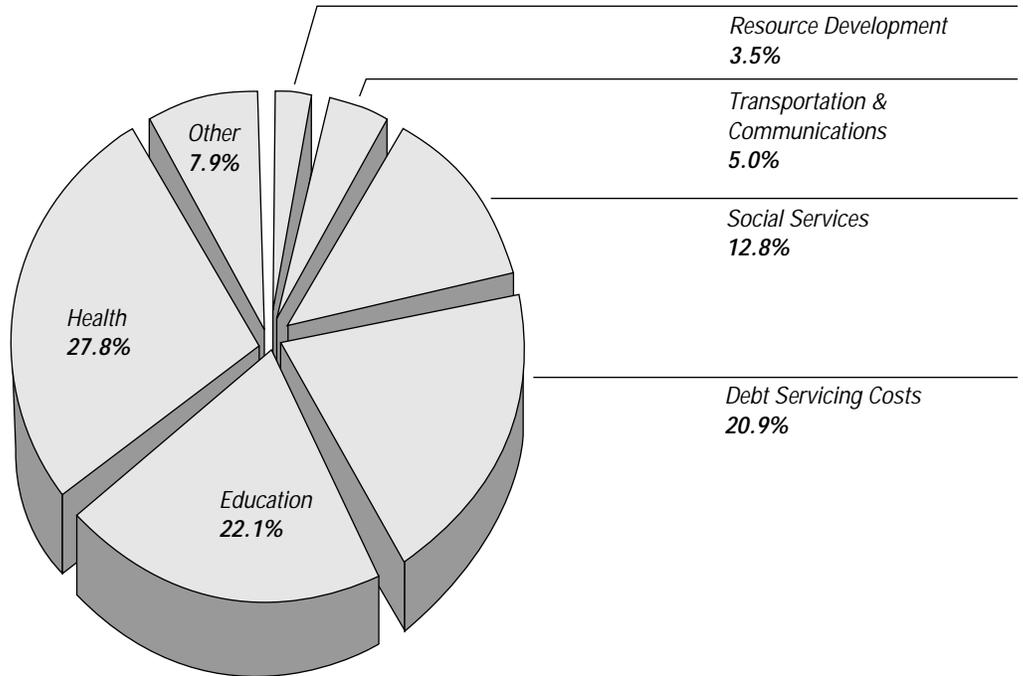
TOTAL NET EXPENDITURES BY FUNCTION

Chart 2

1995-96



1996-97



NOTE: Total Net Expenditures include Net Program Expenditures, Net Capital Expenditures, and Debt Servicing Costs.

NET ORDINARY EXPENDITURES BY FUNCTION

Schedule 8

	1992-93	1993-94	1994-95	FORECAST 1995-96	ESTIMATE 1996-97
Function (thousands of dollars)					
General Government	113,693	112,560	111,074	101,885	107,034
Public Protection	107,629	104,004	109,591	157,895	122,190
Transportation and Communications	132,621	127,476	123,215	112,058	144,397
Resource Development	187,479	143,145	148,302	161,043	147,512
Health	1,280,932	1,198,556	1,209,430	1,216,262	1,176,559
Social Services	485,859	536,542	526,476	558,208	550,252
Education	1,000,630	965,566	969,839	935,540	909,152
Culture and Recreation	39,158	36,329	37,204	35,230	34,723
Municipal Affairs	74,066	64,962	69,150	47,786	49,295
Total Net Program Expenditures	3,422,067	3,289,140	3,304,281	3,325,907	3,241,114
Debt Servicing Costs	803,577	865,378	911,626	898,070	896,871
Total Net Ordinary Expenditures	4,225,644	4,154,518	4,215,907	4,223,977	4,137,985

