

# Government-Wide Issues

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## GOVERNMENT FINANCIAL REPORTING

### BACKGROUND

- 2.1** Members of the Legislative Assembly (MLAs) need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.
- 2.2** The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act. Certain of these assignments include the need for Governor in Council (i.e., Executive Council) approval or ratification of planned actions.
- 2.3** The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. These include the following requirements.
- Annual estimates (Section 7A)
  - Interim reports on public finances (Section 8B, see also Section 77)
  - Annual public accounts (Sections 9 and 10)
  - Remission of tax, penalty or other debts (Section 19B)
  - Additional appropriations (Section 28, see also Section 75)
  - Special warrants (Section 29, see also Section 59D)
  - Redemption or purchase of securities (Section 54)
  - Financial transactions (Section 59B)
  - Financial obligations (Section 59C)
  - Consolidated fiscal plan (Section 82)
  - Report on outcomes for fiscal year (Section 83)
- 2.4** Further, Section 73 of the Provincial Finance Act requires that crown corporation business plans, any proposed public financing and audited financial statements be tabled in the House of Assembly each year.
- 2.5** As a foreign registrant of the Securities and Exchange Commission (SEC) in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.
- 2.6** In addition to required financial reporting, government can and has periodically, at its discretion, released other financial information or reports (e.g., debt reduction plan) publicly.
- 2.7** Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's

financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability process for the Province's financial reports issued by government.

- 2.8 In accordance with the professional standards referred to above, the Office of the Auditor General's 2004 Performance Report and 2005 Business Plan publication (issued March 8, 2005) included comments on the independence of the Auditor General position from government as well as on the professional conduct rules and standards adhered to by the Office.

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## RESULTS IN BRIEF

- 2.9 The following are our principal observations in this chapter.

- The Auditor General's opinion on the government's 2005-06 revenue estimates was qualified because the revenue estimates are not presented on the same consolidated basis as the Province's consolidated financial statements. It was tabled April 26, 2005 as part of the *Nova Scotia Budget* publication (page A2). A management letter on this year's review was issued to government in May 2005.
- Our audit of the Province's March 31, 2005 consolidated financial statements will be completed between May and September 2005. The target deadline for providing our opinion on those statements, for printing purposes, is September 22, 2005. The scheduled date assumes year-end accounting and audit readiness requirements are met.
- Additional appropriations of \$99,017,194 for 2003-04 program expenses were approved on December 3, 2004 by Order in Council 2004-469. No special warrants have been approved since our last Report. Based upon forecast information included in the 2005-06 budget document, additional appropriations of approximately \$222.2 million may be required for 2004-05.
- In order for the Province to issue debt in the United States market, government must file an Annual Report (Form 18K) with the U.S. SEC. This report is supposed to be updated annually by December 31. At the time of writing this Report, the Province's Form 18K had not been updated since December 2003.

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## SCOPE

- 2.10 The Auditor General Act provides broad mandates for the Office to examine and report on use and control of public funds or resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual coverage and reporting by the Auditor General on government's financial statements (audit - high assurance) and revenue

estimates (review - moderate assurance), respectively. The Office is also required to review the Province's annual U.S. SEC filing documents (Form 18K).

- 2.11** The annual financial statements of various crown entities and trusts are, depending on statutory or other arrangements, audited and reported upon by the Auditor General or a public accounting firm. We consider these financial statement audits, as well as other government financial reporting, where appropriate during the conduct of the Office's discretionary broad scope assignments in selected areas each year.
- 2.12** The purpose of this chapter is to provide summary comments and observations on government's financial reporting, including information on the planning or results of the Office's examinations of the government's financial statements and revenue estimates.

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## PRINCIPAL FINDINGS

### Review of Revenue Estimates

- 2.13** The Auditor General's reporting, required under Section 9B of the Auditor General Act, on the 2005-06 revenue estimates was tabled in the House on April 26, 2005 along with the supporting information for the 2005-06 Nova Scotia Budget. Exhibit 2.1 on page 16 is a copy of the Auditor General's Report on the 2005-06 Revenue Estimates. The Report is qualified because the revenue estimates are not presented on the same consolidated basis as the Province's consolidated financial statements.
- 2.14** Subsequent to the conclusion of our review of the revenue estimates, we issued a management letter to Finance in May 2005. That letter provided additional observations and comments from our review of the 2005-06 revenue estimates and other related information included in the Minister of Finance's April 26, 2005 Budget Address and supporting documents.
- 2.15** The following is a summary of selected matters and recommendations in the management letter.
- During our review of the revenue estimates, we accumulate potential errors on a schedule referred to as the summary of possible differences. Differences identified during our 2005-06 review net to an average understatement of \$5.11 million (possible range of \$0 to \$10.22 million).
  - Department of Finance staff should have information on government's revenue and spending plans. We believe they need this information in order to properly develop assumptions regarding economic growth for the upcoming fiscal year. These factors could have a significant impact on the economy. The economic assumptions and the revenue line-item estimates for 2005-

06 were developed by staff without direct knowledge of, or information on, government's revenue and spending plans. Subsequently, once the 2005-06 revenue and spending plans were finalized, the impact on the economic assumptions and the revenue line-items was assessed by Finance senior management.

