

Nova Scotia Department of Finance
Accountability Report
2006-2007



Department of Finance

Accountability Report for Fiscal Year 2006-2007

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The accountability report of the Department of Finance for the year ended March 31, 2007, is prepared pursuant to the Provincial Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance business plan information for the fiscal year 2006-2007. The reporting of the department's outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this accountability report is the responsibility of department management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the department's business plan for the year.

Honourable Michael Baker
Minister of Finance

Vicki Harnish
Deputy Minister

Message from the Minister

I am pleased to present the 2006-2007 Accountability Report for the Department of Finance. We made considerable progress in all of our business areas last year.

The Department of Finance oversees government's fiscal plan, and 2006-2007 was the fifth consecutive year that the Province of Nova Scotia posted a balanced budget and ended the year with a surplus. Behind these results are continuous improvements in our budgeting and accounting processes, along with steady management of our debt portfolio.

We presented Nova Scotia's point of view in the national debate on the fiscal imbalance, to ensure federal funding will be in place to cover the growing cost of services like health care and post-secondary education. The importance of this work cannot be overstated.

Finance provides several important corporate services to government departments as well as agencies and school boards in Nova Scotia. Taxpayers benefit from the efficiencies of centralized accounting, payroll delivery, audit, and IT systems, for example. This year we were able to enhance these services and take on new clients.

And finally, we provided essential advisory services to many clients in government and beyond. This includes information and advice related to Nova Scotia statistics, economics, and taxation. This work is essential to development of government policies that will encourage new businesses and individuals to "Come to Life" in Nova Scotia.

I would like to thank all staff at Finance and its related agencies for the very fine work they do to meet our annual goals and priorities. I look forward to continued progress in years to come.

Hon. Michael G. Baker, Q.C.

Accountability Report, 2006-2007

This Accountability Report is based on the goals, priorities and intended outcomes that were included in the Department of Finance's Business Plan, 2006-2007. The purpose of the report is to account for progress made in achieving the goals and priorities, and to measure performance within key business areas. Historical and comparative information has been included within the performance measurement section to provide greater clarification and explanation for the reader.

Mission

Establish a fiscal climate conducive to economic growth and provide central agency support and policy direction for effective management of the province's finances.

Core Business Areas

Financial Management

A core business that involves financial accountability in the management and control of the province's finances, revenue and expenditure monitoring and reporting (shared with Treasury & Policy Board), and payroll, and pension administration.

Investment and Treasury Management

A core business that includes the processes, policies and procedures that ensure effective money management, maximizing return on investments, and minimizing debt-servicing costs within risk tolerances acceptable to government. Specific business activities include managing the debt portfolio and sinking funds, the treasury function and investor relations.

Fiscal Planning and Policy

This core business involves two primary functions which both contribute to responsible fiscal planning and budgeting. These include fiscal and economic policy, and policy and planning. Fiscal and economic policy functions include: revenue and economic forecasting, tax policy/analysis, and provision of advice relating to federal fiscal policies and arrangements. The policy and planning functions include: development and maintenance of the corporate fiscal and debt reduction plans, developing and delivering a balanced provincial budget, preparing monthly provincial budget forecasts (these functions are shared with Treasury and Policy Board), and information flow in and out of the department.

Central Agency Services

Delivering a core set of services that supports programs and public resources throughout the provincial government, including: corporate information systems support, statistical and economic analysis, internal audit and value added consulting services, and providing professional accounting advice to all government reporting entities.

1. Develop fiscal and economic strategies to help government realise its fiscal, social and economic development objectives.
2. Produce understandable and informative reporting on financial results while applying Public Sector Accounting Board (PSAB) recommendations.
3. Articulate the province's position and strategy to ensure an equitable and adequate share of resources relative to federal/provincial funding arrangements.
4. Enhance risk management strategies.
5. Enhance the department's workforce strategies (development of our people), focusing on staffing levels, training, job satisfaction, employee health and safety, and succession management.

Progress and Accomplishments: Priorities for 2006-2007

Priorities included in the 2006-2007 Business Plan were grouped under the relevant strategic goal. The same format has been followed for the Accountability Report.

Strategic Goal #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives.

Priority #1

Lead the development of a fiscal plan that includes a balanced budget for 2006-2007 and adequate surplus funds to fulfill the requirements of the provincial debt reduction plan, and in partnership with Treasury and Policy Board (TPB), monitor, report and advise on the ongoing implementation of the fiscal plan.

Accomplishments, 2006-2007

- The 2005-2006 Public Accounts released on September 27, 2006 reported a year-end March 31, 2006 surplus of \$228.1 million, against a budgeted surplus of \$63.3 million.

- The 2006-2007 Budget was released on May 9th, 2006 with a projected surplus of \$71.9 million dollars. A general election was called on May 13, 2006 before the budget was passed. Following the election held on June 13, 2006, the Budget was tabled with minor amendments (*Nova Scotia Budget Addendum*) on July 4th, 2006. The projected surplus under the budget addendum was \$73.492 million. (Budget and Addendum herein after is called “the Budget”)
- The 2006-2007 Budget included \$61.421 million allocated to the debt to fulfill the requirements of the provincial debt reduction plan. This included a \$4.0 million debt retirement contingency and \$57.4 million in deferred revenue from the Offshore Offset Agreement, in keeping with government’s commitment that all monies from the offshore agreement with the federal government would be applied to the debt.
- The 2006-2007 Public Accounts, released on August 9, 2007, reported a year-end March 31, 2007 surplus of \$182.4 million, against a budgeted surplus of \$73.5 million.
- The actual surplus of \$182.4 million was applied to the debt.
- Three 2006-2007 public budget forecast updates were issued; on September 8, on December 20, 2006, and with the 2007-2008 Budget, which was released on March 23, 2007.
- Monthly presentations (in conjunction with TPB) were made to Executive Council to update the members on the 2006-2007 budget forecast.
- The 2007-2008 Budget was released on March 23, 2007. The 2007-2008 Budget estimates a sixth consecutive balanced budget, a surplus of \$118.4 million, and a reduction of \$15.4 million in net direct debt.