NET CAPITAL EXPENDITURES BY FUNCTION

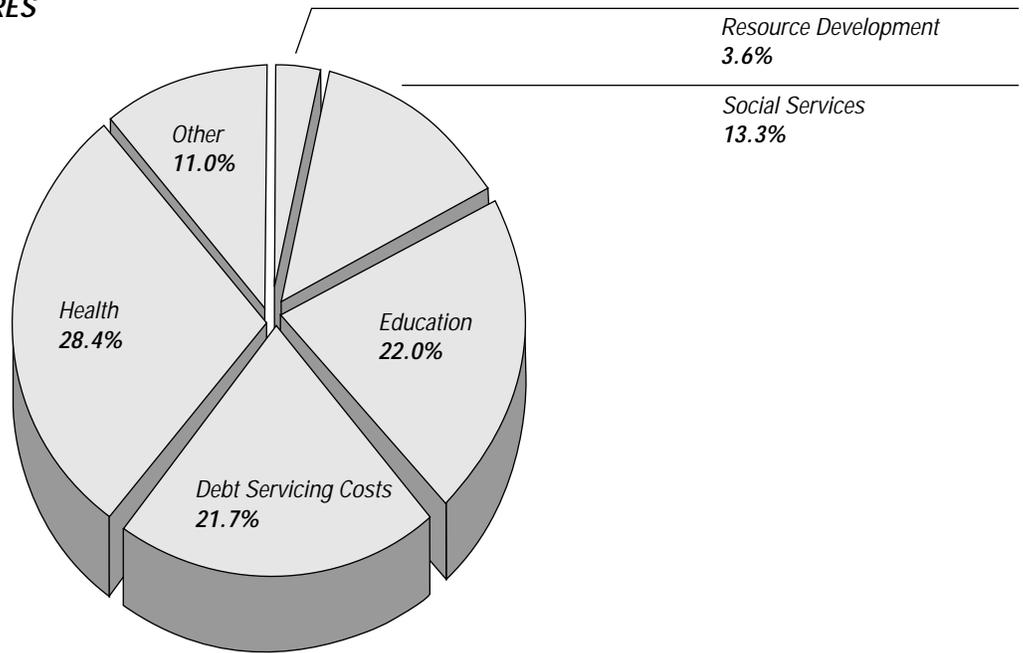
Schedule 9

	1992-93	1993-94	1994-95	FORECAST 1995-96	ESTIMATE 1996-97
Function (thousands of dollars)					
General Government	7,510	4,858	(22)	9,128	3,805
Public Protection	4,375	3,672	4,280	9,084	1,953
Transportation and Communications	156,151	132,062	97,421	132,022	71,487
Resource Development	32,895	32,620	18,701	15,373	3,218
Health	45,037	74,469	64,166	48,163	19,191
Social Services	549	314	36	367	146
Education	14,494	39,742	33,244	42,062	39,984
Culture and Recreation	6,979	6,161	2,272	3,275	3,186
Municipal Affairs	28,016	30,677	40,098	56,214	16,205
Total Net Capital Expenditures	296,006	324,575	260,196	315,688	159,175

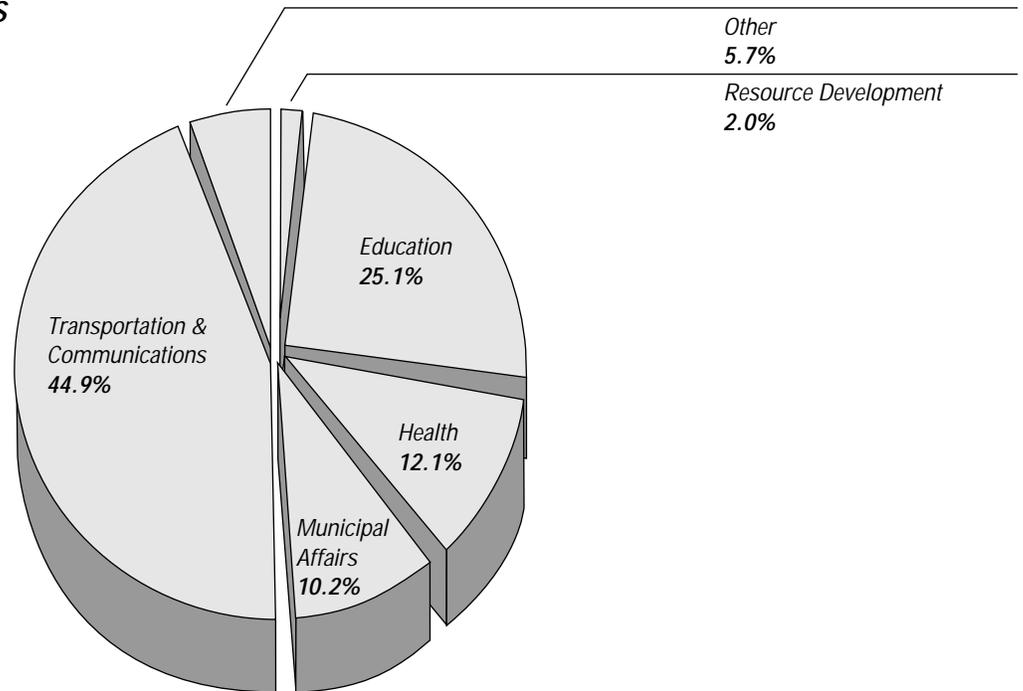
NET ORDINARY AND CAPITAL EXPENDITURES BY FUNCTION

