



# **NOVA SCOTIA BUDGET ASSUMPTIONS AND SCHEDULES**

**FOR THE FISCAL YEAR 2007–2008**

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MINISTER OF FINANCE**



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# REPORT OF THE AUDITOR GENERAL

2007–2008



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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, 2008 used in the preparation of the March 22, 2007 Budget Address.**

I am required by section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2008 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 22, 2007 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of \$8,017,687, as described in the financial forecast of Revenues By Source, (Schedule 13 of the Nova Scotia Budget Assumptions and Schedules) (the 2007-08 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech, the 2006-07 forecast, the 2007-08 expense estimates or the actual figures in Schedule 13 for the fiscal years ended March 31, 2003-2004, 2004-2005 and 2005-2006. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Third party revenues of certain government units are excluded from the 2007-2008 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective government units rather than as part of the revenue estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2007-08 revenue estimates are not presented in accordance with generally accepted accounting principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.

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

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by department management, and provide a reasonable basis for the 2007-08 revenue estimates; and
- the 2007-08 revenue estimates as presented reflect fairly such assumptions; and
- the 2007-08 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2007-08 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.

Jacques R. Lapointe, CA • CIA  
Auditor General

Halifax, Nova Scotia  
March 22, 2007



# KEY ASSUMPTIONS — MARCH 22, 2007



# Key Assumptions

Approved by Executive Council on  
March 22, 2007

## **Economic Performance and Outlook**

### *National Outlook*

Canadian real GDP growth is expected to slow to 2.5 per cent in 2007 and rise back up to its potential at 3.0 per cent in 2008. With the Canadian economy expected to perform below its real potential growth rate in 2007, inflation is not expected to become a threat to monetary policy. The Consumer Price Index (CPI) is expected to grow at an annual rate of 2.0 in both 2007 and 2008. A low-inflation environment in combination with marginal economic growth should maintain a low-interest environment. Interest rates in Canada are forecast to decline moderately as growth in the economy slows in 2007.

Towards the end of 2006, the Canadian economy began to display signs of weakening as a result of the continued strength of the Canadian dollar. However, the exchange rate is not expected to decline significantly and should hover around 84 cents in 2007. In contrast, commodity prices are expected to continue to remain buoyant. This is particularly notable in the energy sector where strong prices will offset the negative impact of the exchange rate.

As commodity prices plateau and exports keep pace with the slower growth in the U.S. economy, corporate profit growth is expected to level off and stabilize over the next two years. Another contributing factor is the slowing of residential investment in both Canada and the U.S., which is showing signs of weakening over previous high levels.



Job creation is an important economic driver and in 2007 is expected to follow the trend in 2006, with strong growth in western Canada and slower growth in eastern Canada. Employment growth is forecast to be 1.6 per cent in 2007 but is forecast to fall to 1.4 in 2008. The rate of unemployment will decline slightly from 6.1 per cent in 2007 to 6.0 per cent in 2008 as employment growth outpaces labour force growth.

### *Risks to National Economic Growth*

The key risk for economic growth in Canada is from the impact of the performance of the U.S. economy. While the U.S. economy achieved an estimated 3.4 per cent GDP growth in 2006, this was higher than the 3.2 per cent growth in 2005, and therefore the 2007 pace is anticipated to slow to prior levels. The level of the budget and current account deficits in the U.S. could also create upward pressure on the Canadian dollar exchange rate. A higher exchange rate will continue to moderate demand for Canadian exports. High commodity prices can counter declines in the demand for exports only for a time. Any softening of demand in the U.S. could see a levelling-off or decline in commodity prices.

The current growth in commodity prices is being influenced by global factors such as the growth in consumer demand in China and India. Nevertheless, a softening of the U.S. housing market would cause lumber prices to decline. The price paid for newsprint is already under pressure as newspaper circulation declines. Increasing inventories and supply disruptions, are expected to limit growth in metal and mineral prices in 2007.

Domestically, economic growth is strongly influenced by the performance of the Alberta economy. The high growth in the Alberta economy is not only keeping the Canadian economic outlook strong, but is creating a drain on the labour and other resources in other provinces and affecting prices as demand outstrips supply.

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## National Forecast Assumptions

	2006	2007	2008
Real Gross Domestic Product, 1997\$ (% change)	2.8	2.5	3.0
Employment (% change)	1.9*	1.6	1.4
Unemployment Rate (%)	6.3*	6.1	6.0
Personal Income (% change)	5.7	4.0	4.4
Consumer Price Index (% change)	2.0*	2.0	2.0
Retail Sales (% change)	6.4	5.2	5.0
Corporation Profits before Taxes (% change)	5.6	3.7	4.7
Exports of Goods and Services (% change)	1.2	5.6	5.7

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

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## Provincial Outlook

### *2006 in Review*

The Nova Scotia economy was also affected by high commodity prices and an appreciating exchange rate. The Nova Scotia economy experienced an estimated 2.0 per cent growth in real GDP in 2006, after achieving a 1.6 per cent growth in 2005. Growth was mostly driven by strong domestic demand, with imports growing at a faster pace than exports, along with higher prices putting downward pressure on real GDP growth.

Final domestic demand is estimated to have increased by 5.3 per cent and was supported by steady consumer spending and growth in capital investments. Consumer spending showed a 5.3 per cent growth in 2006, and retail sales increased by a healthy 6.9 per cent. Spending on housing construction was 4.5 per cent higher, while housing starts were up 2.5 per cent.





This pace of consumer spending was supported with strong income growth against slower employment growth. Personal income was up 4.4 per cent, while there was a 0.3 per cent decrease in employment. Growth in personal income reflects a healthy gain of 4.1 per cent for labour income and 4.6 per cent for government transfer payments to persons. Average weekly wages, including overtime, increased 2.6 per cent in Nova Scotia in 2006.

Capital investments were a key driver in 2006. Business capital investments were up 7.0 per cent, along with a 2.9 increase in public investments. Governments increased their spending on structures by 2.6 per cent. Taking advantage of the higher Canadian dollar, government increased purchases of machinery and equipment by 3.6 per cent. Business investment in machinery and equipment was also strong, with an increase of 3.3 per cent. Private companies also invested more in capital structures, with an increase of 16.1 per cent for construction of new commercial and industrial buildings.

The increasing value of the Canadian dollar contributed to the slow growth in exports, with only a 2.7 per cent increase in total exports for 2006. International merchandise exports of goods to other countries were down 11.3 per cent towards the end of November 2006, with fewer exports of goods such as natural gas, lumber, tires, newsprint, gypsum, scallops, lobsters, shrimp, and crabs. However, exports of both stranded wire and pulp grew in 2006. The production of natural gas was down 10.1 per cent; so too was the value of natural gas exports, which was down 32.1 per cent, partly due to falling prices.

The value of total imports was up 5.3 per cent, primarily due to an increase in demand of 6.2 per cent for imports from other countries. Importing more goods (machinery and equipment) than exporting puts a drag on the economy in the short run, but helps to improve productivity in the long run.



Corporation profits before taxes were up 5.0 per cent in 2006, in conjunction with increased exports and high commodity prices. In the economic forecast, corporation profits before taxes relate to economic activity in the provincial economy and are not uniquely linked to the Corporate Income Tax (CIT) estimates and forecast. CIT is based primarily on federally forecasted corporate taxable income and is affected by other variables, such as business participation in provincial tax credit programs.

Nominal GDP expanded 4.1 per cent in 2006. Real growth was much less because of inflation, as the GDP deflator increased 2.0 per cent in 2006. The GDP deflator increased in line with the Consumer Price Index (CPI), which rose 2.2 per cent in 2006.

The number of people active in the labour market in 2006 dropped by 0.8 per cent, while employment fell 0.3 per cent. The end result was a 0.4 percentage point fall in the unemployment rate to 8.0 per cent. Employment growth was mostly concentrated in the wholesale and retail trade sector; finance, insurance, real estate, and leasing sector; business, building, and other support services; and health care and social assistance. In geographical terms, most of the employment growth occurred in the Halifax Regional Municipality.



## *Outlook 2007 and 2008*

Growth in Nova Scotia's economy is expected to remain above the 2006 level, with real GDP rate of growth forecast to be 2.3 in 2007 and to rise to 2.4 in 2008. Private-sector forecasts for Nova Scotia GDP growth fall into a similar pattern.

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

	<b>2007</b>	<b>2008</b>
High (% increase)	2.4	2.7
Average (% increase)	2.2	2.2
Low (% increase)	1.9	1.7

The private-sector forecasters surveyed and updated as of January 24, 2007, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, Atlantic Provinces Economic Council, Nesbitt Burns, National Bank, and Conference Board of Canada.

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With interest rates remaining stable, the strong growth in consumer spending experienced over past years will remain steady, maintaining a growth rate of 4.9 per cent in 2007. In 2008, as a result of more-modest employment growth and stable income growth, the rate of growth of consumer spending will remain strong but slightly less than in 2007.

Consumer price inflation is also expected to stay at moderate levels, with the 2007 rate expected to be 2.1 per cent. Higher energy prices will keep the Nova Scotia rate slightly higher than the national average rate of 2.0 per cent, as electricity rates to residential customers increase by 4.8 per cent in April 2007 and relatively high prices for petroleum products continue.

Nova Scotia's rate of employment is anticipated to show a modest increase, with levels forecast at 0.2 per cent in 2007



and 0.4 per cent in 2008. The unemployment rate will remain stable at 8 per cent through to 2008. In combination with a forecast increase in labour income per employee, this should lead to modest personal income growth rates of 3.6 in 2007 and 3.5 in 2008.

Almost 50 per cent of Nova Scotia's GDP growth is directly attributed to the export of goods and services to other areas in Canada and the United States. Total exports of goods and services are expected to increase 3.5 per cent in 2007 supported by the continuation of strong commodity prices in key sectors and the expectation of a rebound in U.S. GDP growth from prior years. These factors will continue to contribute to the growth in corporate profits, which are forecast to increase by 4.0 per cent in 2007.

In total, business capital investment in Nova Scotia is expected to increase 1.9 per cent in 2007, while government investment in capital is expected to increase by 3.7 per cent. Investment in machinery and equipment is expected to maintain a positive growth rate, although lower than in 2006. Such investment benefits from the higher exchange rate of the Canadian dollar. Residential construction activity, an important driver of local economic activity, is expected to show slower growth in 2007 than during the previously high levels, as the market absorbs the "pent-up" demand of prior years.

At a provincial level, local large-scale development or expansion projects influence economic activity to a significant degree. In comparison to prior years, non-residential construction is also expected to slow as large-scale projects from prior years reach completion. Nevertheless, current construction activities such as improvements to Stanfield Airport (Halifax), development of the Dartmouth Crossing commercial area, and expansion of the Michelin tire facility will help sustain economic growth.



Activity related to Nova Scotia's offshore energy resources have been particularly important to the Nova Scotia economy in recent times, as well as an important contributor to provincial revenues. Natural gas production is anticipated to increase this year over 2006 with the installation of the Thebaud compression platform. While investment related to the offshore continues, the focus of recent activity has shifted from continued exploration of the primary production area to other offshore projects.

Looking farther into the future, there are a number of capital projects that will have an economic impact. The Sydney Tar Ponds Clean-up and Remediation project and Xstrata Donkin Coal Development Alliance's investigation of the production potential of Donkin are examples of such projects currently in the planning stages. With respect to offshore potential, the Deep Panuke project proponent Encana filed the development and benefits plan for the project in November 2006, demonstrating interest in exploring that field. The liquified natural gas project being proposed by Keltic Petrochemicals for Goldboro, Guysborough Co., has recently received the environmental approvals for its project.

### *Risk to Provincial Economic Growth*

In addition to experiencing risks similar to those described for the nation, there are specific provincial risks to be considered.

Residential construction in Nova Scotia has remained stronger than anticipated. A more rapid decline in residential construction prompted by a shift in demand is a potential risk. There is also potential for downward pressure on exports if exchange rates reach higher-than-expected levels. A number of economic sectors in Nova Scotia have benefitted from the currently high commodity prices; a shift in demand/supply internationally could cause these prices to moderate, impacting on corporate profits.

A growing area of concern for Nova Scotia as well as other provinces is the labour pressures resulting from the ongoing shift in demographics and rapid economic expansion in western Canada. Labour shortages, or lack of availability of skills required, will have implications for productivity and labour prices.

### *Provincial Forecast Assumptions*

There are many factors that determine the health and vitality of the provincial economy that have been outlined here. The key provincial economic assumptions are displayed in the following table. These assumptions are based on data and information available to January 15, 2007. They are indicators of economic performance and as such influence the potential for revenue generation in the province. These indicators have been developed as a means of measuring and comparing the state of the economy and provide a foundation for forecasting the future state of Nova Scotia's economy. Few indicators themselves, either at the national or provincial level, are incorporated directly in the forecasting of provincial revenues. These are identified as part of the discussion on the revenue forecast. However, they provide a concise picture of changes in the economy over time.

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#### **Provincial Forecast Assumptions**

	2006	2007	2008
Real Gross Domestic Product, 1997\$ (% change)	2.0	2.3	2.4
Nominal Gross Domestic Product (% change)	4.1	3.9	4.1
Employment (% change)	-0.3*	0.2	0.4
Personal Income (% change)	4.4	3.6	3.5
Consumer Price Index (% change)	2.2	2.1	2.0
Retail Sales (% change)	6.9	4.9	4.4
Corporation Profits before Taxes (% change)	5.0	4.0	4.3
Exports of Goods and Services (% change)	2.7	3.5	4.2

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

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## Revenue Outlook — March 22, 2007

In 2007–2008, total ordinary revenues are estimated to be \$7,673.6 million, an increase of 5.8 per cent over the 2006–2007 forecast. Own-source revenues are expected to increase by \$245.1 million over the 2006–2007 forecast to \$4,496.0 million in 2007–2008. Federal transfers will increase by \$175.6 million from 2006–2007 forecast levels.