Priority #2

Stabilize the environment surrounding Project e-Merge, the human resource and payroll modules of the SAP enterprise resource planning system within government departments and agencies in order to effectively generate, monitor, and report payroll for all government employees and pensioners. In collaboration with Nova Scotia Economic Development and the Department of Education continue with the development and implementation of the SAP human resource/ payroll system for the regional school boards (Project JEM) and in collaboration with Nova Scotia Economic Development and the Department of Health, begin the implementation of the financial and human resource management information systems in district health authorities (DHAs).

- Project work was completed to remediate many outstanding functionality concerns identified subsequent to the successful implementation of SAP HR/Payroll for provincial departments. These enhancements were implemented as part of the planned stabilization of the SAP system.
- The SAP HR/Payroll system (Project JEM) was successfully implemented for Nova Scotia school boards on January 1, 2007. The Corporate Information Systems division in the Department of Finance completed support planning and transition activities to enable the successful technical support of the new SAP HR/Payroll system.
- The initial development systems and supporting infrastructure were successfully implemented to support the Health Administrative Systems Project (HASP). This work will continue through the next few fiscal years.

Priority #3

Ensure a smooth transition from the current governance and administrative structure of Investments & Pensions Services division to the Special Operating Agency (SOA). It will be necessary to formalize the nature of the on-going relationship between the Department of Finance and the SOA through the entering of service level agreements (SLA). The governance responsibilities, and underlying administrative roles must be clearly understood by both parties, while the department continues to exercise its responsibilities related to trusteeship of the Public Service Superannuation Plan, Sysco and Members' plans and its co-sponsor role with the Teachers' Pension Plan.

Accomplishments, 2006-2007

- The SAP financial reporting structure for Nova Scotia Pension Agency (NSPA) was further defined during 2006-07 and a forecast and budget process was developed.
- A shared service agreement related to recovery of funding for services provided to NSPA by Department of Finance staff was completed and signed by the CEO and Director Financial Services, Finance CSU. This related to the provision of: financial services, procurement services, SAP licenses, payroll services, capital markets services, and middle office services.
- Both the Advisory Committee to the Minister as Trustee of the Public Service Superannuation Plan, and the trustee board of the jointly governed Teacher's Pension Plan met on a regular basis to fulfill the responsibilities as set out in their respective terms of

reference, which include oversight of their pension plans and the administrative investment functions provided by the pension agency.

Priority #4

Improve the climate, capacity and support for evidence-based decision making. This is to be accomplished through the continuing development and maintenance of a statistical infrastructure comprised of a wide range of census, taxation and administrative data sets that will support decision-making and program planning.

Accomplishments, 2006-2007

- Provided an internal report on the regulatory cost of compliance for the Department of Environment and Labour and Nova Scotia Economic Development, as these two departments cost-shared an increased Statistics Canada sample for Nova Scotia. The report was very well received.
- Developed an inventory of federal-provincial agreements specific to Nova Scotia via a survey of departments. This was a significant undertaking that had an impact on financial management and future negotiations with the federal government.
- Conducted a boundary review, mainly focusing on the community and community health board boundaries to ensure that these geographies are accurately defined. All existing data sets were re-modeled to match the new boundaries.
- Worked with the Nova Scotia Department of Justice to create geographic boundaries for justice centres and police districts. This co-operation led to a justice geographic view within Community Counts, as well as the inclusion of crime statistics.
- Provided training workshops to various provincial government departments, federal and municipal governments, community groups, researchers, and academia on the use of Community Counts databases.
- Developed long-range demographics projections for use by departments in policy analysis and integrated long-range projections with regional diversity statistics through the Community Counts database.

Priority #5

Review the performance of the business and personal income tax structure to assess its long-term competitiveness, efficiency, sustainability and fairness.

Accomplishments, 2006-2007

- The 2006-07 Budget announced a series of phased in tax measures to provide tax relief for both businesses and individuals. The province's plan for tax reductions will be introduced over multiple years to ensure that the government can afford to provide this tax relief within the balanced budget and debt reduction obligations.
- In 2007, the province began a four-year increase in its basic personal tax credit by \$1,000 or 13.8 per cent. This tax relief is broadly distributed because the basic personal amount is available to each individual taxpayer.
- At the same time, the province will increase the value of other non-refundable personal tax credits by 13.8 per cent over four years. After this increase, the government will index the credits and brackets of the personal income tax system starting in 2011.
- The 2006-07 Budget also introduced a new Graduate Tax Credit that allows recent graduates to reduce their provincial tax burden by up to \$1,000.
- In addition, the 2006-07 Budget introduced targeted sales tax relief through Your Energy Rebate. This initiative effectively removed the burden of the provincial portion of the Harmonized Sales Tax from energy.
- As part of its current medium-term plan for tax relief, the government will continue to reduce the large corporations tax rate applied to business capital. The 2006-07 Budget announced that this tax will be eliminated by July 1, 2012. The federal government has identified capital taxation as a significant competitive disadvantage.
- Reviewed the performance of business and personal tax structures by assembling tax and administrative data to provide evidence-based assessment of the system's long-term competitiveness, efficiency, sustainability and fairness.
- The 2007-08 Budget announced new tax credits for volunteer firefighters, labour sponsored venture capital corporation investments, and digital media productions.

Priority #6

Review the governance structure and continue to foster relationships with those agencies, boards and commissions, which report to the Minister of Finance to assess the existing accountability mechanisms in place. Accurate, timely and complete information is required by the Minister so the department is able to consider all of its responsibilities, goals, priorities and pressures.

Accomplishments, 2006-2007

- Created a division with dedicated staff resources, Advisory Services - Crown Agencies and Corporations, reporting to the deputy minister to strengthen the governance structure with agencies.
- The new division provides advice and analysis on matters involving crown agencies and corporations (seven agencies) reporting to the Minister of Finance and provides a point of contact for communication with agencies and coordinates government initiatives, thus building relationships and improving accountability.
- The division established interim activity and performance reporting for two agencies (Insurance Review Board, Halifax Dartmouth Bridge Commission) to inform government on their key activities, initiatives and accomplishments.
- The division also established quarterly reporting for upcoming initiatives and planned events for three agencies. This initiative will be expanded to include the remaining agencies in 2007-2008.

Strategic Goal No. 2:

Produce understandable and informative reporting on financial results while applying Public Sector Accounting Board recommendations.

