



Provincial Budget Briefs

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NOVA SCOTIA BUDGET 2008

Despite economic challenges related to a strong Canadian dollar, Nova Scotia was able to deliver its sixth consecutive budget surplus, and is projecting an even larger \$190mn surplus in 2008/09. A significant amount of pre-borrowing the previous year meant that the province did not do any net term borrowing in 2007/08. However, increased capital spending requirements in 2008/09 means that net bond/MTN issuance should increase to around \$569 mn.

Table 1 \$Millions	Fiscal Summary				
	2006/07	2007/08			2008/09
	<u>Actual</u>	<u>07 Budget</u>	<u>08 Budget</u>	<u>Change</u>	<u>08 Budget</u>
Revenue	7,294	7,674	7,922	248	8,108
Own Source	4,724	4,922	5,143	221	5,191
<i>% change</i>	<i>6.4</i>	<i>4.2</i>	<i>8.9</i>	<i>4.7</i>	<i>0.9</i>
Federal Transfers	2,570	2,752	2,779	28	2,916
Expenditures	7,508	7,940	8,128	187	8,333
Program Spending	6,495	6,917	7,077	159	7,361
<i>% change</i>	<i>8.4</i>	<i>6.5</i>	<i>9.0</i>	<i>2.5</i>	<i>4.0</i>
Public Debt Charges	930	954	930	-24	905
Pension Valuation Adjustment	83	69	121	52	68
Crown Corps & Other Adjustments	397	385	364	-21	415
Budgetary Balance	182	118	158	40	190

Although Nova Scotia's economic performance was impacted by a strong Canadian dollar and a collapse in the US housing market, according to provincial figures real GDP growth came in at 1.7% in 2007, after climbing 0.9% in 2006. This gain was largely driven by exports and consumer spending. For 2008, the province projects real economic growth to remain stable at 1.7%, which is at the low end of consensus projections.

Fiscal results for 2007/08 came in better than expected. Revenues were \$248 mn above-plan, with the largest gains coming from strong income and sales tax growth, as well as higher petroleum royalties. Expenditures were also larger than expected, with program spending rising by 9%. The net result was a surplus of \$158 mn, which was \$40 mn above target.

Seventh Consecutive Budget Balance Projected

Looking ahead to 2008/09, the budget plan forecasts an even larger surplus of \$190 mn despite essentially flat own source revenue growth, and flat equalization payments. This is largely due to a boost in federal transfers as a result of the Offshore Accord. According to the terms of this agreement Nova Scotia was awarded a lump-sum payment of \$830 mn, and the amount accrued in 2008/09 was \$105.9 mn, \$37.6 mn more than previously estimated.

Additional funds related to a long-standing dispute in connection with this agreement are owed to the province according to a formula that is soon to be decided upon. Nova Scotia has announced that 70% of any funds attributed to the 2007/08 year will go to debt repayments, switching to 100% beginning in 2008/09 and beyond.

On the expenditures side of the equation, program spending is projected to grow by 4%, after rising by over 8% during the prior two fiscal years. Notable increases in spending include health and education, as well as restructuring costs related to upcoming public sector wage negotiations.

Net direct debt fell by \$9.2 mn to \$12.3 bn over the course of the outgoing fiscal year as the pace of provincially funded capital acquisitions slowed down. In 2008/09 this figure is expected to decline again by \$12.3 mn pushing the debt/GDP ratio down for the fifth consecutive year to 34.9%.

Large Cash Requirements Boost Borrowing Needs in 2008/09

For 2007/08, net operating requirements (before sinking funds) were actually negative as a result of a large \$252 mn gain in non-budgetary transactions related to pension valuation adjustments and other items. However, Nova Scotia's total funding requirement for 2007/08 stood at \$632 mn after adding in maturities. This was below the earlier budget plan, and meant that gross issuance of bonds/MTNs added up to only \$20 mn. The rest of the province's net financial requirement came from a roll over of a CPP issue, and from cash reserves, which were boosted by \$600 mn in pre-funding issuance the year before.

The coming year sees a substantial increase in cash operating requirements due to a large net capital advance to the Housing Development Corporation. Total borrowing requirements are expected to be \$915 mn, and will likely be funded primarily through term debt. Gross bond/MTN issuance is expected to climb to \$837 mn in 2008/09, and net issuance of bonds and MTNs is expected to increase by \$569 mn.

Table 2	Financing Plan	
\$Millions	2007/08P	2008/09F
<i>Borrowing Requirements:</i>		
Budget (Surplus)/Deficit	-159	-190
Non-Budgetary Transactions	9	583
Sinking/Debt Retirement Funds	168	176
Net Financial Requirement	18	569
Maturities and Calls ¹	614	346
Total	632	915
<i>Sources:</i>		
Short-term Paper/Cash	531	0
Bonds & MTNs	20	837
CPP	82	78
Total	632	915
Net New Issues		
Bonds & MTNs	-513	569

¹ Includes CPP maturities

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