Revenue Sources (\$ thousands)	Actual 2005–2006	Forecast 2006–2007	Estimate 2007–2008	Change For. to Est.
Personal Income Taxes	1,568,449	1,679,141	1,718,283	39,142
Corporate Income Taxes	361,508	385,719	386,905	1,186
Sales Tax (HST)	1,057,772	1,084,756	1,095,822	11,066
Tobacco Tax	163,617	146,485	150,948	4,463
Gasoline and Diesel Tax	248,252	251,465	252,235	770
Interest Revenues	81,139	77,567	75,975	(1,592)
Registry of Motor Vehicles	88,173	90,826	94,488	3,662
Royalties – Petroleum	123,850	269,700	420,500	150,800
Other Provincial Sources	286,830	265,242	300,873	35,631
<b>Total Provincial</b>	<b>3,979,590</b>	<b>4,250,901</b>	<b>4,496,029</b>	<b>245,128</b>
<b>Federal Sources</b>				
Equalization	1,343,527	1,385,539	1,464,528	78,989
CHT	581,015	610,486	638,954	28,468
CST	254,964	265,067	280,335	15,268
Other Federal Sources	81,620	96,874	149,723	52,849
<b>Total Federal Sources</b>	<b>2,261,126</b>	<b>2,357,966</b>	<b>2,533,540</b>	<b>175,574</b>
<b>Other</b>				
Prior Years' Adjustments	21,447	18,517	0	(18,517)
Recoveries	365,845	442,290	469,662	27,372
Fees & Other Charges	60,928	64,075	60,883	(3,192)
Sinking Fund Earnings	124,395	117,789	113,529	(4,260)
Total Other	572,615	642,671	644,073	1,402
<b>Total Ordinary Revenue</b>	<b>6,813,331</b>	<b>7,251,538</b>	<b>7,673,643</b>	<b>422,105</b>



## *Provincial Own Source*

### **Personal Income Tax (PIT)**

The 2007–2008 estimate for personal income tax is \$1,718.3 million, an increase of \$39.1 million or 2.3 per cent over the 2006–2007 fiscal year forecast. Nova Scotia's taxable income is expected to grow about 4.8 per cent in 2007 over 2006. Net provincial personal income tax is expected to rise only 1.9 per cent in 2007 over 2006 on a calendar-year basis due to increases of 3.46 per cent in all non-refundable credits (basic personal amount, equivalent to married, pension amount, etc.). The estimate is based on national level taxable income data supplied by the federal government on January 24, 2007, as of December 31, 2006.

### **Corporate Income Tax (CIT)**

The estimate for corporate income tax is \$386.9 million, an increase of \$1.2 million or 0.3 per cent over 2006–2007. CIT is based primarily on federally forecasted corporate taxable income, as of December 31, 2006, and is affected by other variables, such as business take-up of provincial tax credit programs and the provincial allocation of taxable income based on corporations' revenues and salaries paid in each province. National growth in corporate taxable income is expected to be 3.8 percent in 2007, while estimated provincial corporate taxable income is expected to increase by only 0.4 per cent. The difference is due mainly to a decrease in the allocation of taxable income to Nova Scotia. The expected credit in 2007–2008 is moderately higher than in 2006–2007, primarily due to an increased uptake in the manufacturing investment tax credit.

### **Harmonized Sales Tax (HST)**

Gross HST is estimated to total \$1,266.8 million in 2007–2008, up \$48.5 million or 4.0 per cent from the 2006–2007 forecast.





HST rebates for public-sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, and segregated funds are projected to total \$ 171.0 million, an increase of 28 per cent over 2006–2007, due primarily to the inclusion of the Your Energy Rebate on a full-year basis as opposed to four months in 2006–2007. Net HST is projected to total \$ 1,095.8 million in 2007–2008, an increase of \$11.1 million over 2006–2007. Growth in the consumer expenditure component remains the most influential factor of the increased revenues, with modest increases in the public-sector components and financial institutions contributing to revenue growth.

### **Tobacco Tax**

Tobacco tax revenues are projected to total \$150.9 million in 2007–2008, up \$4.5 million or 3.0 per cent from the 2006–2007 forecast. Much of the increased revenue can be attributed to a higher tobacco tax rate. This revenue growth is offset by two other factors. Promotion of a healthy lifestyle by all levels of government and an increased application of no-smoking laws in public spaces along with increases in prices over the past few years have contributed to a decline in consumption. In addition, there are indications that increased distribution of illegal cigarettes has contributed to lower legal consumption and lower tobacco taxes.

### **Motive Fuel Taxes**

Motive fuel taxes are projected to total \$252.2 million in 2007–2008, up \$0.8 million or 0.3 per cent from the 2006–2007 forecast. High petroleum prices are expected to continue to prevail during the next fiscal year, having a negative impact on gasoline consumption, which accounts for about 70 per cent of revenue from motive fuel taxes. This impact will be offset by a projected rise in labour income and higher aviation



fuel tax. In addition, diesel oil consumption has increased over the past fiscal year, and prices are expected to moderate in 2007–2008.

### **Offshore Petroleum Royalties**

Offshore petroleum royalties are budgeted to be \$420.5 million in 2007–2008. This is an increase of \$150.8 million over 2006–2007. The increase is primarily a result of increasing rates of production for the Sable Offshore Energy Project and the project's interest holders achieving predetermined return thresholds that result in increasing royalty rates. Royalties are sensitive to fluctuations in key variables such as natural gas prices and production levels.

### **Other Provincial Sources**

Other provincial sources are estimated to be \$300.9 million, an increase of \$35.6 million over 2006–2007. This revenues source includes such items as corporate capital taxes, tax on insurance premiums, health premiums, and contributions to tangible capital assets. The increase of \$35.6 million over 2006–2007 results primarily from the inclusion of \$45.3 of health premiums in 2007–2008 revenues compared to \$43.0 million that were netted against expense in 2006–2007, somewhat offset by lower contributions to tangible capital assets of \$6.6 million in 2007–2008.

## *Federal Transfers*

### **Equalization**

Equalization revenues are estimated to increase by \$79.0 million over forecast 2006–2007 to \$1,464.5 billion. The equalization estimate reflects the adoption of the Expert Panel recommendations on equalization as announced during the federal budget on March 19, 2007.



## **Canada Health Transfer (CHT) and Canada Social Transfer (CST)**

In 2007–2008, the CHT cash entitlement for Nova Scotia is estimated to be \$639.0 million, \$28.5 million higher than the 2006–2007 CHT forecast. The total provincial entitlement consists of the provincial allocation of a fixed national entitlement. The 2007–2008 national CHT amount that is available in cash and tax points is forecast to be \$34.6 billion. The higher CHT base in 2007–2008 reflects the outcome of the First Ministers' Meeting on Health Care held in September 2004. The cash estimate reflects the federal calculation on the levels of population and personal and corporate income tax.

Nova Scotia's 2007–2008 cash entitlement for CST is \$15.3 million higher than the 2006–2007 forecast to stand at \$280.3 million dollars. The provincial entitlement is based on a per capita provincial allocation of a fixed national entitlement, which stood at \$9.5 billion.

### **Other Federal Sources**

Other federal sources are estimated to be \$149.7 million, an increase of \$52.8 million over 2006–2007. Of this amount, \$44.8 million relates to Bill C-48 funds received from the federal government and \$10.8 relates to the Nova Scotia and the Government of Canada Offshore Petroleum Resources Accord.

Other federal sources also include the federal Wait Times Reduction Fund. This funding is going to be drawn down according to the notional allocation included in the Wait Times Agreement and provincial spending commitments. Nova Scotia has drawn down \$34.7 million in 2006–2007 and will draw down \$34.4 million in 2007–2008.



## *Other*

### **Recoveries**

Recoveries are projected to total \$469.7 million in 2007–2008, up \$27.4 million or 6.2 per cent from the 2006–2007 forecast. The increase relates primarily to federal provincial cost-shared programs for Community Services.

### **Fees and Other Charges**

Fees and other charges are projected to total \$60.9 million in 2007–2008, down \$3.2 million or 5.0 per cent from the 2006–2007 forecast. This decrease reflects a one-time revenue for map products in 2006–2007 and lower cyclical driver licence fees in 2007–2008.

### **Sinking Fund Earnings**

Sinking fund earnings are projected to total \$113.5 million in 2007–2008, down \$4.3 million or 3.7 per cent from 2006–2007. This results from expected lower average assets in 2007–2008 due to planned sinking fund draw-downs that occurred in 2006–2007.

## *Key Tax Measures*

### **Personal Income Taxes**

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

As announced in the 2006–2007 budget, the province will adjust the basic personal amount exempted from personal income taxes from \$7,231 to \$7,481 starting on January 1, 2007. The province's other non-refundable credits will also grow by 3.46 per cent. The basic personal amount will increase by \$250 in each of the next four years, an increase of \$1,000 or 13.83 per cent. The province's other non-refundable credits will also grow by 13.83 per cent over this period.



### *Graduate Tax Credit*

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

### *Volunteer Firefighters Tax Credit*

For the 2007 tax year, the province will introduce a new \$250 refundable tax credit for volunteer firefighters. This tax credit will increase to \$375 in 2008 and \$500 in 2009.

## **Business Taxes**

### *Digital Media*

The province is introducing a Digital Media Tax Credit starting on January 1, 2008. This measure will provide a refundable tax credit of 35 per cent of eligible expenditures on digital media productions. The details and parameters of the digital media tax credit will be developed throughout the next year.

## **Sales Taxes**

### *Tours and Conventions Incentive*

With the cancellation of the federal visitors' GST/HST rebate, the province's tour and convention industry lost a competitive advantage in attracting tourist visits.

The federal government's new Foreign Convention and Tour Incentive Program will support this important sector by rebating federal GST for certain convention and tour operators. The Province of Nova Scotia plans to establish a parallel Foreign Convention and Tour Incentive Program to rebate the equivalent provincial HST portions to the same operators.

The province will announce further details of its Foreign Convention and Tour Incentive Program by June.



## Fuel and Tobacco Taxes

### *Tobacco Taxes*

Effective on the date of the budget, the province will increase tobacco taxes by one cent per cigarette or the equivalent of two dollars per carton. The province will also increase the tax rate on pre-proportioned tobacco sticks by one cent per unit and the tax rate on fine-cut tobacco by one cent per gram.

### *Aviation Fuel Taxes*

Effective on the date of the budget, the province will increase the tax rate applied to fuels used in aircraft from 0.9 cents per litre to 2.5 cents per litre. This will bring Nova Scotia's aviation fuel tax rate in line with other provinces.

## *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 which reflect the province's planned course of action for the forecast period and judgment as to the most probable set of economic conditions. As these variables change throughout the year and as more information becomes available, they may have an impact, either negatively or positively, on the revenue forecasts, and these impacts could be material. The province intends to update the forecast periodically throughout the forecast period.

It is also important to note that the above referenced variables can move quite independently of each other and may have offsetting effects.

The following table lists the specific key economic assumptions and key variables which directly impact on the calculation of provincial revenue estimate and forecast figures as included in this Revenue Outlook section and reflects assumptions developed by the province as at March 22, 2007.



Revenue Source	Key Variables
Personal Income Taxes	<ul style="list-style-type: none"> <li>• national level of personal taxable income as provided by Finance Canada</li> <li>• Nova Scotia share of national levels of taxable income</li> <li>• provincial taxable income yield</li> <li>• tax credits uptake</li> </ul>
Corporate Income Taxes	<ul style="list-style-type: none"> <li>• national level of corporate taxable income level as provided by Finance Canada</li> <li>• Nova Scotia share of national taxable income</li> <li>• tax credit uptake</li> <li>• national and provincial corporate profit levels</li> </ul>
HST	<ul style="list-style-type: none"> <li>• personal consumer expenditure levels</li> <li>• provincial gross domestic product</li> <li>• spending by exempt industries</li> <li>• rebate levels</li> <li>• housing investment</li> </ul>
Tobacco, Gasoline, and Diesel Taxes	<ul style="list-style-type: none"> <li>• personal consumer expenditure levels</li> <li>• tobacco and fuel consumption patterns</li> <li>• tobacco and fuel prices</li> <li>• labour income</li> </ul>
Petroleum Royalties	<ul style="list-style-type: none"> <li>• foreign exchange rates</li> <li>• production levels</li> <li>• world price of natural gas, subject to current market conditions</li> </ul>
Equalization	<ul style="list-style-type: none"> <li>• 2006–2007 and 2007–2008 fixed by the federal government</li> </ul>
CHT/CST	<ul style="list-style-type: none"> <li>• annual increase in the national base amount CHT (6.0 per cent) and CST (3.5 per cent)</li> <li>• changes in personal and corporate income taxes</li> <li>• changes in population</li> <li>• changes in tax point values</li> </ul>



## *Additional Information*

In addition to the key economic and fiscal assumptions contained in the 2007–2008 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2007–2008 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its consolidated fund. As a result, revenue for certain government service organizations that are consolidated for financial statement purposes are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2007–2008 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.

The revenue forecast to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of March 19, 2007. In addition, CHT and CST revenue estimates are, in part, based on Canadian national and provincial population estimates supplied by Statistics Canada. As with past population data, there is a forecast risk that the data will be revised by Statistics Canada. Prior Years' Adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the forecast for 2006–2007.





Commencing with 2007–2008, recoveries of expenditures under various federal-provincial agreements or from other entities, user fees, and income on sinking fund investments have been estimated and are included in gross revenue, and the 2005–2006 actual and 2006–2007 forecast are reported accordingly.

### **Federal Trust/Fund Disclosure**

For its 2007–2008 budget the federal government announced its intention to set up a number of new third-party trusts and funding for the benefit of provinces and territories. The trusts include the Wait Time Guarantee Trust, an Immunization Trust (HPV) and the Canada ecoTrust. In addition, the federal government also announced its intention to provide national infrastructure funding. The total national amount for each trust or fund is set in the federal budget and is dependent on the budget being approved by the House of Commons

There will be purpose restrictions placed on each trust or fund that guide what can, and cannot be funded by each trust or fund.