Priority #7

Conduct a financial document review, including the public accounts, with the objective being to improve the usefulness of the documents produced by the department while maintaining compliance with Generally Accepted Accounting Principles (GAAP) for the public sector.

Accomplishments, 2006-2007

- *Public Accounts, Volume One* document was amended to include a reconciliation of budget summary to consolidated financial statements format.
- In accordance with Public Sector Accounting Board (PSAB) requirements, government expenses are to be disclosed in a gross format. To this point various user fees, chargeables and recoveries have been netted against expenses. During fiscal year 2006-2007 the appropriate gross reporting format was determined and approved for use in the 2007-2008 provincial budget and public accounts documents. The change involves reporting fees and other charges and ordinary recoveries in the total revenues of the consolidated fund, while reporting the gross departmental expenses.
- The gross format was successfully implemented in the 2007-2008 Budget released on March 23, 2007.
- As part of the process of reviewing Nova Scotia's financial documents, a questionnaire was developed, and a survey undertaken of other provincial and territorial governments to assess the broad standards of reporting for both budgets and public accounts. The primary focus of the survey was to determine which jurisdictions used a gross budget format, which jurisdictions do fully consolidated budgeting, and which ones publish a supplement to the public accounts with salary info included and what were the reporting thresholds for salary information reported. (Recommendations regarding changes to salary reporting thresholds for *Public Accounts Volume Three* are to be brought forward in 2007-2008.)

Priority #8

Continue the consolidation of existing accounts receivable systems throughout government into one corporate accounts receivable (AR) by moving all or most of the AR accounts into SAP-AR. A corporate system will provide for improved data management, reporting and analysis functions, and the enhancement of internal controls, including relevant policies and procedures.

Accomplishments, 2006-2007

- Expanded the customer base for Service Nova Scotia and Municipal Relations, Farm Loan Board and Fisheries and Aquaculture Loan Board.
- Migrated resources CSU customers from their old AR system onto SAP. The SAP AR replaces an older mainframe AR software system that was being retired. Using the SAP AR,

the CSU was able to migrate their accounts economically to an established and already supported system.

- Created monthly inflows from banks in payment of customers' accounts. This required implementing a new SAP AR system function that can be expanded in future years to receive a wider base of customer payments electronically.

Strategic Goal No. 3: Articulate the province's position and strategy to ensure an equitable and adequate share of resources relative to federal/provincial funding arrangements.

Priority #9

Collaborating with Inter Governmental Affairs and other relevant partners, develop a comprehensive, corporate strategy and negotiating position in response to the federal government's commitment to attain a broad, long-term agreement from the provinces to permanently address the fiscal imbalance issue. This process will also include detailed and rigorous analysis of the recommendations of the federal expert panel on equalization, the Council of the Federation's Advisory Panel on Fiscal Imbalance and the proposals put forth by the federal government itself.

Accomplishments, 2006-2007

- During 2006-2007 the Department of Finance, in collaboration with other government entities, developed a multi-pronged approach to getting Nova Scotia's position heard on the fiscal imbalance. This involved:
 - presentation and formal submission to the Expert Panel on equalization
 - presentation to the Council of the Federation panel on Fiscal Imbalance
 - Minister of Finance's presentation to the Senate Committee on Fiscal Imbalance
 - presentation of issues and concerns to:
 - federal Department of Finance
 - Nova Scotia Members of Parliament
 - Nova Scotia government
 - Nova Scotia business community
 - provincial government opposition
 - technical debriefing of media
 - ongoing discussions with other provincial allies

- establishing of an interdepartmental subcommittee of deputies and Senior officials
 - established a Nova Scotia website on Fiscal imbalance
 - produced the document, *Fiscal Imbalance – What Nova Scotians Should Know*.
- The federal 2007 budget, released on March 19, 2007, introduced a new approach to equalization, which the federal government intended as a fix to the fiscal imbalance issue.
- For Nova Scotia this meant choosing between the previous equalization approach and the new equalization formula.
- Considerable analysis of the financial implications of the new equalization proposal were undertaken, but it became clear that from Nova Scotia's perspective it was no fix to the fiscal imbalance problem and that more effort would be required in the following fiscal year to ensure Nova Scotia's position was heard and a real fix developed.

Priority #10

Articulate and advance the province's position with respect to the equalization program and the 2005 Offshore Agreement. This will include thorough analysis of federal proposals stemming from their commitment to remove non-renewable resources from the equalization formula.

Accomplishments, 2006-2007

- This priority became encompassed in the fiscal imbalance priority # 9 above. Although there are separate and distinct components of the fiscal imbalance issue, equalization took on the overarching tone of being the vehicle through which the federal government intended to fix the fiscal imbalance.
- A specific issue of concern for Nova Scotia is the treatment of resources in the equalization program. The department initiated rigorous analysis of potential scenarios, options and proposals in order to support negotiations and discussions where the Nova Scotia view could be presented.
- Once the federal budget was announced on March 19, 2007, the treatment of resource revenues became fixed with the exception of the impact on the offshore accords, where negotiations continue.

Priority #11

Work with the Council of the Federation to continue to press for adequate levels of federal funding for post-secondary education and social services through improvements to the Canada Social Transfer.

Accomplishments, 2006-2007

- This priority became a component of the province's multi-pronged approach to solving the fiscal imbalance, in particular in this case, the vertical fiscal imbalance (the difference between the federal and provincial government's ability to raise revenues compared to their spending responsibilities). Federal funding in the areas of health and social transfers are not keeping pace with the rising cost of providing these services.
- In all of the presentations made under priorities # 9 and #10, there was an element of making Nova Scotia's case for the federal government to improve funding for provision of health and social services.
- The department continued to work with other provincial departments by providing analysis and assessments of issues related to education and social services and contribute to preparations for federal-provincial discussions and negotiations.

Strategic Goal #4: Enhance risk management strategies.

Priority #12

Continue to develop the middle office function of providing ongoing oversight of investment and liability management functions while further incorporating risk management best practices.

Accomplishments, 2006-2007

- Risk Research Officer hired to increase coverage and middle office capacity.
- Procedures for performance measurement and compliance reports were developed and documented to support monthly compliance reports to the CEO of the Nova Scotia Pension Agency and the debt management committee.