Chart 3

NET ORDINARY EXPENDITURES 1996-97



NET CAPITAL EXPENDITURES 1996-97



SUMMARY OF CURRENT ACCOUNT ESTIMATE FOR 1996-97

Schedule 10

(thousands of dollars)

ESTIMATE 1995-96	FORECAST 1995-96	CHANGE OVER		ESTIMATE 1996-97	FORECAST 1995-96	CHANGE OVER	
		ESTIMATE 1995-96	PERCENTAGE CHANGE			ESTIMATE 1996-97	PERCENTAGE CHANGE
ORDINARY REVENUES BY SOURCE							
Provincial Sources							
898,707	881,294	(17,413)	-1.9	Personal Income Tax	902,012	20,718	2.4
110,765	99,138	(11,627)	-10.5	Corporate Income Tax	106,200	7,062	7.1
741,500	741,500	0	0.0	Health Services Tax	749,200	7,700	1.0
58,700	69,700	11,000	18.7	Tobacco Tax	85,000	15,300	22.0
197,100	197,100	0	0.0	Motive Fuel Taxes	199,400	2,300	1.2
113,701	113,450	(251)	-0.2	Liquor Commission Profits ¹	114,529	1,079	1.0
132,300	121,700	(10,600)	-8.0	Gaming Corporation Profits ²	131,325	9,625	7.9
37,518	37,320	(198)	-0.5	Interest Revenues ³	44,337	7,017	18.8
58,150	55,841	(2,309)	-4.0	Registry of Motor Vehicles	57,350	1,509	2.7
103,844	104,304	460	0.4	Other Provincial Sources	107,871	3,567	3.4
Federal Sources							
1,079,966	1,126,187	46,221	4.3	Equalization	1,147,906	21,719	1.9
352,900	364,695	11,795	3.3	Established Programs Financing	-	(364,695)	-100.0
-	-	-	-	Canada Health & Social Transfer	529,022	529,022	-
2,309	5,821	3,512	152.1	Other Federal Sources	3,909	(1,912)	-32.8
-	-	-	-	Fiscal Stabilization	-	-	-
271,348	272,248	900	0.3	Canada Assistance Plan	-	(272,248)	-100.0
4,158,808	4,190,298	31,490	0.8	Total Ordinary Revenues	4,178,061	(12,237)	-0.3
NET ORDINARY EXPENDITURES BY FUNCTION							
107,193	101,885	(5,308)	-5.0	General Government	107,034	5,149	5.1
115,385	157,895	42,510	36.8	Public Protection	122,190	(35,705)	-22.6
112,788	112,058	(730)	-0.6	Transportation and Communications	144,397	32,339	28.9
156,521	161,043	4,522	2.9	Resource Development	147,512	(13,531)	-8.4
1,158,336	1,216,262	57,926	5.0	Health	1,176,559	(39,703)	-3.3
577,192	558,208	(18,984)	-3.3	Social Services	550,252	(7,956)	-1.4
932,350	935,540	3,190	0.3	Education	909,152	(26,388)	-2.8
34,985	35,230	245	0.7	Culture and Recreation	34,723	(507)	-1.4
48,974	47,786	(1,188)	-2.4	Municipal Affairs	49,295	1,509	3.2
3,243,724	3,325,907	82,183	2.5	Total Net Program Expenditures	3,241,114	(84,793)	-2.5
943,167	898,070	(45,097)	-4.8	Debt Servicing Costs	896,871	(1,199)	-0.1
4,186,891	4,223,977	37,086	0.9	Total Net Ordinary Expenditures	4,137,985	(85,992)	-2.0
-	51,241	51,241	-	Prior Years' Adjustments -	-	(51,241)	-100.0
				Federal-Provincial Fiscal Arrangements			
(28,083)	17,562	45,645	-162.5	Excess of Net Ordinary Expenditures over Ordinary Revenues	40,076	22,514	128.2

1 In years prior to 1995-96 the cost of maintaining the RCMP was netted against Nova Scotia Liquor Commission profits.

2 Nova Scotia Gaming Corporation Profits include Nova Scotia Lottery Commission Profits. (Formerly part of Other Provincial Sources)

3 Beginning in 1995-96, Interest on Short Term Investments will no longer be included in Interest Revenue. Rather it will be netted against Short Term Borrowing Costs included in Debt Servicing Costs.