Given the purpose restrictions placed on each trust or fund and the lateness of the federal budget, no revenue amount for any of these trusts or fund is included in the 2007–2008 Estimates of the province. The province will defer the recognition of revenue for its share of each trust or fund until spending plans are approved and eligible expenditures or expenses have been incurred. Therefore, some portion of each trust or fund may be recognized as revenue and included the 2007–2008 Quarterly Forecast Updates, as well as future Estimates. The complete recognition of revenue will occur within the time period allowed within each trust or fund.



## **Offshore Forfeiture Revenue**

The risk of a deposit forfeiture is inherent in the offshore exploration industry. While a forfeiture is not unusual given the unpredictable nature of this industry, any revenue projection based on past trends would be inappropriate. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given. As of today's date, no notice has been provided for 2007–2008.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2007–2008 estimates. If, subsequent to the budget, forfeiture notice is provided, the amount will be reflected in future quarterly forecast updates and the Public Accounts for 2007–2008.

## **Tangible Capital Asset**

The 2007–2008 Estimates have been prepared using the revisions to Section 3150, Tangible Capital Assets, of the Public Sector Accounting Board handbook. This revision, amongst other things, defines the cost of an asset as the gross amount to acquire, construct, develop, or better the asset. Previously, the province netted recoveries or cost-sharing contributions from others to determine the cost of an asset. Commencing with the 2006–2007 Public Accounts and the 2007–2008 Estimates, all recoveries will be recorded as revenue in the year when the related asset is acquired. Amortization expense will be calculated based on the gross cost amount. Recoveries from others for tangible capital asset will continue to be netted for project approval purposes only.

## **Pharmacare Program**

Revenues associated with this program are included in Other Provincial Source revenues in the amount of \$45.3M for 2007/08. Prior to 2007/08 these revenues were netted against



program expenses at the Department of Health. For the purposes of the 2007/08 Estimate, prior year amounts have not been restated to reflect this change. To be comparable the following amounts should be added to Other Provincial Source revenues, as well as Departmental expenses – Department of Health; 2006/07 \$41.974M, 2005/06 \$40.010M, 2004/05 \$38.239M and 2003/04 \$35.135M.



# GOVERNMENT BUSINESS ENTERPRISES

SUPPLEMENTARY TO THE 2007-2008 BUDGET



# Government Business Enterprises— Net Income

## Nova Scotia Gaming Corporation

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be \$139.6 million in 2007–2008. This is a decrease of 1.9 per cent compared to the 2006–2007 forecasted net income. This decline is attributable to the following factors:

1. A reduction in the video lottery business line largely attributable to the annualized impact of the complete smoking ban, which came into effect on December 1, 2006
2. Ticket lottery will experience an increase in expenses, resulting in a net income decrease
3. An increase of \$1.7 million in net income from the casino business line as a result of reduced interest and HST expenses at the Halifax Casino as a result of repayments made on long-term debt
4. An increase of \$1.2 million in NSGC's responsible gaming expenditures in support of its commitment to advancing a responsible gambling industry in Nova Scotia



## **Nova Scotia Liquor Corporation Net Income**

The Nova Scotia Liquor Corporation (NSLC) returns all of its net income to its shareholder. The NSLC is budgeting net income of \$197.1 million in 2007–2008. This is an increase of 4.8 per cent compared to the 2006–2007 forecasted net income. The net income is projected on net sales of \$527 million for 2007–2008 as compared to \$503 million forecasted for 2006–2007. The increase in net income is primarily attributable to the following factors:

1. An average price change of approximately 1.5 per cent
2. A budgeted sales volume growth of 1.1 per cent
3. Continuing expenditure investment in enhancing the retail customer shopping experience and IT infrastructure
4. A new focus on serving the licensee community
5. More effective product promotion and marketing programs
6. Increased employee capacity focused on customer assistance selling and product knowledge skills



# ECONOMIC SCHEDULES

SUPPLEMENTARY TO THE BUDGET ADDRESS 2007–2008

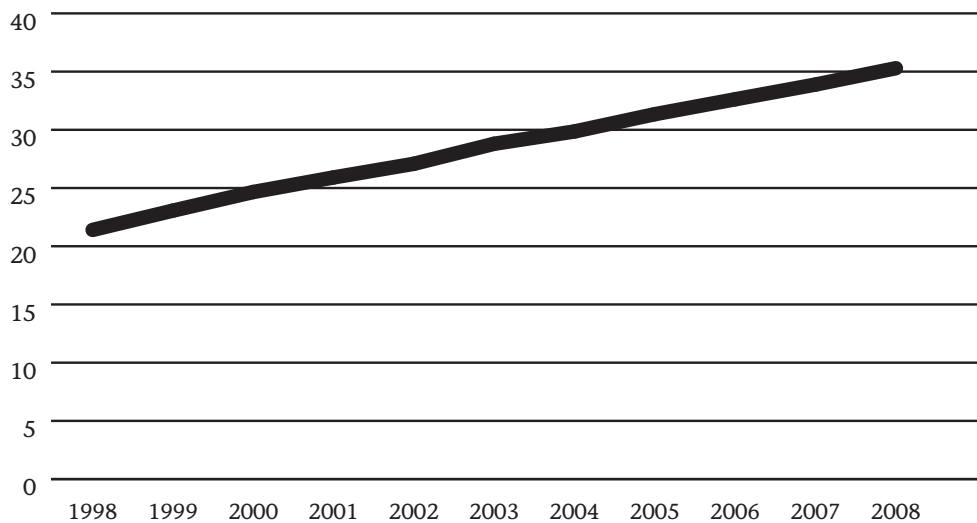


**Schedule 1**  
**Nominal Gross Domestic Product at Market Prices**  
**(\$ millions)**

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1998	21,401	5.1	914,973	3.7
1999	23,059	7.7	982,441	7.4
2000	24,658	6.9	1,076,577	9.6
2001	25,909	5.1	1,108,048	2.9
2002	27,082	4.5	1,152,905	4.0
2003	28,801	6.3	1,213,408	5.2
2004	29,859	3.7	1,290,788	6.4
2005	31,344	5.0	1,371,425	6.2
2006	32,623	4.1 p	1,439,329	5.0 p
2007	33,888	3.9 p	1,502,951	4.4 p
2008	35,291	4.1 p	1,574,471	4.8 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB  
 2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB  
 p Preliminary Projections; Source: Nova Scotia Department of Finance

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



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





**Schedule 2**  
**Gross Domestic Product at Market Prices**  
**(chained 1997 \$ millions)**

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1998	21,127	3.7	918,910	4.1
1999	22,285	5.5	969,750	5.5
2000	22,970	3.1	1,020,488	5.2
2001	23,700	3.2	1,038,702	1.8
2002	24,652	4.0	1,069,282	2.9
2003	24,929	1.1	1,088,773	1.8
2004	25,131	0.8	1,124,688	3.3
2005	25,534	1.6	1,157,705	2.9
2006	26,045	2.0 p	1,190,512	2.8 p
2007	26,655	2.3 p	1,219,957	2.5 p
2008	27,295	2.4 p	1,256,647	3.0 p

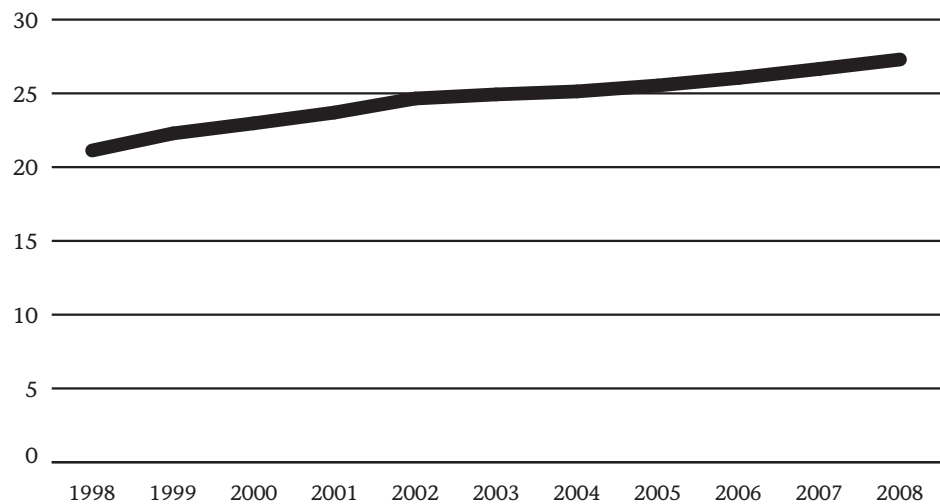
1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB

2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB

p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The Chained 1997\$ millions is the Fisher Volume Index formula (1997 = 100) used to project Gross Domestic Product in constant dollars.

**Nova Scotia Real Gross Domestic Product at Market Prices**  
**(chained 1997 \$ billions)**



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

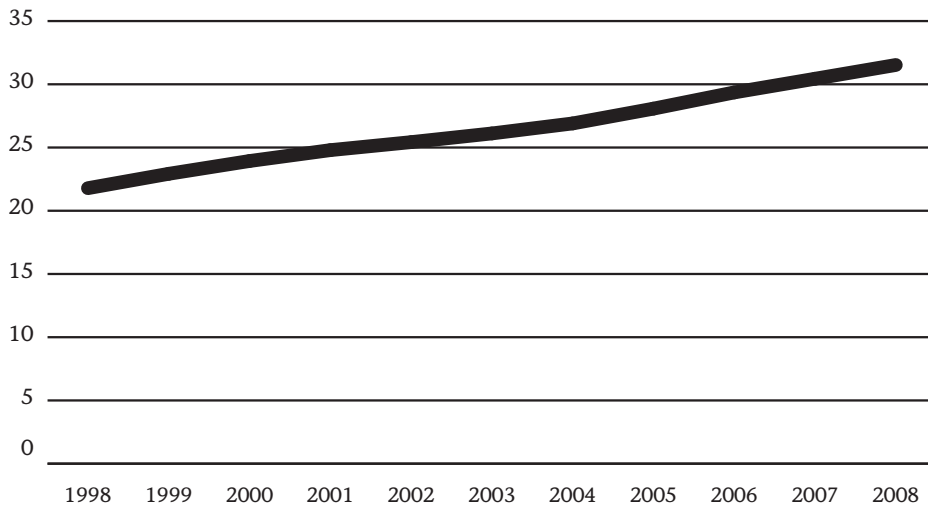


### Schedule 3 Personal Income Per Capita (dollars)

Year	Nova Scotia (1)	% Change	Canada (1)	% Change
1998	21,786	5.1	24,814	3.7
1999	22,922	5.2	25,755	3.8
2000	23,933	4.4	27,384	6.3
2001	24,793	3.6	28,254	3.2
2002	25,426	2.6	28,650	1.4
2003	26,113	2.7	29,438	2.8
2004	26,904	3.0	30,605	4.0
2005	28,075	4.4	31,819	4.0
2006	29,356	4.6 p	33,298	4.6 p
2007	30,438	3.7 p	34,409	3.3 p
2008	31,526	3.6 p	35,636	3.6 p

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

### Personal Income Per Capita in Nova Scotia (\$ thousands)



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

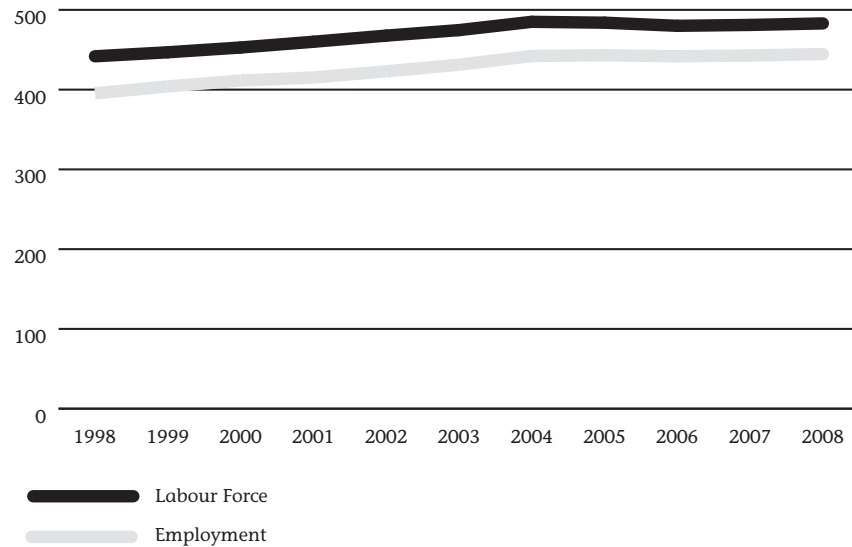


### Schedule 4 Nova Scotia Labour Market (thousands of persons)

Year	Labour Force (1)	% Change	Employment (1)	% Change
1998	441.8	1.5	395.3	3.5
1999	446.8	1.1	404.0	2.2
2000	452.8	1.3	411.4	1.8
2001	460.0	1.6	415.2	0.9
2002	467.7	1.7	422.9	1.9
2003	474.6	1.5	431.2	2.0
2004	485.0	2.2	442.2	2.6
2005	483.9	-0.2	443.1	0.2
2006	480.0	-0.8	441.8	-0.3
2007	481.1	0.2 p	442.8	0.2 p
2008	483.0	0.4 p	444.6	0.4 p

1 Source: Statistics Canada 2006, Labour Force Historical Review, 71F0004XCB, February 2007  
p Preliminary Projections; Source: Nova Scotia Department of Finance