- Daily limits reports were established and monitored to ensure that the pension agency and Liability Management and Treasury Services were staying within their set limits for money market securities and fixed income.
- Second middle office location established to delivery on site services to the Nova Scotia Pension Agency.
- Follow up to the Deloitte audit of governance and control framework of liability management and treasury services, investment management and capital markets administration divisions of the Department of Finance, by internal audit and risk management centre was in process at year end. The objective of the Deloitte audit was to provide assurance that:
 - the objectives, policies and procedures contribute to the achievement of the goals in the Department of Finance's strategic plan;
 - major risks have been identified and controls are in place to ensure the risks are mitigated to an acceptable tolerance level;
 - assets are protected;
 - the roles and responsibilities of committees, management, and staff are well understood and capabilities exist to achieve objectives; and
 - there are appropriate reporting structure and performance measures to support achievement of the goals and objectives.

Priority #13

Further incorporate risk management into the business practices of the department. This will include assisting the Emergency Management Office with the corporate business continuity plan (BCP) through ensuring a proper BCP for the Department functions. This will also involve beginning the implementation of a records management system designed to maximize departmental records' usefulness, integrity and ability to support the delivery of programs and services.

Accomplishments, 2006-2007

- Director of middle office acted as the business continuity management coordinator and began developing the business continuity policy. He worked with a business continuity committee to identify mission critical business functions and developed a plan to educate them about BCM and assist them in developing their departmental plans. The role and responsibility for BCM was transferred to the policy and planning division and work continues with all divisions currently developing their BCM plans for critical functions.

- Records management (RM) program planning was completed and operations began during fiscal year 2006-2007. The Manager of Information Management was hired and the organizational structure for RM was developed. RM positions were established and described. 53 per cent of old files stored on the 8th floor were classified and dealt with according to retention schedules. Five per cent of old division files were classified and dealt with according to retention schedules. Records and publications were inventoried and many were transferred to offsite storage, the Legislative Library, and the Public Archives of Nova Scotia. Work procedures and filing standards were developed and staff were trained in these procedures and standards. Space was allocated for a central file repository, and renovations being planned with TPW. An RM software tool has been selected and licenses purchased.

Priority #14

Continue with migration of financial transaction and payment production from the Department of Community Services (DCS) to the Department of Finance, resulting in improved internal controls over the payment cycle.

Accomplishments, 2006-2007

- Successfully migrated more than 36,000 monthly Income Assistance client payments to SAP in January 2007. Key to the success of this project was a well organized DCS project team that included government accounting in the detailed planning and implementation phases.
- Developed a solution to migrate more than 55 monthly community services rental assistance program payments to SAP.
- Transferred more than 157 monthly in-home support payments to SAP.
- Provincial cheque layouts were redesigned to improve security features and to meet new banking standards.

Priority #15

Ensure that management steering committees for all future enterprise resource planning (ERP) implementations will receive resources to complete an independent assessment of the risk management strategies proposed and used by project implementation teams.

Accomplishments, 2006-2007

- Projects such as the Joint Education Mission (JEM) and the Health Administrative Systems Project (HASP) were provided with resources, advice and support to complete independent risk management activities as part of these implementations by the Department of Finance and Nova Scotia Economic Development.

Priority #16

Implement additional risk-based frameworks that support good governance and accountability. Risk-based frameworks are to be used to identify opportunities and efficiencies; achieve goals and objectives; as well as improve outcomes. This includes developing an annual and three-year rolling risk-based internal audit plan.

Accomplishments, 2006-2007

- In 2006-2007 Internal Audit and Risk Management Centre adopted the Australia/New Zealand risk model as the basic framework for risk assessments across government. The risk assessment tools are part of the larger enterprise risk management model.
- A pilot of enterprise risk management using the Australian / New Zealand model was completed within the municipal relations division of Service Nova Scotia and Municipal Relations. This pilot was managed by Internal Audit and Risk Management Centre with positive results and a second pilot encompassing a full department has been approved for fiscal 2007-2008.
- In 2006-2007 IARMC produced a risk based audit plan which included the results from a pilot of the risk assessment process in seven major government departments. This was a one year plan only, as information to inform a three year plan was not available. Due to the nature of internal audit work it was decided by the audit committee that one-year plans would be the standard for the next several years.

Strategic Goal #5:

Enhance the department's workforce strategies (development of people) focussing on staffing levels, training, job satisfaction, employee health and safety, and succession management.

Priority #17

Continue with a series of human resource strategies to enhance employee career planning and development, support a department-wide approach to succession management and encourage diversity, thus enabling a productive workforce.

Accomplishments, 2006-2007

- Created a position and successfully recruited a workplace initiatives advisor to assist management in the development of plans and initiatives to improve the workplace, succession management and employee career development.
- Completed performance appraisals on 94 per cent of management staff and 57 per cent of bargaining unit staff; including preparation of development plans for a large number of employees.
- Met requirements of government's diversity policy.

Priority #18

Develop a plan and related initiatives supporting a healthy workplace culture, which will include employee recognition, occupational health and safety, employee wellness and support in managing change.

Accomplishments, 2006-2007

- A healthy workplace committee (HWC) was established, initially as part of the Occupational Health and Safety committee. The committee will migrate to a separate functioning committee in fiscal year 2007-2008. (The separate HWC was begun in May of 2007.)
- Continued staff sessions to introduce new staff and to update all staff on the department's business plan and priority initiatives, as well as familiarize staff with the various functions of the department.
- Continued with the development and distribution/updating of the employee handbook.
- Initial planning for healthy workplace intranet site was begun in 2006-2007. (The site came online on September 19, 2007.)

Budgeting Context

| | 2006/07 Estimate (per 2007/08 estimates book) (\$ thousands) | 2006/07 Actual (\$ thousands) | Variance (\$ thousands) |
|------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------|------------------------------------|
| Total Program Expenses - Gross | 24,643 | 28,094 | 3,451 (note 1) |
| Net Program Expenses - Net of Recoveries | 18,517 | 17,133 | -1,384 (note 2) |
| TCA Cash Flow | 9,445 | 9,963 | 518 (note 3) |
| Salaries & Benefits | 14,320 | 14,552 | 232 |
| | | | |
| Funded Staff - Gross FTEs | 226.0 | 191.0 | -35 |
| Funded Staff - Net FTEs | 173.0 | 142.0 | -31 |

Notes: Significant Variance Explanations; 2006-2007 Estimate to 2006-2007 Actual

1. Total Program Expenses - Gross

An increase of \$3.45 million is attributed to additional professional services and consulting (\$3.0 million) and staff training (\$367k) for the Corporate Information Systems division relating to projects such as the SAP HR system, the new business warehouse modules and support to SAP modules for other departments and agencies. These additional expenditures were offset by recoveries from other departments, municipalities and other entities, as well as salary savings.