GROSS DOMESTIC PRODUCT AT MARKET PRICES

Schedule 11

(Constant 1986 \$ millions)

YEAR	NOVA SCOTIA ¹ \$ Millions	GROWTH RATE %	CANADA ² \$ Millions	GROWTH RATE %
1986	13,239	3.6	505,666	3.3
1987	13,567	2.5	526,730	4.2
1988	13,757	1.4	552,958	5.0
1989	14,210	3.3	566,486	2.4
1990	14,422	1.5	565,155	-0.2
1991	14,197	-1.6	555,052	-1.8
1992	14,484	2.0	559,305	0.8
1993	14,677	1.3	571,722	2.2
1994	14,864	1.3	597,936	4.6
1995	15,102 p	1.6	611,300*	2.2
1996	15,305 p	1.3	623,149 p	1.9

1 Source – Statistics Canada, Provincial Economic Accounts

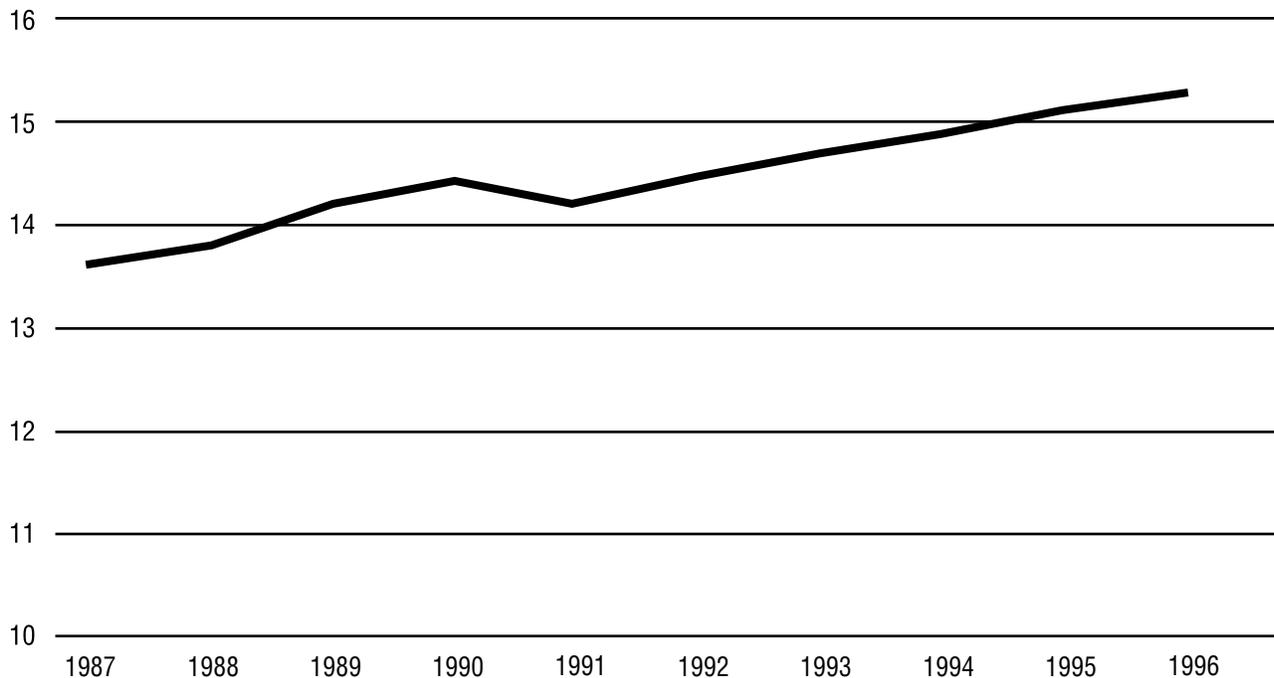
2 Source – Statistics Canada, National Income and Expenditure Accounts

* Preliminary Actuals; Source – Statistics Canada

p Preliminary Projections; Source – Nova Scotia Department of Finance

Nova Scotia Gross Domestic Product at Market Prices

1986 \$Billions



PERSONAL INCOME PER CAPITA

Schedule 12

(dollars)