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



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



## Schedule 5 Unemployment (thousands of persons)

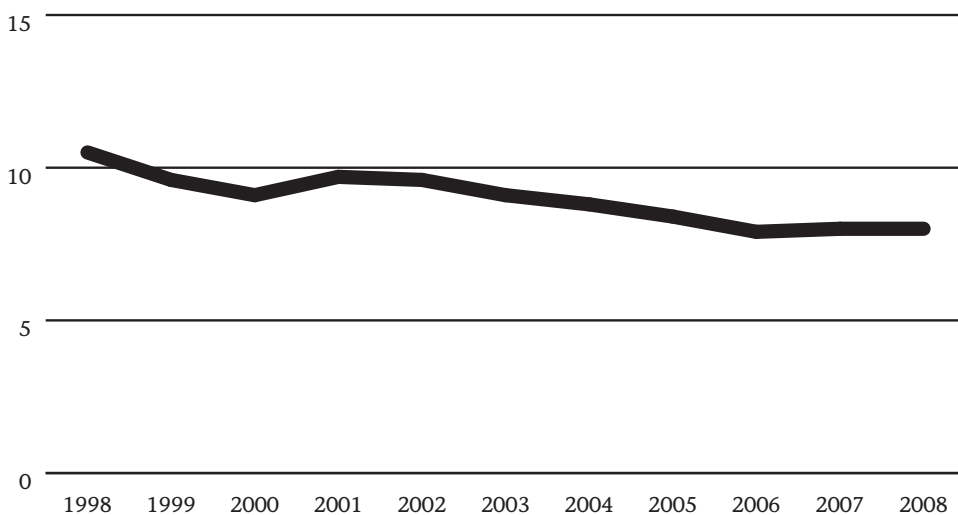
Year	Unemployed	Nova Scotia (1) Unemployment Rate (%)	Unemployed	Canada (1) Unemployment Rate (%)
1998	46.6	10.5	1,270.1	8.3
1999	42.9	9.6	1,181.6	7.6
2000	41.4	9.1	1,082.8	6.8
2001	44.8	9.7	1,163.6	7.2
2002	44.8	9.6	1,268.9	7.7
2003	43.4	9.1	1,286.2	7.6
2004	42.8	8.8	1,235.3	7.2
2005	40.8	8.4	1,172.8	6.8
2006	38.1	7.9	1,108.4	6.3
2007	38.3	8.0 p	1,091.4	6.1 p
2008	38.4	8.0 p	1,088.8	6.0 p

1 Source: Statistics Canada 2006, Labour Force Historical Review, 71F0004XCB, February 2007

p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The unemployment statistics shown in this table are annual averages of the monthly indices.

### Unemployment Rate in Nova Scotia (per cent)



Source: Statistics Canada 2006, Labour Force Historical Review, 71F0004XCB, February 2007



# BUDGETARY INFORMATION

SUPPLEMENTARY TO THE 2007-2008 BUDGET



# BUDGET OVERVIEW

SUPPLEMENTARY TO THE 2007-2008 BUDGET



# Budget Overview

The Province of Nova Scotia is tabling its sixth consecutive balanced budget in fiscal 2007–2008, estimating a surplus of \$118.4 million, which puts the province in a position to meet its debt reduction commitment.

In the spring of 2004, the province legislated its debt reduction plan by including the plan in the Provincial Finance Act. The province committed to generating budget surpluses large enough to offset capital spending less amortization, starting in fiscal 2007–2008. The \$118.4 million provincial surplus achieves that commitment.

The 2007–2008 Estimates reflect an increase of \$440.7 million in ordinary revenues and a \$391.2 million increase in net program expenses over the 2006–2007 budget.

Provincial source revenues have increased 6.0 percent, while federal source revenues have increased 7.8 per cent. The provincial source revenues, including the net income from the government business enterprises, now make up 65.5 per cent of the province's total revenues.

There is \$68.2 million in revenue attributed to the Offshore Agreement signed between the province and the Government of Canada on February 14, 2005. The agreement resulted in a lump-sum payment of \$830.0 million, which was received on July 4, 2005. Provincial legislation has been amended to ensure that these funds are applied to the province's debt and accounted for according to GAAP over the eight-year life of the agreement.

Net program expenses for fiscal 2007–2008 are budgeted at \$6.9 billion. The increase in spending over the 2006–2007 budget will provide additional investment in information technology, public safety, the environment, health and health promotion and protection, and economic development.



Also, the government will again be providing relief on the provincial portion of the HST on home energy costs.

Authority for the annual cost to acquire provincially owned assets is reflected in tangible capital assets – net capital purchase requirements, which totals \$254.0 million in fiscal 2007–2008, a decrease of \$81.0 million from the 2006–2007 budget. The capital funding includes an investment of \$144.5 million in the highway system, \$92.7 million in buildings, which includes schools, and \$11.6 million in information technology.

In addition, capital funding has been provided to the following governmental units: \$38.0 million for the district health authorities and IWK Health Centre, \$3.4 million for Trade Centre Ltd., and \$0.75 million for InNOVACorp Inc.

The province's net direct debt to GDP ratio continues its downward trend in fiscal 2007–2008, falling to 36.6 per cent compared to 48.7 per cent in fiscal 1999–2000. Foreign currency exposure also continues to drop and, as of March 31, 2007, is expected to be 10.2 per cent.





# BUDGET SUMMARY

SUPPLEMENTARY TO THE 2007-2008 BUDGET

**BUDGET SUMMARY -  
STATEMENT OF OPERATIONS**  
(\$ thousands)

Schedule 6

<i>ESTIMATE</i> 2005-2006 (as restated)	<i>ACTUAL</i> 2005-2006 (as restated)	<i>ESTIMATE</i> 2006-2007 (as restated)	<i>FORECAST</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
<b>Consolidated Fund</b>					
<b>Revenues</b>					
6,097,580	6,262,163	6,588,838	6,627,385	Ordinary Revenues	7,029,569
57,507	60,928	58,903	64,075	Fees and Other Charges	60,883
423,966	365,845	429,426	442,290	Ordinary Recoveries	469,662
119,597	124,395	87,783	117,789	Sinking Fund Earnings	113,529
<b>6,698,650</b>	<b>6,813,331</b>	<b>7,164,950</b>	<b>7,251,539</b>		<b>7,673,643</b>
<b>Expenses</b>					
5,977,748	5,993,040	6,483,836	6,495,288	Departmental Expenses	6,917,294
24,379	29,994	33,213	107,409	Pension Valuation Adjustment	68,603
1,017,065	987,805	963,998	955,435	Debt Servicing Costs	954,338
<b>7,019,192</b>	<b>7,010,839</b>	<b>7,481,047</b>	<b>7,558,132</b>		<b>7,940,235</b>
<b>(320,542)</b>	<b>(197,508)</b>	<b>(316,097)</b>	<b>(306,593)</b>		<b>(266,592)</b>
<b>Consolidation and Accounting Adjustments for Governmental Units</b>					
37,461	2,496,242	46,402	54,101	Consolidated Fund Consolidation Adjustments	40,592
---	(1,507,414)	4,100	---	Health and Hospital Boards Operations	---
---	(832,660)	---	---	School Boards Operations	---
(958)	4,030	(1,533)	3,190	Special Purpose Funds	76
688	(79,991)	5,556	7,246	Other Organizations	309
<b>37,191</b>	<b>80,207</b>	<b>54,525</b>	<b>64,537</b>		<b>40,977</b>
<b>Net Income from Government Business Enterprises</b>					
160,900	155,335	144,200	142,300	Nova Scotia Gaming Corporation	139,600
177,070	181,217	184,500	188,330	Nova Scotia Liquor Corporation	197,070
8,664	8,867	6,364	9,962	Other Enterprises	7,374
<b>346,634</b>	<b>345,419</b>	<b>335,064</b>	<b>340,592</b>		<b>344,044</b>
<b>63,283</b>	<b>228,118</b>	<b>73,492</b>	<b>98,536</b>	<b>Provincial Surplus</b>	<b>118,429</b>

**BUDGET SUMMARY -  
STATEMENT OF OPERATIONS**  
(\$ thousands)

Schedule 6  
(continued)

<b>ESTIMATE</b> 2005-2006 (as restated)	<b>ACTUAL</b> 2005-2006 (as restated)	<b>ESTIMATE</b> 2006-2007 (as restated)	<b>FORECAST</b> 2006-2007		<b>ESTIMATE</b> 2007-2008
---	---	---	------------------------------	--	------------------------------

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

<b>Components of the Debt Reduction Plan</b>					
4,000	---	4,000	4,000	Debt Retirement - Contingency	17,885
57,100	57,100	57,421	57,421	Offshore Offset Agreement	68,238
---	---	---	23,466	Restricted Surplus - TCA	16,882
2,183	171,018	12,071	13,649	Other	15,424
<b>63,283</b>	<b>228,118</b>	<b>73,492</b>	<b>98,536</b>		<b>118,429</b>

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## **FINANCIAL REPORTING AND ACCOUNTING POLICIES**

The 2007-2008 Budget has been prepared following the presentation format consistent with those that will be used to prepare the 2006-2007 Public Accounts. The Public Accounts of the Province are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for the public sector, which for purposes of the Province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

### **Comparative Figures**

Comparative figures for estimates are based on the accounting policies in effect at the time the Estimates were prepared. Estimates are not adjusted for subsequent accounting changes once the appropriations are finalized. The following is a summary of accounting changes made in the past two years which impact the comparability of figures.

#### **Figures shown for 2005-2006 - Estimates not restated, Actual reflects the following:**

- recording the obligation for School Boards' non-teaching retirement allowances for two Boards decreased the 2005-2006 Actual Provincial Surplus by \$0.2 million;
- recording the obligation for School Boards' non-teaching pension obligations for two Boards increased the 2005-2006 Actual Provincial Surplus by \$0.2 million; and
- recording inventories of supplies decreased the 2005-2006 Actual Provincial Surplus by \$0.7 million.

#### **Figures shown for 2006-2007 - Estimates not restated, Forecast reflects the following:**

- recording the impact of moving to joint trusteeship for the Teachers' Pension Plan decreased the 2006-2007 Forecast Provincial Surplus by \$20.8 million;
- recording the impact of retirement obligations from three Children's Aid Societies, upon merger with the Province, decreased the 2006-2007 Forecast Provincial Surplus by \$3.1 million;
- recording tangible capital assets at gross historical cost and recording related revenues when the assets are purchased increased the Forecast Provincial Surplus by \$19.4 million.

**CONSOLIDATED FUND**  
**ORDINARY REVENUE - SUMMARY**  
*By Revenue Source*  
(\$ thousands)

Schedule 7

<i>ESTIMATE</i> 2005-2006	<i>ACTUAL</i> 2005-2006	<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
<b>Provincial Sources</b>					
350,177	361,508	378,507	385,720	Corporate Income Tax	386,905
1,068,935	1,057,772	1,104,358	1,084,756	Harmonized Sales Tax	1,095,822
1,553,568	1,568,449	1,652,111	1,679,141	Individual Income Tax	1,718,283
72,413	81,139	77,312	77,567	Interest Revenues	75,975
256,895	248,252	247,267	251,465	Motive Fuel Taxes	252,235
---	43,208	---	3,500	Offshore Licenses Forfeitures	---
87,716	88,173	89,268	90,826	Registry of Motor Vehicles	94,488
30,000	123,850	280,000	269,700	Royalties - Petroleum	420,500
177,567	163,617	163,004	146,485	Tobacco Tax	150,948
239,333	243,622	237,591	235,676	Other Provincial Sources	283,990
---	---	---	15,279	TCA Cost Shared Revenue	6,151
---	16,420	---	14,395	Prior Years' Adjustments - Provincial Sources	---
<b>3,836,604</b>	<b>3,996,010</b>	<b>4,229,418</b>	<b>4,254,510</b>		<b>4,485,297</b>
<b>Federal Sources</b>					
578,410	581,015	611,556	610,486	Canada Health Transfer	638,954
257,408	254,964	267,919	265,067	Canada Social Transfer	280,335
---	---	---	2,468	C48 Infrastructure Trust Funds	44,778
1,343,527	1,343,527	1,385,539	1,385,539	Equalization Payments	1,464,528
57,100	57,100	57,421	57,421	Offshore Oil and Gas Payments	68,238
24,531	24,520	36,985	36,985	Other Federal Sources	36,708
---	---	---	8,187	TCA Cost Shared Revenue	10,731
---	5,027	---	6,722	Prior Years' Adjustments - Federal Sources	---
<b>2,260,976</b>	<b>2,266,153</b>	<b>2,359,420</b>	<b>2,372,875</b>		<b>2,544,272</b>
<b>6,097,580</b>	<b>6,262,163</b>	<b>6,588,838</b>	<b>6,627,385</b>		<b>7,029,569</b>

**CONSOLIDATED FUND  
FEES AND OTHER CHARGES -  
SUMMARY**  
(\$ thousands)

Schedule 8

<b>ESTIMATE</b> 2005-2006	<b>ACTUAL</b> 2005-2006	<b>ESTIMATE</b> 2006-2007	<b>FORECAST</b> 2006-2007		<b>ESTIMATE</b> 2007-2008
9,863	9,927	9,146	8,722	Agriculture	9,604
173	183	548	542	Community Services	579
84	179	84	84	Economic Development	6
1,131	1,454	1,290	1,508	Education	1,650
3,582	3,256	3,891	3,429	Environment and Labour	3,607
566	565	566	565	Finance	649
---	---	854	1,074	Fisheries and Aquaculture	927
8,071	7,779	8,071	7,800	Health	7,969
---	---	10	10	Health Promotion and Protection	10
15,187	16,165	15,603	16,977	Justice	17,385
2,406	2,750	2,583	2,680	Natural Resources	2,320
362	1,053	293	883	Public Service	365
7,862	8,597	8,313	11,564	Service Nova Scotia and Municipal Relations	8,371
3,903	4,785	3,374	3,896	Tourism, Culture and Heritage	3,331
4,267	4,224	4,267	4,331	Transportation and Public Works	4,100
50	11	10	10	Restructuring Costs	10
<b>57,507</b>	<b>60,928</b>	<b>58,903</b>	<b>64,075</b>		<b>60,883</b>