2. Net Program Expenses - Net of Recoveries

A decrease of \$1.38 million is attributed to salary recoveries relating to wage negotiations and net salary savings across the department.

3. Tangible Capital Asset (TCA) Cash Flow

An increase in TCA expenditures of \$518k relates to additional Cabinet approval in September, 2006 for the SAP HR provincial payroll project.

Measuring Our Performance, 2006-2007

The supporting data presented below reflect the measures included in the 2006-2007 Business Plan and the most recent information available.

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives. |
| Core Business: | Financial Management |
| Measure: | Surplus/Deficit Budget |
| Outcome: | Effective management of the province's financial operating resources |

What does the measure tell us?

This measure shows the status of the provincial budget. A balanced budget indicates that government can accommodate provincial spending within its revenue sources.

Where are we now?

The Department of Finance met the legislated requirement for a balanced budget by tabling a balanced budget for fiscal year 2006-2007 on July 4th, 2006, with an estimated surplus of \$73.5 million.

Also in 2006-2007 (March 23, 2007), the province tabled its sixth consecutive balanced budget for the 2007-2008 fiscal year, with a surplus of \$118.4 million, sufficient to ensure that the net direct debt would be reduced by \$15.4 million over the previous year.

Where do we want to go?

We want to continue to produce balanced budgets, and starting in 2007-2008, produce surpluses sufficient to meet government's policy commitment to begin to reduce the net direct debt.

To assist government in achieving the target of a balanced budget, the Department of Finance works closely with Treasury and Policy Board to ensure expenditures are closely monitored, and continually enhances its fiscal models to improve in-house revenue forecasting.

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives. |
| Core Business: | Central Agency Services |
| Measure: | The number of electronic downloads of statistical publications (internet and intranet web sites) |
| Outcome: | More informed program delivery and policy development |

What does the measure tell us?

This is a measure of the number of times electronic publications were downloaded from the Economics and Statistics Division's web sites. The Economics and Statistics Division is responsible for providing government departments and agencies with advice on and access to a wide range of social and economic statistics to support evidence-based decision-making and policy development. We are making a logical link between the downloading of statistics by users and their subsequent use of the statistics, which should contribute to the eventual achievement of the intended outcome - more informed program delivery and policy development.

Where are we now?

In 2006, downloads of statistical publications increased by 37 per cent over the 2005 level – compared to a 26 per cent decrease experienced between 2005 and 2004. The introduction of the new manufacturing profile publication in the fall of 2005 boosted downloads. In February 2006, the labour market and employment situation reports were combined into one new report, the labour market monthly. Downloads from January-August 2007 are up two per cent, compared to the same period in 2006, suggesting the trend has reversed itself as a result of these changes.

Where do we want to go?

The target is to increase statistical downloads. While continued increased usage of the statistical information is preferred, the rate of growth is dependent on several factors, including the content and quality of the existing publications, the addition of new publications that add value to the policy decision-making process and the capacity to promote the website to other provincial government departments and agencies.

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives. |
| Core Business: | Investment and Treasury Management |
| Measure: | Funded ratio of the Public Service Superannuation Plan (PSSP) and the Teachers Pension Plan (TPP) |
| Outcome: | Effective management of the assets of the provincial pension plans |

What does the measure tell us?

This is a standard measure used in the pension industry. It indicates the percentage of a pension plan's liabilities that are backed by assets, on a going-concern basis, as determined by an actuarial valuation (going-concern basis assumes the pension plan will be maintained indefinitely). It is an important indicator of the ability of a pension fund to meet obligations to its members. The closer the funded status is to 100 per cent, the greater the level of confidence plan members (and by extension beneficiaries) have that the plan will be able to pay them the promised benefits upon retirement.

Where are we now?

The following table illustrates the recent funded positions of the PSSP and TPP.

Funded Ratios for the PSSP and TPP, 2003-2006

| Date | PSSP | TPP |
|-------------------|-------|-------|
| December 31, 2006 | 89.6% | 96.8% |
| December 31, 2005 | 88.0% | 93.6% |
| December 31, 2004 | 85.2% | 81.7% |
| December 31, 2003 | 85.8% | 81.0% |

Source: Nova Scotia Pension Agency

Where do we want to go?

The ultimate goal of a pension plan is to be 100 per cent funded, and this continues to be the long-term target for both pension plans. Investment returns are the most important factor in the ability of a pension plan to become 100 per cent funded, and while returns have improved in recent years, they have not been sufficient to make up the entire shortfall. Other initiatives have therefore been undertaken to help improve the plans' financial positions.

Effective April 1, 2007, contribution rates for the PSSP, for both employees and the employer, were increased by one percentage point each eliminating the current service deficit in the plan. The Public Service Pension Plan advisory committee is currently assessing the longer term funding options for the plan and are expected to make recommendations to the Minister in his capacity as Trustee during the current fiscal year.

The TPP took a significant step in 2005 to improve the financial health of the plan, with the signing of an agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union. In addition to providing the framework for joint trusteeship that became effective April 1, 2006, this agreement saw members give up the right to guaranteed indexing of their pension.

Instead, indexing for future retirements will be contingent on the funded ratio of the plan. In return, the province contributed \$144 million to the pension fund. As of December 31, 2006, the plan's funded ratio was above 95 per cent for the first time in several years, and the long-term outlook for becoming 100 per cent funded is realistic.

Note: this measure will migrate from the Department of Finance Accountability report for 2007-2008. Since the Nova Scotia Pension Agency has separated from the Department of Finance, it will be reporting on its own business plans separately.

Strategic Goal: #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives.
Core Business: Investment and Treasury Management
Measure: Credit Spread relative to Ontario
Outcome: Efficient and prudent management of the province's financial assets and liabilities

What does the measure tell us?