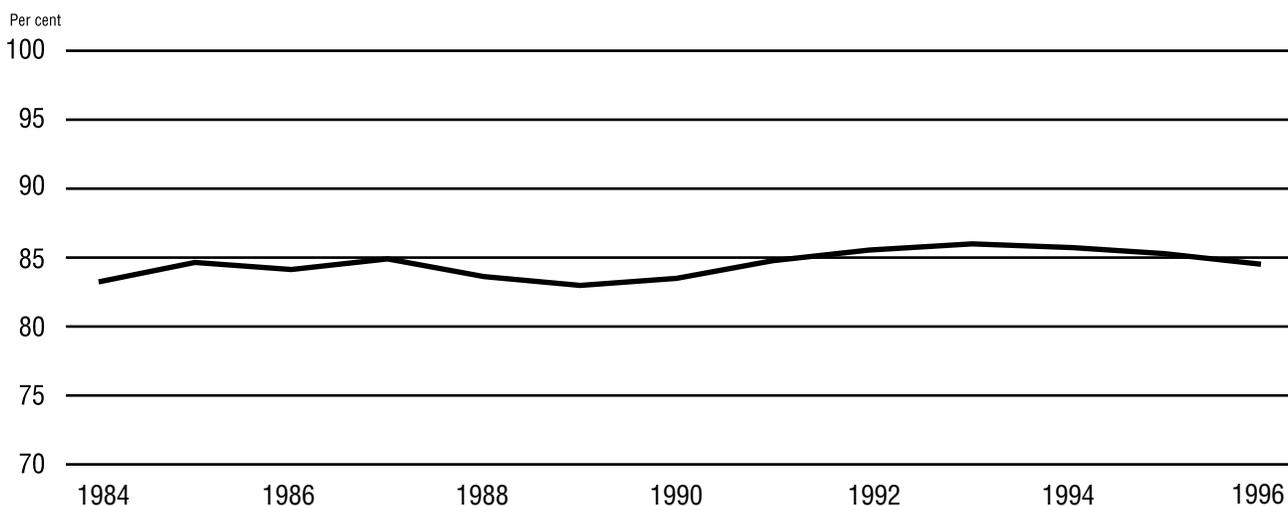
YEAR	NOVA SCOTIA ¹	PERCENTAGE CHANGE NOVA SCOTIA	CANADA ¹	PERCENTAGE CHANGE CANADA
1984	12,053	8.3	14,483	7.5
1985	13,077	8.5	15,427	6.5
1986	13,717	4.9	16,305	5.7
1987	14,741	7.5	17,371	6.5
1988	15,697	6.5	18,815	8.3
1989	16,679	6.3	20,095	6.8
1990	17,729	6.3	21,141	5.2
1991	18,255	3.0	21,549	1.9
1992	18,542	1.6	21,785	1.1
1993	18,810	1.4	21,881	0.4
1994	19,013 p	1.1	22,125 *	1.1
1995	19,240 p	1.2	22,585 p	2.1
1996	19,400 p	0.8	22,897 p	1.4

¹ Source – Statistics Canada

* Preliminary Actuals; Source – Statistics Canada

p Preliminary Projections; Source – Nova Scotia Department of Finance

Personal Income Per Capita Nova Scotia as a Per Cent of Canada



NOVA SCOTIA LABOUR MARKET

Schedule 13

(thousands of persons)

YEAR	LABOUR FORCE ¹	PERCENTAGE CHANGE	EMPLOYMENT ¹	PERCENTAGE CHANGE
1984	396	4.8	344	4.6
1985	398	0.5	344	0.0
1986	406	2.0	353	2.6
1987	411	1.2	360	2.0
1988	420	2.2	377	4.7
1989	426	1.4	384	1.9
1990	436	2.3	390	1.6
1991	434	-0.5	382	-2.1
1992	427	-1.6	371	-2.9
1993	431	0.9	368	-0.8
1994	438	1.6	380	3.3
1995	437	-0.2	384	1.1
1996	438p	0.2	387p	0.8

¹ Source – Statistics Canada: Historical Labour Force Statistics

p Preliminary Projections; Source – Nova Scotia Department of Finance

Labour Market Nova Scotia



UNEMPLOYMENT

Schedule 14

(thousands of persons)

YEAR	NOVA SCOTIA ¹		CANADA ¹	
	UNEMPLOYED (‘000)	UNEMPLOYMENT RATE %	UNEMPLOYED (‘000)	UNEMPLOYMENT RATE %
1984	52	13.0	1,450	11.3
1985	54	13.6	1,381	10.5
1986	53	13.1	1,283	9.6
1987	51	12.4	1,208	8.9
1988	43	10.2	1,082	7.8
1989	42	9.8	1,065	7.5
1990	46	10.5	1,164	8.1
1991	52	12.0	1,492	10.4
1992	56	13.3	1,640	11.3
1993	63	14.7	1,649	11.2
1994	58	13.2	1,541	10.4
1995	53	12.1	1,422	9.5
1996	51p	11.6	1,409p	9.4

1 Source – Statistics Canada: Historical Labour Force Statistics

p Preliminary Projections; Source – Nova Scotia Department of Finance

NOTE: The Unemployment Statistics shown in this table are annual averages of the monthly indices.

Unemployment Rates Nova Scotia and Canada