**CONSOLIDATED FUND  
ORDINARY RECOVERIES -  
SUMMARY**  
(\$ thousands)

Schedule 9

<i>ESTIMATE</i> 2005-2006	<i>ACTUAL</i> 2005-2006	<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
2,909	4,100	2,754	4,961	Agriculture	3,754
117,415	81,101	109,114	81,089	Community Services	104,132
3,445	3,883	1,934	1,541	Economic Development	1,690
39,220	37,605	40,771	46,803	Education	47,529
7,815	8,130	8,115	8,115	Assistance to Universities	8,115
1,195	1,071	1,195	1,195	Energy	1,509
13,055	9,526	10,744	9,896	Environment and Labour	11,290
892	805	1,466	2,421	Finance	3,479
---	---	---	94	Fisheries and Aquaculture	---
103,179	90,345	58,959	79,997	Health	78,778
---	---	11,041	11,763	Health Promotion and Protection	8,865
79,438	85,746	83,199	85,842	Justice	87,173
---	186	20	88	Natural Resources	20
8,744	9,039	4,596	5,122	Public Service	5,971
35,953	22,217	85,192	92,179	Service Nova Scotia and Municipal Relations	97,105
2,451	2,140	1,912	2,562	Tourism, Culture and Heritage	1,802
4,987	4,971	5,146	5,354	Transportation and Public Works	5,182
3,268	4,980	3,268	3,268	Restructuring Costs	3,268
<b>423,966</b>	<b>365,845</b>	<b>429,426</b>	<b>442,290</b>		<b>469,662</b>

**CONSOLIDATED FUND**  
**DEPARTMENTAL EXPENSES -**  
**SUMMARY**  
(\$ thousands)

Schedule 10

<i>ESTIMATE</i> 2005-2006	<i>ACTUAL</i> 2005-2006	<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
56,885	62,370	50,740	52,508	Agriculture	63,195
833,762	792,748	857,785	823,491	Community Services	886,494
48,802	66,964	62,133	71,070	Economic Development	76,362
1,114,728	1,110,881	1,180,283	1,188,649	Education	1,237,624
214,526	231,958	235,987	268,600	Assistance to Universities	258,920
10,814	21,686	20,907	17,575	Energy	21,770
44,584	39,841	44,699	42,394	Environment and Labour	49,664
18,316	16,666	20,549	20,797	Finance	29,747
---	---	5,885	6,163	Fisheries and Aquaculture	6,700
2,670,990	2,670,635	2,831,509	2,856,295	Health	3,045,859
---	---	47,350	50,784	Health Promotion and Protection	58,618
202,472	206,672	215,269	217,855	Justice	232,763
65,504	66,678	68,440	67,955	Natural Resources	79,242
147,288	147,956	144,264	133,928	Public Service	138,295
140,199	138,937	229,766	209,451	Service Nova Scotia and Municipal Relations	227,219
48,737	51,728	49,687	54,896	Tourism, Culture and Heritage	54,364
273,208	277,021	301,368	297,152	Transportation and Public Works	329,037
86,933	90,656	117,215	115,725	Restructuring Costs	121,421
---	(357)	---	---	Loss on the Disposal of Assets	---
<b>5,977,748</b>	<b>5,993,040</b>	<b>6,483,836</b>	<b>6,495,288</b>		<b>6,917,294</b>



**CONSOLIDATED FUND  
DEBT SERVICING COSTS -  
SUMMARY**  
(\$ thousands)

Schedule 11

<i>ESTIMATE</i> 2005-2006	<i>ACTUAL</i> 2005-2006	<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
				<b>Debt Servicing Costs</b>	
859,306	816,450	797,493	795,648	Interest on Long-Term Debt	785,336
44,120	45,946	42,322	25,337	General Interest	27,693
113,639	125,409	124,183	134,450	Interest on Pension, Retirement and Other Obligations	141,309
<b>1,017,065</b>	<b>987,805</b>	<b>963,998</b>	<b>955,435</b>	<b>Gross Debt Servicing Costs</b>	<b>954,338</b>
(119,597)	(124,395)	(87,783)	(117,789)	<b>Less: Sinking Fund Earnings</b>	(113,529)
<b>897,468</b>	<b>863,410</b>	<b>876,215</b>	<b>837,646</b>	<b>Net Debt Servicing Costs</b>	<b>840,809</b>

**Note:**

- 1) For further details on the underlying assumptions that support the Net Debt Servicing Costs projections, see Section F, Overview of Treasury Management, Schedule 15 and Schedule 17.

**CONSOLIDATED FUND**  
**STATUTORY CAPITAL ITEMS -**  
**SUMMARY**  
(\$ thousands)

Schedule 12

<b>ACTUAL</b> 2005-2006	<b>ESTIMATE</b> 2006-2007	<b>FORECAST</b> 2006-2007		<b>ESTIMATE</b> 2007-2008
<b>CAPITAL ADVANCES AND INVESTMENTS</b>				
The following is given for information as to the proposed program.				
<b>Additional Advances and Investments (A)</b>				
13,975	20,000	20,000	Fisheries and Aquaculture Development Fund	20,000
8,504	27,838	22,984	Industrial Expansion Fund	18,278
30,272	30,000	25,500	Nova Scotia Farm Loan Board	30,000
13,691	20,000	14,000	Nova Scotia Fund	20,000
---	55,604	28,317	Nova Scotia Housing Development Corporation	39,990
---	---	---	Miscellaneous	---
<b>66,442</b>	<b>153,442</b>	<b>110,801</b>		<b>128,268</b>
<b>Repayments (A)</b>				
14,200	14,000	13,600	Fisheries and Aquaculture Development Fund	14,200
1,661	2,516	3,224	Industrial Expansion Fund	12,252
140	140	140	Municipal Loan and Building Fund Act	75
19,569	18,000	19,170	Nova Scotia Farm Loan Board	22,500
17,216	7,500	14,585	Nova Scotia Fund	7,500
---	28,095	22,831	Nova Scotia Housing Development Corporation	22,453
2,554	587	5,587	Miscellaneous	4,371
<b>55,340</b>	<b>70,838</b>	<b>79,137</b>		<b>83,351</b>
<b>11,102</b>	<b>82,604</b>	<b>31,664</b>	<b>Net Capital Advances and Investments</b>	<b>44,917</b>

(A) - Capital Advances and Investments for which no Vote is required under the Appropriations Act. The Spending Authority is contained in the respective Statutes. Borrowing provided for under the Appropriations Act.



# FINANCIAL STATISTICS

SUPPLEMENTARY TO THE 2007-2008 BUDGET

**HISTORICAL ANALYSIS OF  
REVENUES BY SOURCE**

Schedule 13

	<b>ACTUAL</b> 2003-2004 (as restated)	<b>ACTUAL</b> 2004-2005 (as restated)	<b>ACTUAL</b> 2005-2006 (as restated)	<b>FORECAST</b> 2006-2007	<b>ESTIMATE</b> 2007-2008
<b>REVENUE BY SOURCE</b>					
<i>(\$ thousands)</i>					
<b>Consolidated Fund Revenues</b>					
<b>Provincial Sources</b>					
Corporate Income Tax	232,710	329,075	361,508	385,720	386,905
Harmonized Sales Tax	975,204	1,031,066	1,057,772	1,084,756	1,095,822
Individual Income Tax	1,350,071	1,462,250	1,568,449	1,679,141	1,718,283
Interest Revenues	69,264	70,513	81,139	77,567	75,975
Motive Fuel Taxes	249,900	249,246	248,252	251,465	252,235
Offshore Licenses Forfeitures	1,244	61,000	43,208	3,500	---
Registry of Motor Vehicles	77,546	86,688	88,173	90,826	94,488
Royalties - Petroleum	24,083	28,202	123,850	269,700	420,500
Tobacco Tax	161,715	178,285	163,617	146,485	150,948
Other Provincial Sources	237,989	249,654	243,622	235,676	283,990
TCA Cost Shared Revenue	---	---	---	15,279	6,151
Prior Years' Adjustments -					
Provincial Sources	145,504	(63,278)	16,420	14,395	---
Fees and Other Charges	55,427	60,553	60,928	64,075	60,883
Ordinary Recoveries -					
Provincial Sources	217,561	191,389	203,886	239,259	262,300
Sinking Fund Earnings	183,623	143,235	124,395	117,789	113,529
<b>Total - Provincial Sources</b>	<b>3,981,841</b>	<b>4,077,878</b>	<b>4,385,219</b>	<b>4,675,633</b>	<b>4,922,009</b>
<b>Federal Sources</b>					
Canada Health and Social Transfer	686,853	---	---	---	---
Canada Health Transfer	---	484,528	581,015	610,486	638,954
Canada Social Transfer	---	244,867	254,964	265,067	280,335
C48 Infrastructure Trust Funds	---	---	---	2,468	44,778
Equalization Payments	1,114,487	1,321,774	1,343,527	1,385,539	1,464,528
Health Reform Fund	29,611	44,035	---	---	---
Offshore Oil and Gas Payments	---	---	57,100	57,421	68,238
Other Federal Sources	2,330	54,667	24,520	36,985	36,708
TCA Cost Shared Revenue	---	---	---	8,187	10,731
Prior Years' Adjustments -					
Federal Sources	(2,623)	25,093	5,027	6,722	---
Ordinary Recoveries -					
Federal Sources	193,592	154,592	161,959	203,031	207,362
<b>Total - Federal Sources</b>	<b>2,024,250</b>	<b>2,329,556</b>	<b>2,428,112</b>	<b>2,575,906</b>	<b>2,751,634</b>
<b>Total - Revenues</b>	<b>6,006,091</b>	<b>6,407,434</b>	<b>6,813,331</b>	<b>7,251,539</b>	<b>7,673,643</b>
<b>Net Income from Government</b>					
<b>Business Enterprises</b>					
Nova Scotia Gaming Corporation	158,491	170,031	155,335	142,300	139,600
Nova Scotia Liquor Corporation	166,752	170,034	181,217	188,330	197,070
Other Government Business Enterprises	8,099	9,442	8,867	9,962	7,374
	<b>333,342</b>	<b>349,507</b>	<b>345,419</b>	<b>340,592</b>	<b>344,044</b>
<b>Total - Revenues</b>	<b>6,339,433</b>	<b>6,756,941</b>	<b>7,158,750</b>	<b>7,592,131</b>	<b>8,017,687</b>

**HISTORICAL ANALYSIS OF  
REVENUES BY SOURCE**

Schedule 13

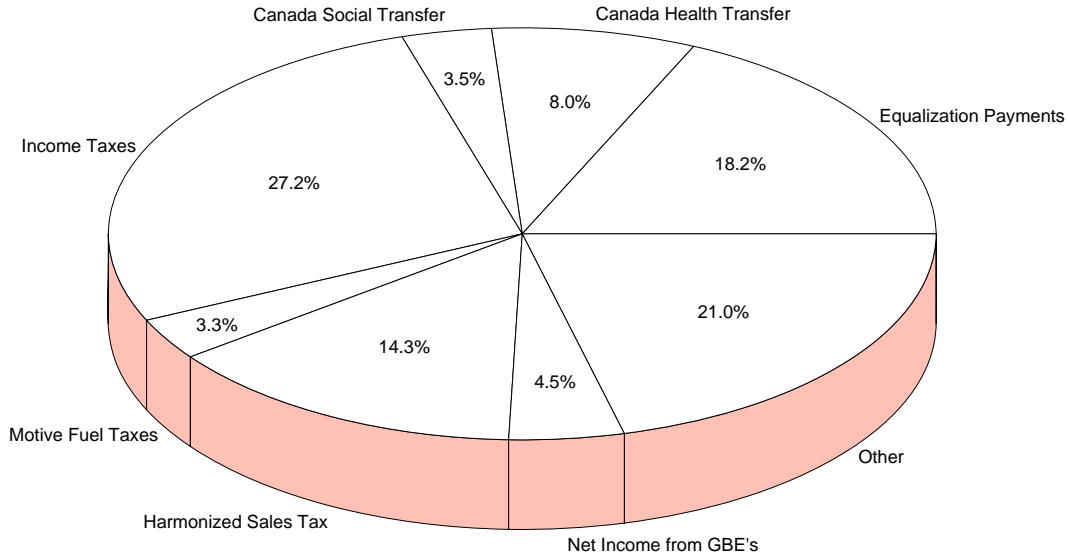
(continued)