The relative cost of borrowing for the government of Nova Scotia as compared to the government of Ontario's cost of borrowing. This reflects the risk the markets associate with the bonds issued by both to finance the respective provincial debts.

Where are we now?

In 2006-2007 the credit spread relative to Ontario was +0.2 basis points. This is up very slightly from the 2005-2006 spread of 0.0 basis points, but is effectively on par. (100 basis points = 1 per cent)

Where do we want to go?

We would like to maintain a par (0.0 basis point) spread.

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives. |
| Core Business: | Investment and Treasury Management |
| Measure: | Percentage of foreign debt in debt portfolio |
| Outcome: | Efficient and prudent management of the province's financial assets and liabilities |

What does the measure tell us?

This measure indicates the level of foreign currency exposure and the inherent risk to net debt servicing costs where changes occur in the value of the Canadian dollar relative to the US dollar.

Where are we now?

Foreign currency exposure was 10.2 per cent of the debt portfolio as at March 31, 2007. This represents a decline from March 31, 2006 when 13.0 per cent of the province's debt portfolio was denominated in foreign currencies.

Where do we want to go?

Section 52A of the *Provincial Finance Act* requires the province to reduce foreign currency exposure to 20% or less and to refinance all maturities with a term greater than one year in Canadian dollars. The Department of Finance achieved the legislated maximum 20 per cent foreign currency exposure target, and continues to reduce foreign currency exposure.

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #1: Develop fiscal and economic strategies to help government realize its fiscal, social and economic development objectives. |
| Core Business: | Investment and Treasury Management |
| Measure: | Credit ratings by major rating agencies |
| Outcome: | Efficient and prudent management of the province's financial assets and liabilities |

What does the measure tell us?

A credit rating is an independent evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of the credit quality of bonds of other financial instruments. A credit rating indirectly affects the borrower's debt servicing costs and the investor's expected rate of return since an investor will demand a higher return on a more risky, lower rated security.

Where are we now?

At March 31, 2007, the province's credit rating has been stable with all three major bond-rating agencies. Moody's Investor Services rated the province at "Aa2 with a stable outlook. Dominion Bond Rating Service placed the province at "A " also with a stable outlook. The rating by Standard and Poor's stood at "A+" with a stable outlook. All of these agencies have reconfirmed these credit ratings for the province of Nova Scotia.

Where do we want to go?

The department's objective is to maintain and improve upon these ratings.

Strategic Goal: #2: Produce understandable and informative reporting on financial results while applying PSAB recommendations.
Core Business: Financial Management
Measure: Timeliness of Public Accounts documentation
Outcome: Open and transparent financial reporting

What does the measure tell us?

It tells us whether or not we are achieving our legislative requirement to release the Public Accounts by September 30th.

Where are we now?

We continue to achieve this measure: the 2006-2007 Public Accounts were released on August 9, 2007. The 2005-2006 Public Accounts were released on September 27, 2006.

Where do we want to go?

We would like to continue to exceed the legislated final date for reporting of September 30th, and maintain a targeted release date of early August. This is in line with release for the public accounts of other provinces.

Strategic Goal: #2: Produce understandable and informative reporting on financial results while applying Public Sector Accounting Board recommendations.
Core Business: Financial Management
Measure: Unqualified audit report
Outcome: Open and transparent financial reporting

What does the measure tell us?

An unqualified audit report provides assurance that the province's financial statements are prepared in accordance with General Accepted Accounting Principles (GAAP). Users can place reliance on them as a general purpose financial accountability document.

Where are we now?

The Province of Nova Scotia continues to receive unqualified audit opinions from the OAG.

Where do we want to go?

To continue this trend by implementing GAAP changes/enhancements as required.

| | |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal: | #2: Produce understandable and informative reporting on financial results while applying Public Sector Accounting Board recommendations. |
| Core Business: | Financial Management |
| Measure: | Completion of financial document review |
| Outcome: | Clear and understandable financial reports |

What does the measure tell us?

The project will identify areas for potential improvement in document presentation, usefulness and comparability. This specific measure will tell us that we are continuing to progress towards the improvement of the reporting standards for both budget documentation and public accounts documentation.

Where are we now?

Public accounts volume one was amended to include a reconciliation of budget summary to Consolidated Financial Statements format. A format for reporting fees and other charges and recoveries income was developed for use in the 2007-2008 budget documents. Committee work is continuing and recommendations regarding reporting thresholds for Public Accounts Supplement are expected in 2007-2008.

Where do we want to go?

To continuously improve the clarity, usefulness and comparability of budget and public accounts documents.

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|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic Goal | # 3: Articulate the province's position and strategy to ensure an equitable and adequate share of resources relative to federal/provincial funding arrangements. |
| Core Business: | Fiscal Planning and Policy |
| Measure: | Provincial government debt (net direct debt) as a percentage of GDP |
| Outcome: | Prudent and sustainable fiscal plan |

What does the measure tell us?

Net direct debt as a percentage of GDP is an indicator of the fiscal sustainability and flexibility of the province. The higher the ratio, the greater the debt burden on the residents of Nova Scotia. Due to accounting changes and corrections that must be made throughout the year, the net direct debt is often restated in the year-end financial statements of the province, resulting in changes to this ratio. For information as to the actual accounting adjustments made, the reader is referred to *Public Accounts Volume 1 – Financial Statements, 2006-2007*.

Where are we now?

As at March 31, 2007 the Net Direct Debt to GDP ratio stood at 38.7 per cent. This represents a decrease from the ratio of 39.0 per cent as at March 31, 2006.

Where do we want to go?

A continued reduction in the year over year ratio remains our target.

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| Strategic Goal | # 3: Articulate the province's position and strategy to ensure an equitable and adequate share of resources relative to federal/provincial funding arrangements. |
| Core Business: | Fiscal Planning and Policy |
| Measure: | Overall corporate income and capital tax rates |
| Outcome: | Positive climate for investment that stimulates economic growth |

What does the measure tell us?

Corporate income and capital tax rates measure the overall marginal taxes on Nova Scotia businesses. These rates are the most visible measure of the tax environment for businesses considering investment in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital investments. Comparing tax rates with other jurisdictions is a key indicator of Nova Scotia's competitiveness.