	<b>ACTUAL</b> 2003-2004 (as restated)	<b>ACTUAL</b> 2004-2005 (as restated)	<b>ACTUAL</b> 2005-2006 (as restated)	<b>FORECAST</b> 2006-2007	<b>ESTIMATE</b> 2007-2008
<b>REVENUE BY SOURCE</b> (as a percentage of Total Revenue)					
<b>Consolidated Fund Revenues</b>					
<b>Provincial Sources</b>					
Corporate Income Tax	3.7%	4.9%	5.0%	5.1%	4.8%
Harmonized Sales Tax	15.4%	15.3%	14.8%	14.3%	13.7%
Individual Income Tax	21.3%	21.6%	21.9%	22.1%	21.4%
Interest Revenues	1.1%	1.0%	1.1%	1.0%	0.9%
Motive Fuel Taxes	3.9%	3.7%	3.5%	3.3%	3.1%
Offshore Licenses Forfeitures	---	0.9%	0.6%	---	---
Registry of Motor Vehicles	1.2%	1.3%	1.2%	1.2%	1.2%
Royalties - Petroleum	0.4%	0.4%	1.7%	3.6%	5.2%
Tobacco Tax	2.5%	2.6%	2.3%	1.9%	1.9%
Other Provincial Sources	3.8%	3.7%	3.4%	3.1%	3.5%
TCA Cost Shared Revenue	---	---	---	0.2%	0.1%
Prior Years' Adjustments -					
Provincial Sources	2.3%	-0.9%	0.2%	0.2%	---
Fees and Other Charges	0.9%	0.9%	0.9%	0.8%	0.8%
Ordinary Recoveries -					
Provincial Sources	3.4%	2.8%	2.8%	3.2%	3.3%
Sinking Fund Earnings	2.9%	2.1%	1.7%	1.6%	1.4%
<b>Total - Provincial Sources</b>	<b>62.8%</b>	<b>60.3%</b>	<b>61.1%</b>	<b>61.6%</b>	<b>61.3%</b>
<b>Federal Sources</b>					
Canada Health and Social Transfer	10.8%	---	---	---	---
Canada Health Transfer	---	7.2%	8.1%	8.0%	8.0%
Canada Social Transfer	---	3.6%	3.6%	3.5%	3.5%
C48 Infrastructure Trust Funds	---	---	---	---	0.6%
Equalization Payments	17.6%	19.6%	18.8%	18.2%	18.3%
Health Reform Fund	0.5%	0.7%	---	---	---
Offshore Oil and Gas Payments	---	---	0.8%	0.8%	0.9%
Other Federal Sources	---	0.8%	0.4%	0.5%	0.5%
TCA Cost Shared Revenue	---	---	---	0.1%	0.1%
Prior Years' Adjustments -					
Federal Sources	---	0.4%	0.1%	0.1%	---
Ordinary Recoveries -					
Federal Sources	3.1%	2.3%	2.3%	2.7%	2.5%
<b>Total - Federal Sources</b>	<b>32.0%</b>	<b>34.6%</b>	<b>34.1%</b>	<b>33.9%</b>	<b>34.4%</b>
<b>Total - Revenues</b>	<b>94.8%</b>	<b>94.9%</b>	<b>95.2%</b>	<b>95.5%</b>	<b>95.7%</b>
<b>Net Income from Government</b>					
<b>Business Enterprises</b>					
Nova Scotia Gaming Corporation	2.5%	2.5%	2.2%	1.9%	1.7%
Nova Scotia Liquor Corporation	2.6%	2.5%	2.5%	2.5%	2.5%
Other Government Business Enterprises	0.1%	0.1%	0.1%	0.1%	0.1%
	<b>5.2%</b>	<b>5.1%</b>	<b>4.8%</b>	<b>4.5%</b>	<b>4.3%</b>
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

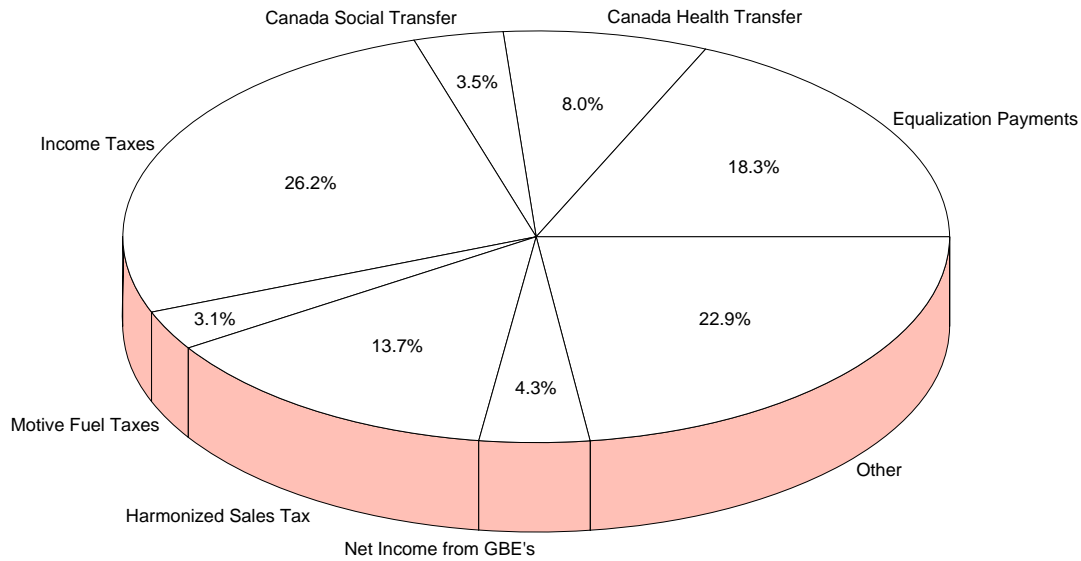
**REVENUES BY SOURCE**

Chart 1

**2006-2007 FORECAST**



**2007-2008 ESTIMATE**



**HISTORICAL ANALYSIS OF TOTAL  
EXPENSES BY FUNCTION**

Schedule 14

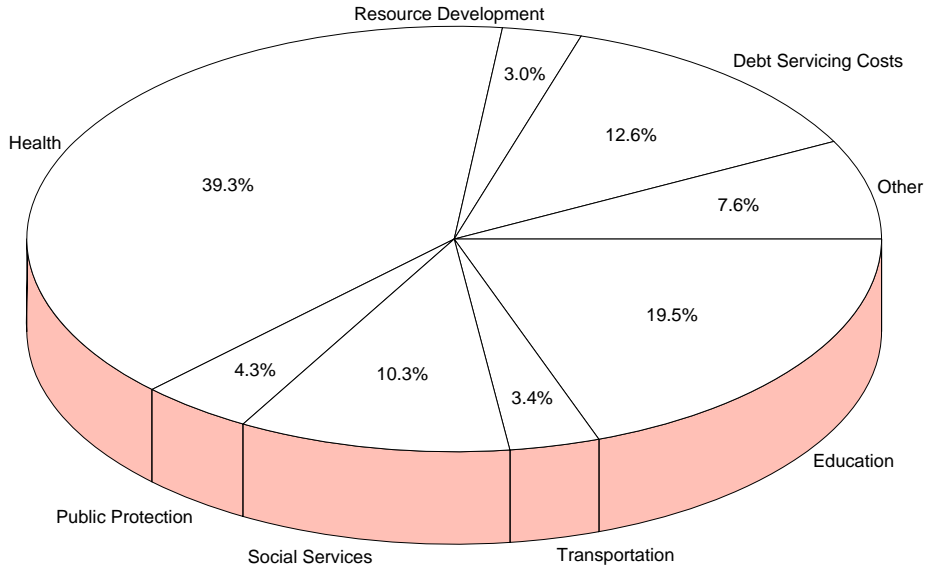
<b>FUNCTION</b>	<b>ACTUAL</b> 2003-2004 (as restated)	<b>ACTUAL</b> 2004-2005 (as restated)	<b>ACTUAL</b> 2005-2006 (as restated)	<b>FORECAST</b> 2006-2007	<b>ESTIMATE</b> 2007-2008
<i>(\$ thousands)</i>					
General Government	148,653	168,420	212,640	267,334	252,695
Public Protection	335,797	299,956	309,400	324,328	354,814
Transportation	207,960	209,779	232,796	257,868	285,882
Resource Development	180,915	211,559	225,018	228,205	257,176
Health	2,328,119	2,540,678	2,749,202	2,966,938	3,203,917
Social Services	715,759	740,341	774,909	775,881	828,759
Education	1,249,432	1,295,741	1,354,436	1,473,349	1,516,875
Culture and Recreation	50,989	53,579	63,290	58,352	61,503
Municipal Affairs	72,945	77,969	71,349	143,033	155,673
<b>Total Program Expenses</b>	<b>5,290,569</b>	<b>5,598,022</b>	<b>5,993,040</b>	<b>6,495,288</b>	<b>6,917,294</b>
Pension Valuation Adjustment	(14,536)	6,337	29,994	107,409	68,603
Debt Servicing Costs	1,037,391	1,033,675	987,805	955,435	954,338
<b>Total Expenses</b>	<b>6,313,424</b>	<b>6,638,034</b>	<b>7,010,839</b>	<b>7,558,132</b>	<b>7,940,235</b>

<b>FUNCTION</b>	<i>(as a percentage of Total Net Expenses)</i>				
General Government	2.4%	2.5%	3.0%	3.5%	3.2%
Public Protection	5.3%	4.4%	4.4%	4.3%	4.5%
Transportation	3.3%	3.2%	3.3%	3.4%	3.6%
Resource Development	2.9%	3.2%	3.2%	3.0%	3.2%
Health	36.9%	38.3%	39.2%	39.3%	40.4%
Social Services	11.2%	11.2%	11.1%	10.3%	10.4%
Education	19.8%	19.5%	19.3%	19.5%	19.1%
Culture and Recreation	0.8%	0.8%	0.9%	0.8%	0.8%
Municipal Affairs	1.2%	1.2%	1.0%	1.9%	2.0%
<b>Total Program Expenses</b>	<b>83.8%</b>	<b>84.3%</b>	<b>85.4%</b>	<b>86.0%</b>	<b>87.1%</b>
Pension Valuation Adjustment	-0.2%	0.1%	0.4%	1.4%	0.9%
Debt Servicing Costs	16.4%	15.6%	14.2%	12.6%	12.0%
<b>Total Expenses</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

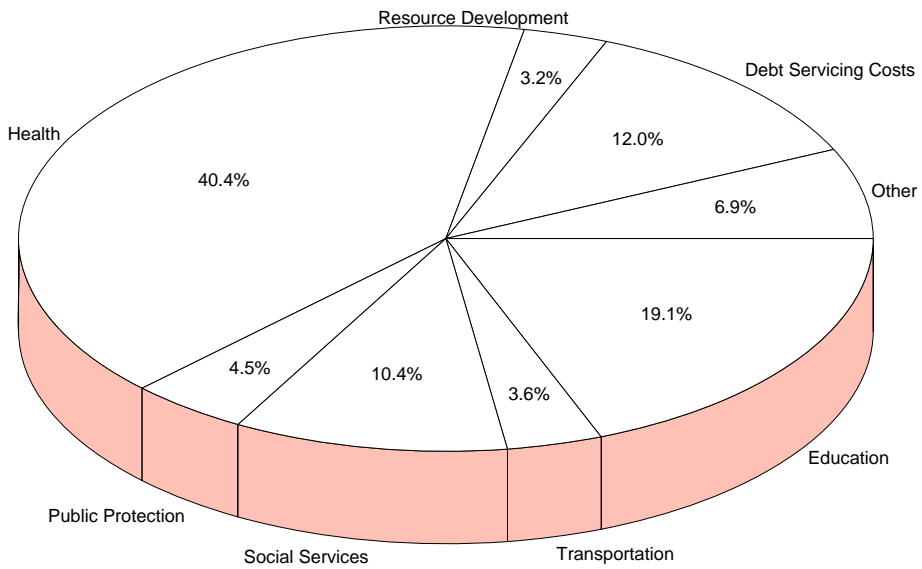
**TOTAL NET EXPENSES BY FUNCTION**

Chart 2

**2006-2007 FORECAST**



**2007-2008 ESTIMATE**





**SUMMARY OF REVENUES AND EXPENSES  
BY SOURCE AND FUNCTION**

Schedule 15

(\$ thousands)

<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007	<i>Increase (Decrease) from ESTIMATE</i> 2006-2007	<i>ESTIMATE</i> 2007-2008
<b>Consolidated Fund</b>			
<b>Revenues</b>			
<b>Revenues by Source</b>			
Provincial Sources			
378,507	385,720	7,213	Corporate Income Tax 386,905
1,104,358	1,084,756	(19,602)	Harmonized Sales Tax 1,095,822
1,652,111	1,679,141	27,030	Individual Income Tax 1,718,283
77,312	77,567	255	Interest Revenues 75,975
247,267	251,465	4,198	Motive Fuel Taxes 252,235
---	3,500	3,500	Offshore Licenses Forfeitures ---
89,268	90,826	1,558	Registry of Motor Vehicles 94,488
280,000	269,700	(10,300)	Royalties - Petroleum 420,500
163,004	146,485	(16,519)	Tobacco Tax 150,948
237,591	235,676	(1,915)	Other Provincial Sources 283,990
---	15,279	15,279	TCA Cost Shared Revenue 6,151
---	14,395	14,395	Prior Years' Adjustments - Provincial Sources ---
58,903	64,075	5,172	Fees and Other Charges 60,883
---	---	---	Ordinary Recoveries - Provincial Sources 262,300
229,959	239,259	9,300	Sinking Fund Earnings 113,529
87,783	117,789	30,006	
Federal Sources			
611,556	610,486	(1,070)	Canada Health Transfer 638,954
267,919	265,067	(2,852)	Canada Social Transfer 280,335
---	2,468	2,468	C48 Trust Funds 44,778
1,385,539	1,385,539	---	Equalization Payments 1,464,528
---	---	---	Offshore Offset ---
57,421	57,421	---	Offshore Oil and Gas Payments 68,238
34,666	34,666	---	Wait Times Reduction Fund 34,389
2,319	2,319	---	Other Federal Sources 2,319
---	8,187	8,187	TCA Cost Shared Revenue 10,731
---	6,722	6,722	Prior Years' Adjustments - Federal Sources ---
199,467	203,031	3,564	Ordinary Recoveries - Federal Sources 207,362
<b>7,164,950</b>	<b>7,251,539</b>	<b>86,589</b>	<b>7,673,643</b>

**SUMMARY OF REVENUES AND EXPENSES  
BY SOURCE AND FUNCTION**

Schedule 15

(continued)

(\$ thousands)

<i>ESTIMATE</i> 2006-2007 (as restated)	<i>FORECAST</i> 2006-2007	<i>Increase (Decrease) from ESTIMATE</i> 2006-2007		<i>ESTIMATE</i> 2007-2008
<b>Expenses by Function</b>				
268,510	267,334	(1,176)	General Government	252,695
322,744	324,328	1,584	Public Protection	354,814
260,703	257,868	(2,835)	Transportation	285,882
226,694	228,205	1,511	Resource Development	257,176
2,944,787	2,966,938	22,151	Health	3,203,917
837,010	775,881	(61,129)	Social Services	828,759
1,432,713	1,473,349	40,636	Education	1,516,875
55,982	58,352	2,370	Culture and Recreation	61,503
134,693	143,033	8,340	Municipal Affairs	155,673
<b>6,483,836</b>	<b>6,495,288</b>	<b>11,452</b>	<b>Total - Program Expenses</b>	<b>6,917,294</b>
<b>33,213</b>	<b>107,409</b>	<b>74,196</b>	<b>Pension Valuation Adjustment</b>	<b>68,603</b>
<b>963,998</b>	<b>955,435</b>	<b>(8,563)</b>	<b>Debt Servicing Costs</b>	<b>954,338</b>
<b>7,481,047</b>	<b>7,558,132</b>	<b>77,085</b>	<b>Total - Expenses</b>	<b>7,940,235</b>
<b>(316,097)</b>	<b>(306,593)</b>	<b>9,504</b>		<b>(266,592)</b>
<b>54,525</b>	<b>64,537</b>	<b>10,012</b>	<b>Consolidation and Accounting Adjustments for Governmental Units</b>	<b>40,977</b>
<b>335,064</b>	<b>340,592</b>	<b>5,528</b>	<b>Net Income from Government Business Enterprises</b>	<b>344,044</b>
<b>73,492</b>	<b>98,536</b>	<b>25,044</b>	<b>Provincial Surplus</b>	<b>118,429</b>

<b>Components of the Debt Reduction Plan</b>				
4,000	4,000	---	Debt Retirement - Contingency	17,885
57,421	57,421	---	Offshore Offset Agreement	68,238
---	23,466	23,466	Restricted Surplus - TCA	16,882
12,071	13,649	1,578	Other	15,424
<b>73,492</b>	<b>98,536</b>	<b>25,044</b>		<b>118,429</b>

Note: See Page E10 for information on the Financial Reporting and Accounting Policies used in this budget.



# FISCAL PLAN 2007–2008 TO 2010–2011

SUPPLEMENTARY TO THE 2007-2008 BUDGET

**FISCAL PLAN 2007-2008 to 2010-2011**  
 (\$ millions)

Schedule 16

	<i>ESTIMATE</i> 2006-2007	<i>FORECAST</i> 2006-2007	<i>ESTIMATE</i> 2007-2008	<i>ESTIMATE</i> 2008-2009	<i>ESTIMATE</i> 2009-2010	<i>ESTIMATE</i> 2010-2011
<b>Consolidated Fund</b>						
<i>Revenues</i>	7,165.0	7,251.5	7,673.6	8,057.3	8,460.1	8,883.2
<i>Net Expenses</i>	7,481.1	7,558.1	7,940.2	8,316.3	8,694.0	9,067.1
	(316.1)	(306.6)	(266.6)	(259.0)	(233.9)	(183.9)
<i>Consolidation Adjustments</i>	54.5	64.5	41.0	37.0	37.0	37.0
<i>Net Income Government Business Enterprises</i>	335.1	340.6	344.0	342.0	346.9	346.9
<i>Provincial Surplus</i>	73.5	98.5	118.4	120.0	150.0	200.0



# OVERVIEW OF TREASURY MANAGEMENT

SUPPLEMENTARY TO THE 2007-2008 BUDGET



# Overview of Treasury Management

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

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which stood at \$12.1 billion as of March 31, 2007. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt. These assets total \$2.6 billion, resulting in a net debt of \$9.5 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and where efficient to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The fiscal context for debt management is provided in the Budget Address Fiscal Plan. The 2007–2008 budget shows that the government intends to have balanced budgets in the following four years. The *Provincial Finance Act* requires that the government table balanced budgets; and in the event of a deficit the government must take certain remedial actions.

In 2006–2007, the province saw a marginal increase in net debt outstanding in financial markets due to capital expenditures. This followed 2005–2006 in which the province saw a significant decline in debt outstanding in financial



markets due to the receipt by the province of \$830 million in an upfront payment under the Offshore Offset Agreement. The full amount of this payment was applied to reduce debt outstanding in financial markets.

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

Under the full accrual basis of accounting, revenues and expenditures are recorded when they are incurred, regardless of when the cash flows occur. The Offshore Offset Agreement upfront payment of \$830 million was recorded as deferred revenue and will be shown as revenue in the fiscal year in which it is “earned.” In 2006–2007, the province recorded \$57.4 million in revenues under the Offshore Accord Agreement, and the province will record \$68.2 million in revenues in 2007–2008.

In recent years, even with budgetary surpluses being recorded, the net direct debt of the province has increased to \$12,429.4 million at March 31, 2007. Additions to the net direct debt of the province have continued under generally accepted accounting principles (GAAP) due to the treatment of the acquisition of tangible capital assets.

The province’s ratio of net direct debt to nominal gross domestic product at market prices continues to decline, and it is forecast to stand at 38.1 per cent at March 31, 2007, down from 39.0 per cent a year earlier.



The province continues to communicate its improving fiscal position both to investors and to bond-rating agencies. In 2003 and 2004 the province's credit rating was upgraded by all three major bond-rating agencies. In 2006 all three rating agencies again upgraded the province's credit rating. The following table shows current provincial credit ratings.

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## Canadian Provincial Ratings, March 2007

	DBRS	S&P	Moody's
British Columbia	AA	AA+	Aaa
Alberta	AAA	AAA	Aaa
Saskatchewan	AA(low)	AA	Aa1
Manitoba	A(high)	AA-	Aa1
Ontario	AA	AA	Aa1
Quebec	A(high)	A+	Aa2
New Brunswick	A(high)	AA-	Aa1
<b>Nova Scotia</b>	<b>A</b>	<b>A+</b>	<b>Aa2</b>
Prince Edward Island	A(low)	A	Aa2
Newfoundland and Labrador	A(low)	A	Aa3

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The province files a Form 18-K Annual Report and other required documents, with the SEC, which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. This documentation is maintained to allow the province to borrow in the U.S. market. The most recent submission can be viewed on the Department of Finance website.





## **Structure of the Debt Portfolio**

The structure of the debt portfolio has been evolving over the past number of years with the intent to protect the province's fiscal situation from unanticipated increases in interest rates or deterioration in the Canadian dollar and to manage the province's refinancing requirements for the long term. The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

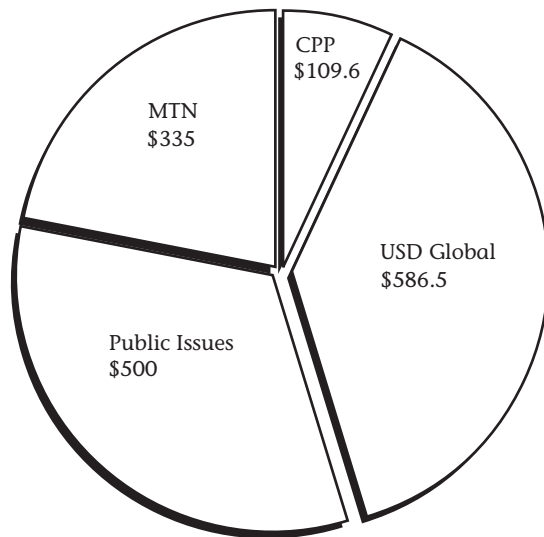
### **1. Primary Issuance Market**

The Province of Nova Scotia has enacted balanced budget legislation and has posted five consecutive balanced budgets, including the 2006–2007 budget. This success does not, however, mean that the province does not need to borrow funds on an ongoing basis to refinance existing debt and for non-budgetary purposes. The management of these debt maturities is enhanced by the use of discretionary sinking fund reserves held by the province. These discretionary funds represent an integral component of the treasury management strategy of the province.

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**Chart 3: Consolidated Fund Debt Portfolio—  
Issuance Profile, 2006–2007**

(In \$ millions)




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In the fiscal year 2006–2007, the province borrowed \$1,531 million compared to budget borrowing requirements of \$909 million. This increase in borrowing was primarily due to the Department of Finance taking advantage of favourable market conditions to pre-borrow for future years. The province met its borrowing requirements in fiscal year 2006–2007 in part in the domestic financial market through the following debt issues: two domestic public issues totalling \$500 million, \$335 million issued under the domestic Medium Term Note program, and the rollover of a \$109.6 million Canada Pension Plan issue for a 30-year term. The last issue is part of the Canada Pension Plan Investment Board’s assets that are invested in the provincial bond market and are transacted at market rates of interest. In the fiscal year 2006–2007, the province accessed international capital markets through a \$500-million USD Global debt issue. The proceeds from this were \$586.5 million CAD.



As demonstrated in fiscal year 2006–2007, the province has access to a diversity of borrowing sources, both domestically and in foreign markets. This is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues. The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the U.S. and global bond markets.

Although the province does maintain documentation to borrow in foreign markets, the domestic Canadian debt market continues to be the primary source of funding for the province's borrowing programs. 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.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial Consolidated Fund on a short-term basis. This activity is an efficient use of funds, which provides both security and market returns to Crown agencies while providing the Consolidated Fund with a market cost of funds. At March 31, 2007, the Nova Scotia Government Fund, Nova Scotia Nominee Program, Nova Scotia Business Inc., Nova Scotia Municipal Finance Corporation, Resource Recovery Fund Board, Nova Scotia Research and Innovation Trust, and Nova Scotia Crop and Livestock Insurance Commission invested a total of \$93.4 million with the Consolidated Fund.

At March 31, 2007, the Consolidated Fund also held \$18.9 million in monies on deposit from the Halifax Regional Municipality to be used for the purposes of the Halifax Harbour Solutions Project. The municipality, as required to meet the project's cash requirements, will draw down these monies for that project. The final draw is expected to occur in August 2007.

Projected term debt borrowing for fiscal year 2007–2008 is expected to be \$131 million. Schedule 20 also shows the projected borrowing program for 2008–2009 to 2010–2011. The borrowing program starts with the provincial budgetary surplus, which reduces requirements. Numerous cash versus accrual adjustments (non-budgetary items) need to be made to determine the actual cash requirements of the Consolidated Fund.

Each year there are requirements for capital advances to Crown agencies and the excess of capital expenditure over capital amortization. The latter is referred to as the net acquisition of tangible capital assets. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits. However, the term debt borrowing program is mostly to refinance existing debt.

## 2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency–denominated fixed-coupon marketable bonds, Canada Pension Plan non-marketable bonds, floating interest rate notes, retail structured notes, capital leases and short-term promissory notes. Chart 4, titled Consolidated Fund Debt Portfolio – Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the US Global issue, that was completed in January 2007 and matures in 2017, was swapped to Canadian dollars (CAD). Retail structures that are callable debt are shown in the year of final maturity as the call dates are somewhat uncertain. The province has no public debt issues outstanding with either call or put options.



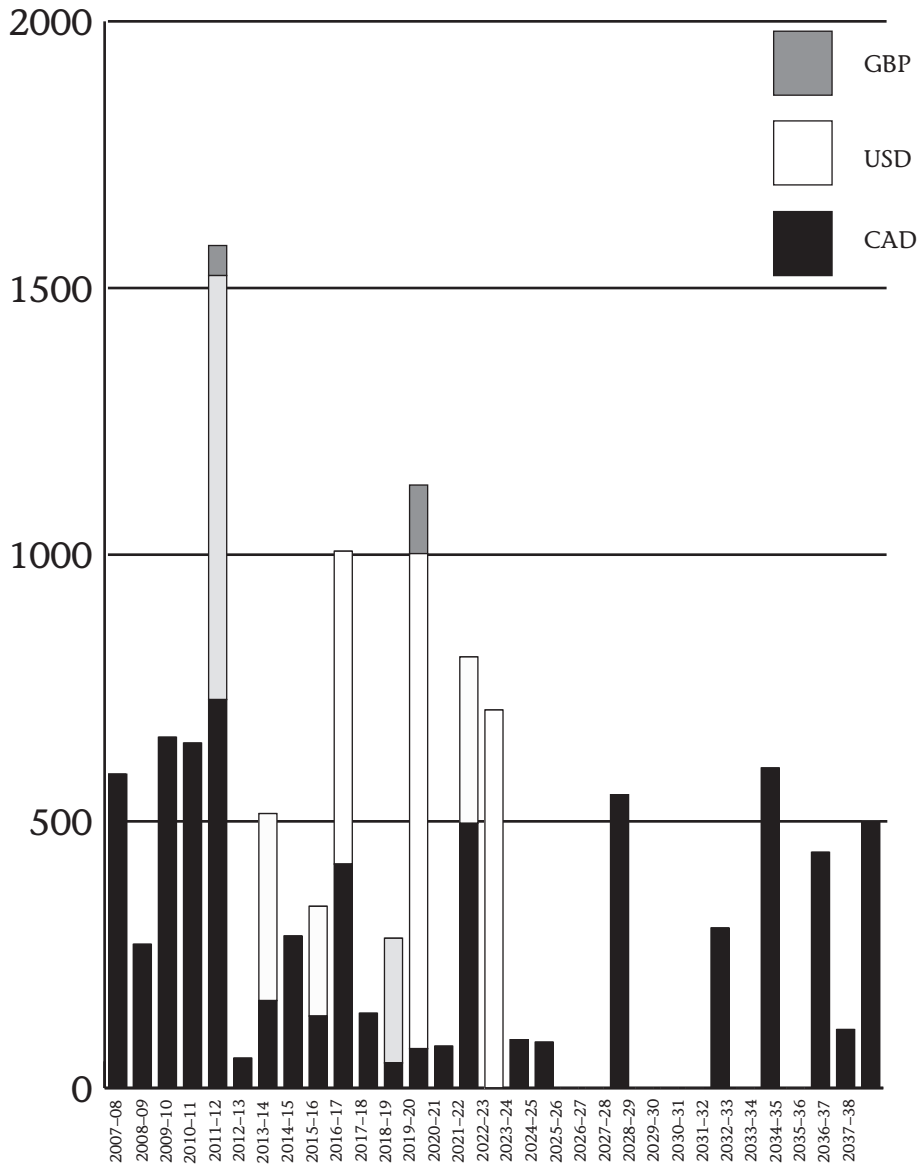
The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds, primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). These funds are available to smooth the maturity schedule by reducing the necessity to borrow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

Debt maturities over the next two years are \$614.3 million in the fiscal year 2007–2008 and \$290.6 million in the fiscal year 2008–2009 (see Schedule 20). The debt maturities in 2007–2008 are shown in the borrowing requirement to be offset by a rise in the short-term debt position that was reduced as part of the large borrowing program in fiscal year 2006–2007.