Where are we now?

Business Tax Rates for 2007 Tax Year

| | NS | NB | ON | AB | Federal |
|----------------------------------------------------|---------------------|-------------------|---------------------|------|--------------------|
| General income tax | 16.0% | 13.0% | 14.0% ^a | 10% | 21.0% ^c |
| Small business income tax | 5.0% | 5.0% ^d | 5.5% | 3.0% | 12.0% |
| Large Corporations Tax (Non-financial capital tax) | 0.225% ^f | 0.2% ^e | 0.285% ^b | 0% | 0% |
| Corporations Capital Tax (Financial capital tax) | 4.0% | 3.0% | 0.57-0.855% | 0% | 1.25% |

a - Ontario offers a 2% credit for manufacturing and processing profits, reducing the effective rates for these activities to 12%.

b- Announced in the 2007-08 Budget, Ontario accelerated the elimination of its the Capital Tax to 0% by July 1, 2010; 18 months sooner than originally planned.

c - The federal government also charges a corporate surtax with an effective rate of 1.12% on large corporations

d - New Brunswick raised its small business rate from 1.5% to 5% in the 2007-08 Budget

e - New Brunswick's capital tax is being reduced to 0% by 2009

f - Effective July 1, 2007; Nova Scotia's large corporations capital tax is being reduced and eliminated by July 1, 2012.

Nova Scotia's business tax rates are generally higher than in other provinces in Canada. Taxes are an important factor in the province's overall competitive performance and the Province has taken steps to reduce the burden of taxes on the economy. However, the federal government levies the majority of the corporate tax burden in Canada.

Where do we want to go?

The phasing out of the large corporations tax by 2012 continues, as announced in the 2006-2007 Budget. In July 2007, this tax rate was reduced by another 0.25 per cent to 0.225 per cent.

The 2007-2008 Budget also introduced a Digital Media Tax Credit. This measure provides a refundable tax credit on eligible digital media production expenditures.

The government's plan provides a prudent balance between business tax relief and the need for revenues to support public programs.

The Department of Finance will continue to review the province's business taxes to assess their long-term competitiveness, efficiency, sustainability and fairness.

The Department of Finance will continue to monitor and assess the overall tax burden while examining the socioeconomic demographics of Nova Scotia taxpayers and maintaining a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

Strategic Goal # 3: Articulate the province’s position and strategy to ensure an equitable and adequate share of resources relative to federal/provincial funding arrangements.

Core Business: Fiscal Planning and Policy

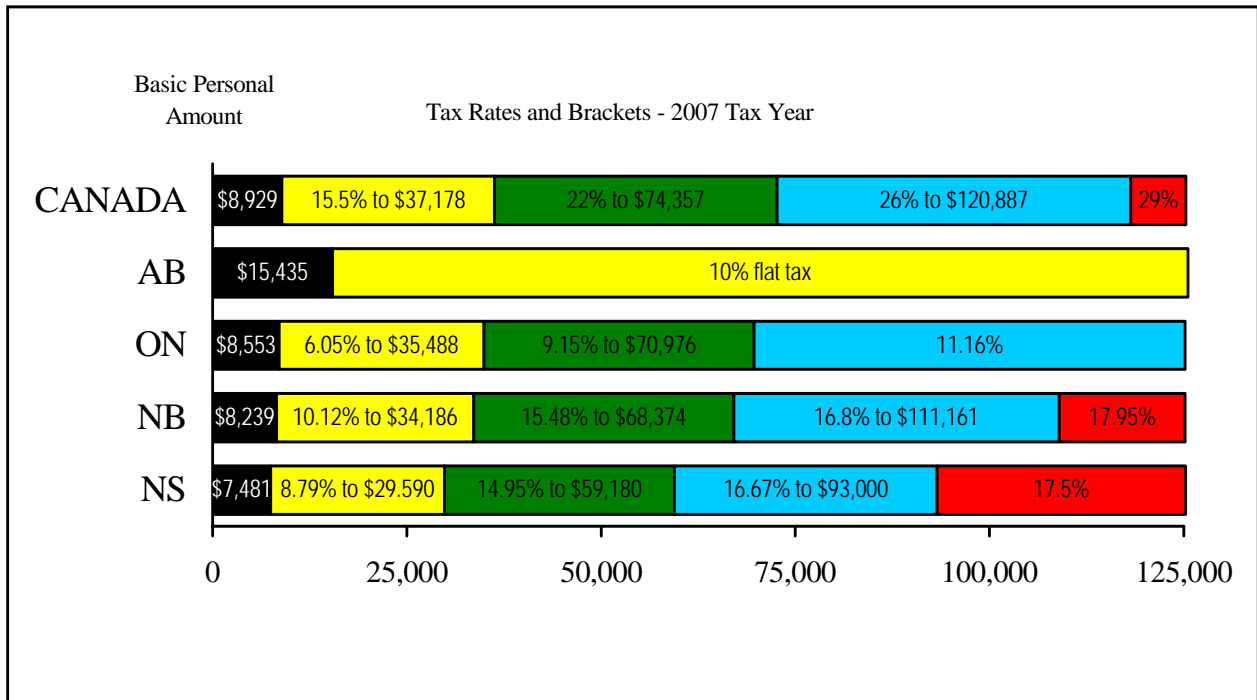
Measure: Personal income tax rates and brackets

Outcome: Positive climate for investment and economic growth

What does the measure tell us?

Personal income tax rates and brackets tell us how much provincial tax individuals in different income ranges would have to pay on their next dollar of taxable income. This measure allows for comparing the tax burden among provinces at different income levels. Personal income tax rates do not measure the overall level of tax burden because they ignore how much taxable income Nova Scotians actually earn and how it is distributed among them.

Where are we now?



Personal Income Tax Rates and Brackets for 2007 Tax Year

Nova Scotia's personal tax rates are consistent with other provinces in Atlantic Canada, but higher than in other competing jurisdictions. Nova Scotia and Ontario charges surtax on high-income earners. Nova Scotia's surtax is calculated at 10 per cent of the gross provincial taxes

owing over \$10,000. Ontario has two surtaxes of 20 per cent on taxes over \$4,016 and 36 per cent over \$5,065; these are cumulative for a total surtax rate of 56 per cent.