The province borrowed \$622 million above its stated borrowing program in fiscal year 2006–2007 to take advantage of historically low long-term interest rates and maintain a presence in foreign markets by way of the USD Global debt issue.

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

**Chart 4: Consolidated Debt Portfolio  
Maturity Schedule**  
(In \$ millions)





### 3. Foreign Currency Exposure

The Canadian dollar-denominated debt represented the largest share of the gross financial market debt portfolio at 89.8 per cent, based on the face value in Canadian dollars (foreign currency exposure of 10.2 per cent), up from 86.9 per cent a year earlier.

The Province of Nova Scotia's foreign currency debt is entirely denominated in U.S. dollars (USD) or hedged to USD. As noted above, the province established U.S. dollar sinking funds for all USD debt issued in the late 1980s and early 1990s. As such, there are significant U.S. dollar assets to offset gross foreign currency exposure, and those assets are primarily Nova Scotia U.S. pay bonds. Thus, on a net basis, at March 31, 2007, the province's foreign currency exposure was 5.9 per cent. The Nova Scotia *Provincial Finance Act* requires that, until the province's gross foreign currency exposure is less than 20 per cent, no financial transactions or series of financial transactions can be executed that increase the foreign currency exposure.

In the fiscal year 2006–2007, the value of the Canadian dollar is forecast to weaken slightly against the U.S. dollar, on a year-over-year basis, to \$1.1687 CAD/USD from \$1.1671 at March 31, 2006, to the net disadvantage of the province.

## 4. Interest Rate Mix

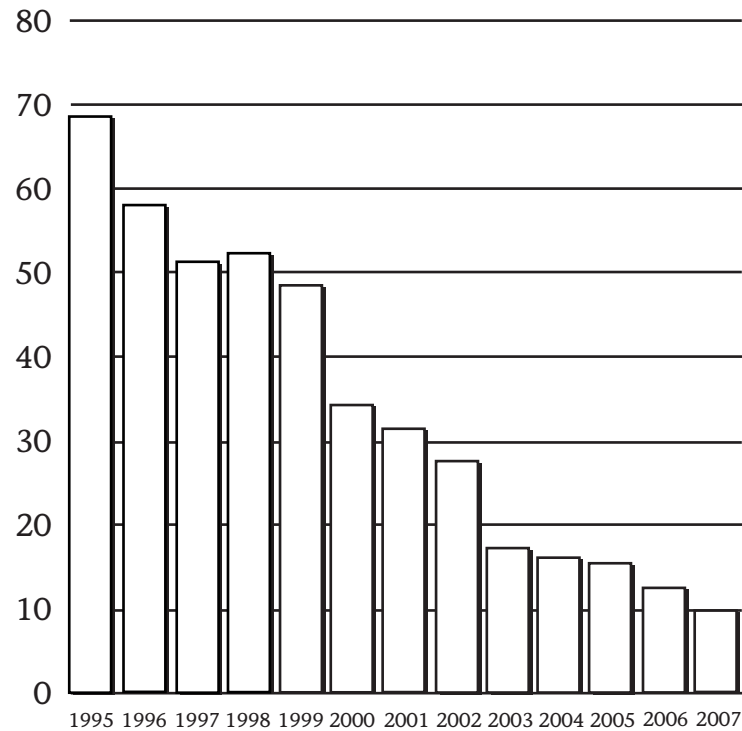
The debt portfolio's exposure to floating interest rates was maintained over the past year, at 18 per cent on March 31, 2007. The province includes fixed interest rate term debt maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. The province is able to exercise tight control 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 towards the mid point of the province's floating interest rate exposure policy. That policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of 10 to 30 per cent of total debt outstanding. With 82 per cent of the total principal in fixed interest rate form, the province has some protection from unexpected increases in interest rates, yet derives a benefit from the lower expected cost of short-term interest rate debt.





**Chart 5: Foreign Currency Exposure  
1995 to 2007**  
(per cent)



## 5. Derivative Exposure

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

At March 31, 2007, the province's use of derivatives was for three purposes: (1) the hedging of foreign currency debt issues to Canadian or U.S. dollars, (2) interest rate swaps to hedge certain aspects of retail structured notes, and (3) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

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

## **Structure of Debt Management and Sinking Funds**

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

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund installments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund



installments generally range from 1 to 3 per cent of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2007, the estimated book value of the sinking funds was \$1,917.4 million, of which \$1,092.6 million was held in covenanted sinking funds, \$824.8 million in the discretionary sinking funds. The policy objectives of both discretionary funds (the Sinking Fund General and the PDMF) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the Consolidated Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations or in short-dated corporate holdings with a minimum AA rating. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2007, cash and equivalents in the sinking fund and PDMF are 7.0 per cent of total assets.

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



In recent years, the province has purchased all NSMFC issues in their entirety and at March 31, 2007, held a portfolio of \$630.2 million NSMFC debentures in the provincial Consolidated Fund. However, for the purposes of the Harbour Solutions Project the Halifax Regional Municipality has \$18.9 million on deposit with the Department of Finance, and as such, the net amount of NSMFC borrowing is \$611.3 million. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net debt.

## Debt-Servicing Costs

Gross debt-servicing costs comprise the following items: (1) interest on existing long-term debenture debt and the estimated interest cost of incremental borrowing; (2) interest on other long-term debt that is primarily P3 capital leases; (3) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (4) the accrual of interest of the province's unfunded pension and post-retirement benefit obligations. As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is netted against gross debt-servicing costs to arrive at net debt-servicing costs.

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### Schedule 17: Interest and Foreign Exchange Rate Assumptions

	Estimate 2006-07	Average 2006-07	Forecast 31 Mar 2007	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10
CAD/USD	\$1.1765	1.1378	1.1687	1.1905	1.1765	1.1696
USD/CAD	\$0.8500	0.8789	0.8556	0.8400	0.8500	0.8550
10-Year Canada	4.40%	4.21%	4.08%	4.10%	4.25%	4.25%
3-month Canada T-bill	3.90%	4.14%	4.16%	4.05%	3.95%	4.00%
3-month US T-bill	4.80%	4.99%	4.92%	4.95%	5.30%	5.40%

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The interest and foreign exchange rate assumptions used to estimate net debt-servicing costs in the fiscal year are shown in Schedule 17.

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### Schedule 18: Projected Debt-Servicing Costs (\$ thousands)

	Estimate 2006-07	Forecast 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10	Estimate 2010-11
Gross Debt-Servicing Costs	963,998	955,435	954,338	943,564	938,025	934,821
Less: Sinking Fund Earnings	87,783	117,789	113,529	124,886	136,573	149,113
Net Debt-Servicing Costs	876,215	837,646	840,809	818,678	801,452	785,708

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## 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. Assumed levels for financial market variables are listed in Schedule 17. All assumptions are shown as average levels for the relevant fiscal year.

The sensitivity of debt-servicing costs estimates for the key variables is noted in Schedule 19.

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### Schedule 19: Debt-Servicing Costs—Sensitivity Analysis

Change in Financial Market Variables	Change in Debt-Servicing Costs (CAD)
1 Canadian cent change per 1 US dollar	\$0.7 million
1% change in US 3-month Treasury Bill	\$1.3 million
1% change in Canadian 3-month Treasury Bill	\$13.7 million

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Sensitivities show how much debt-servicing costs would change if a variable changed from an assumed level for a full year. For example, if the Canadian dollar were 1 cent stronger relative to the assumed level of \$1.1905 for the entire period from April 1, 2007, to March 31, 2008, debt-servicing costs would decrease by \$0.7 million, if all other factors held constant.

## **Risk Management**

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance, carries out the governance/oversight function for the debt management of the Province of Nova Scotia. The Debt Management 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 Debt Management 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 20: Projected Borrowing Requirements (\$ millions)

	Estimate 2006-07	Forecast 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10	Estimate 2010-11
Budgetary (surplus)/deficit	(71.9)	(98.5)	(118.4)	(120.0)	(150.0)	(200.0)
Net Capital Advances	82.6	31.7	44.9	45.0	45.0	45.0
NSMFC Repayments	(77.3)	29.9	(88.5)	(72.9)	(73.8)	(60.0)
NSMFC Advances for Harbour Solutions	47.9	47.9	18.9	-	-	-
Tangible Capital Assets: Net Cash	186.5	288.7	103.0	58.2	35.4	12.4
Other Non-Budgetary Transactions <sup>1</sup>	(39.2)	(175.9)	(35.3)	79.2	38.6	98.4
<b>Cash Operating Requirements</b>	<b>128.6</b>	<b>123.7</b>	<b>(75.3)</b>	<b>(10.5)</b>	<b>(104.8)</b>	<b>(104.2)</b>
Cash Debt Retirement	1,121.6	1,124.6	614.3	290.6	680.3	669.5
Mandatory SF Income	42.7	67.7	74.7	83.9	93.4	103.6
Mandatory SF Contributions	65.6	64.0	59.4	59.4	59.4	59.4
Mandatory SF Withdrawals	-	-	-	-	-	-
Net Mandatory SF Requirements	108.3	131.8	134.1	143.3	152.8	163.0
Discretionary Fund Income	45.1	50.1	38.8	41.0	43.2	45.5
Discretionary Fund Contributions	-	-	-	-	-	-
Discretionary Fund Withdrawals	(375.0)	(360.0)	-	-	-	-
Net Discretionary Fund Requirements	(329.9)	(309.9)	38.8	41.0	43.2	45.5
Total Requirements	1,028.6	1,070.3	711.9	464.3	771.5	773.8
Change in ST Borrowing (inc)/dec	(120.0)	460.9	(580.9)	-	-	-
Total Borrowing Requirements	908.6	1,531.2	131.0	464.3	771.5	773.8

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

## Schedule 21: Projected Gross and Net Debt (\$ millions)

	Actual 2005-06	Estimate 2006-07	Forecast 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10	Estimate 2010-11
<b>Gross Debt</b>							
Opening Balance	13,216.1	12,154.6	12,154.6	12,063.8	12,184.4	12,343.5	12,427.4
Borrowing Program	931.8	908.6	1,531.1	131.1	464.3	771.5	773.8
Debt Retirement	(1,854.6)	(1,121.6)	(1,124.6)	(614.3)	(290.6)	(680.3)	(669.5)
Foreign Exchange (Gain)/Loss	(101.6)	12.7	(36.4)	23.0	(14.8)	(7.3)	(7.2)
Change in Other Unfunded Debt <sup>1</sup>	(37.1)	120.0	(460.9)	580.9	-	-	-
Closing Balance	12,154.6	12,074.4	12,063.8	12,184.4	12,343.5	12,427.4	12,524.5
<b>Mandatory Sinking Funds</b>							
Opening Balance	1,077.3	960.1	960.1	1,092.6	1,237.2	1,373.1	1,521.9
Installments	54.8	65.6	64.0	59.4	59.4	59.4	59.4
Earnings	63.5	42.7	67.7	74.7	83.9	93.4	103.6
Foreign Exchange (gain)/loss	(20.1)	0.2	0.7	10.5	(7.5)	(4.0)	(4.3)
Sinking Fund Withdrawals	(215.5)	-	-	-	-	-	-
Closing Balance	960.1	1,068.7	1,092.6	1,237.2	1,373.1	1,521.9	1,680.5
<b>Discretionary Funds</b>							
Opening Balance	1,515.9	1,134.7	1,134.7	824.8	863.6	904.6	947.8
Installments	110.6	-	-	-	-	-	-
Earnings	60.9	45.1	50.1	38.8	41.0	43.2	45.5
Fund Withdrawals	(552.8)	(375.0)	(360.0)	-	-	-	-
Closing Balance	1,134.7	804.8	824.8	863.6	904.6	947.8	993.3
<b>NSMFC Assets</b>							
Opening Balance	447.8	533.5	533.5	611.3	541.7	468.8	395.0
Repayments	(66.5)	(77.3)	(77.3)	(88.5)	(72.9)	(73.8)	(60.0)
Advances	112.0	-	107.2	-	-	-	-
Net Advances to Harbour Solutions	40.2	47.9	47.9	18.9	-	-	-
Closing Balance	533.5	504.1	611.3	541.7	468.8	395.0	335.0
<b>Net Debt</b>	<b>9,526.3</b>	<b>9,696.8</b>	<b>9,535.2</b>	<b>9,541.9</b>	<b>9,596.9</b>	<b>9,562.7</b>	<b>9,515.7</b>

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






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### Schedule 22: Projected Net Direct Debt (\$ millions)

	Actual 2005-06	Estimate 2006-07	Forecast 2006-07	Estimate 2007-08
Net Direct Debt – Beginning of Year	12,305.2	12,321.0	12,239.2	12,429.4
Add (Deduct):				
Provincial Surplus, on an Expense Basis	(228.1)	(73.5)	(98.5)	(118.4)
Increase in Net Book Value of Tangible Capital Assets	152.8	186.5	278.7	94.0
Increase in Net Book Value of the Capital of Consolidated Entities	6.6	–	10.0	9.0
Increase in Inventory Supplies	1.5	–	–	–
Increase in Prepaid Expenses	1.2	–	–	–
Change in Net Direct Debt	(66.0)	113.0	190.2	(15.4)
<b>NDD – Closing Balance</b>	<b>12,239.2</b>	<b>12,434.0</b>	<b>12,429.4</b>	<b>12,414.0</b>

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NOVA SCOTIA