Nova Scotia's tax brackets are not indexed. Most other provinces have indexed tax brackets that grow every year to account for wage growth and inflation. For example, while New Brunswick's personal tax rates are higher than Nova Scotia's, its brackets actually mean that an individual with more than \$29,590 in taxable income could pay more taxes in Nova Scotia, even though it's levied at lower rates. After an increase of \$250 in 2007, the province's basic personal amount of \$7,481 is still the lowest in the country. Most other provinces increase their basic amounts and tax brackets every year. In comparison, the Alberta tax system charges a 10 per cent flat tax on incomes above the 2007 basic amount of \$15,435.

Where do we want to go?

The government has introduced a series of tax measures to reduce the burden on businesses and individuals. This tax relief is planned in a prudent way to ensure that the government can promote the Province's competitiveness with an efficient tax system that meets social needs within the fiscal resources available.

For the 2007 tax year, the basic personal amount exempted from personal income taxes is \$7,481, \$250 more than in 2006. The basic personal amount will continue to increase by \$250 in each of the next four years. The province's other non-refundable credits, including the spousal amount, dependent amount, pension amount, disability amount, and caregiver amount will also grow by 13.83 per cent over this period. Starting in 2011, the government will index the personal tax system at a prescribed rate.

The Graduate Tax Credit will be doubled to \$2,000 for graduates from eligible post-secondary programs after January 1, 2008. Also, the Province is implementing a new \$250 refundable tax credit for volunteer firefighters. This tax credit will increase to \$375 in 2008 and \$500 in 2009.

The Province is broadening the Labour-Sponsored Venture Capital Tax Credit. The maximum annual credit will be increased to \$2,000 commencing on a date to be determined in regulations during 2007.

The Department of Finance will continue to monitor and assess the overall tax burden while examining the socioeconomic demographics of Nova Scotia tax payers and maintaining a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

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| Strategic Goal: | # 4: Enhance risk management strategies. |
| Core Business: | Investment and Treasury Management |
| Measure: | Deloitte audit response on schedule; Independent assessment regarding the implementation status of Deloitte audit recommendations |
| Outcome: | Enhanced risk management |

What does the measure tell us?

An independent assessment will report on our progress toward implementing the recommendations of the Deloitte audit of the governance and control framework of liability management and treasury services, investment management and capital markets administration divisions of the Department of Finance. The objective of the Deloitte audit report is to provide assurances that, for each division:

- the objectives, policies and procedures contribute to the achievement of the goals in the Department of Finance's strategic plan;
- major risks have been identified and controls are in place to ensure the risks are mitigated to an acceptable tolerance level;
- assets are protected;
- the roles and responsibilities of committees, management, and staff are well understood and capabilities exist to achieve objectives; and
- there are appropriate reporting structure and performance measures to support achievement of the goals and objectives..

Where are we now?

All recommendations from the Deloitte audit report, which can be complied with, have been completed. Internal Audit & Risk Management Center has been engaged to undertake an independent assessment on the department's progress towards completion of recommendations. The independent assessment is underway and the report should be completed by October 2007.

Where do we want to go?

Once the Internal Audit & Risk Management Center have confirmed that the compliant recommendations have been implemented, the departments plans to put in place testing procedures to test the effectiveness of the implemented recommendations.

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| Strategic Goal: | # 5: Enhance the department's workforce strategies (development of people) focussing on staffing levels, training, job satisfaction, employee health and safety, and succession management. |
| Core Business: | Department wide |
| Measure: | Proportion of staff participating in career development/succession management training programs |
| Outcome: | Strategic Management |

What does the measure tell us?

The level of interest in, and support for staff to pursue initiatives designed to develop and enhance career opportunities for the long-term. This measure is targeted at capturing the personal level of interest, both among staff (as participants) and managers (as catalysts/champions), as opposed to efficiency or effectiveness of programs. In this way, it can also be viewed as a measure of the organizational culture or attitude towards career development and succession management.

Where are we now?

All directors in the Department of Finance participated in a half-day session on "Career Coaching" a lead in for the "Career Development" sessions that were attended by all departmental staff. The career development sessions were designed to encourage staff to complete career path models to be used by the department in developing its succession management plan. As of March 31, 2007, 63 (41 per cent) departmental staff had completed career path models.

Where do we want to go?

The department has recruited an HR development professional to begin work in 2007-2008. This individual will develop programs and initiatives based in a departmental-wide needs assessment. In order to instill a culture that supports career development and succession management, a focus will be placed on ensuring that new staff are introduced to succession management training and have an opportunity to participate. Maintaining constant communication with staff about training opportunities will also play a key part in strengthening the organizational commitment to career development and succession planning.

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| Strategic Goal: | # 5: Enhance the department's workforce strategies (development of people) focusing on staffing levels, training, job satisfaction, employee health and safety, and succession management. |
| Core Business: | Department wide |
| Measure: | Proportion of staff receiving performance appraisals |
| Outcome: | Strategic Management |

What does the measure tell us?

Performance appraisals (PA) are a core foundation of personnel and succession management. PAs help to identify the training and development needs of staff, as well as levels of job satisfaction. Training and development links the program needs of the department with the skills and expertise of staff, and help to build leadership and professional capacity. This measure will help ensure that the information needed for a successful personnel and succession management program for the department is collected.

Where are we now?

In 2005-2006, 57 per cent of bargaining unit and 94 per cent of non-bargaining unit staff received performance appraisals.

Where do we want to go?

We would like to achieve a goal of 95 per cent of all staff receiving annual performance appraisals.

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| Strategic Goal: | # 5: Enhance the department's workforce strategies (development of people) focusing on staffing levels, training, job satisfaction, employee health and safety, and succession management. |
| Core Business: | Department wide |
| Measure: | Position vacancy rate |
| Outcome: | Strategic Management |

What does the measure tell us?

The measure provides an indication of success in meeting recruitment and retention goals for the department. It is important to develop and retain staff for the longer-term objectives of the department. Staffing levels are a determining factor in achieving the business plans of the department and government, and for achieving divisional operational plans.

Where are we now?

The vacancy rate for the fiscal year 2006-2007 was 15.5 per cent.

Where do we want to go?

We would like to achieve a lower vacancy rate.