- The government's values for economic assumptions were not used directly to estimate all revenue line-items which should have used those values. Certain revenues were estimated using other sources of assumptions. For example, the estimate of Provincial income tax revenues was developed using the Federal government's estimate for national growth in personal income rather than using Nova Scotia's assumption regarding national growth in personal income. The impact of using assumptions from other sources rather than the Provincial government's values for economic assumptions was assessed and included in the summary of possible differences referred to above.
- Generally accepted accounting principles (GAAP) require that Federal revenues (transfer payments) be recorded as revenues by the receiving Province. In Nova Scotia's 2004-05 forecast and 2005-06 budget, a number of Federal revenues are netted against expense rather than reflected in revenues. This is not in accordance with GAAP. This results in an understatement of revenues and expenses in the 2004-05 forecast of \$17.9 million and the 2005-06 budget of \$68.8 million. There is no net impact on the surplus reported.

The accounting for the recognition of these Federal transfers will be assessed in more detail as part of the audit work for the March 31, 2005 consolidated financial statements. In this regard, there needs to be a clear trail from the funding provided to the specific expenses incurred in order to properly manage and account for the funds received.

- During our review, we found a number of instances where staff in various departments, who were responsible for estimating the revenue of a particular line item, did not agree with the estimated revenue figures provided to us by the Department of Finance. We were informed that these discrepancies were caused by a timing difference. After staff at Finance obtained the revenue estimates from the various departments, they were subsequently updated and staff at Finance was not aware of these updates. Once we communicated the existence of these discrepancies to staff at Finance, the revenue estimates were updated to agree with the latest information from the applicable departments. This resulted in a net increase in estimated revenues of \$8.63 million for 2005-06.
- Companies with licenses for exploration off Nova Scotia must pay 25% of guaranteed expenses not spent within five to nine years of obtaining a license. Revenue generated from this process is referred to as offshore license and forfeiture revenue. The 2004-05 budget did not include an estimate of this revenue line-item. The 2004-05 forecasted revenue for this line item in the

2005-06 budget is now \$54.9 million. Staff within the Department of Finance indicated to us that they were not aware of the existence of this potential revenue during the 2004-05 budget process as no information was provided by the Department of Energy. During the 2005-06 budget process the Department of Energy notified the Department of Finance of potential revenue for this line item but indicated that the potential revenue was not measurable due to the uncertainty involved. As a result, estimated revenues from offshore licenses and forfeitures are not included in the 2005-06 budget. An estimated potential understatement of 2005-06 revenues for this line item is included in the summary of possible differences referred to above.

- Adjustments are made to estimated revenues reported for specific fiscal years based upon updated information. For example, personal income tax revenues for the 2003-04 fiscal year will be adjusted in 2004-05 based on updated assessment information. These changes are referred to as prior year adjustments (PYAs). Since 1994-95, net PYAs totalling \$715 million have been reported by government. PYAs will most likely be identified during 2005-06 and, in future years. These PYAs could be significant individually or collectively. It is possible that further adjustments may be necessary to the forecasted PYAs for 2004-05 as a result of updated information that becomes available prior to the finalization of the Province's March 31, 2005 consolidated financial statements.
- When the Forecast Update for 2004-05 was released on December 20, 2004, we had concerns regarding the presentation of the Provincial surplus amounts in the 2004-05 budget and forecast update. The \$10 million budget and \$70 million forecast items under the caption "debt retirement plan" were not legitimate charges in the determination of government's annual surplus under generally accepted accounting principles (GAAP). In the 2004-05 Forecast Update, the budgeted Provincial surplus should have been presented as \$12.1 million and the forecasted Provincial surplus presented as \$72.7 million. We communicated our concerns to the Department of Finance and acknowledge the presentation and disclosure changes made in the 2005-06 budget documents to address them.
- Management at the Department of Finance has indicated to us that there are plans to review the content of the Province's financial reports during 2005-06, to ensure they meet user requirements. The review will attempt to identify the best way to present information for users. We believe such a review could be a valuable exercise and encourage the Department to effectively implement its plans in this regard.
- Exhibit 2.2 on page 17 provides a summary variance analysis and explanations comparing the 2004-05 revenue estimate and the 2004-05 forecast included in the 2005-06 budget documents.
- Exhibit 2.3 on page 18 provides a summary variance analysis and explanations comparing the 2004-05 forecast and the 2005-06 revenue estimates included in the 2005-06 budget documents.

- The 2005-06 revenue estimates management letter included the following recommendations.

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#### **Recommendation 2.1**

We recommend that the development of the economic assumptions and estimated revenues for each line item be completed after the Executive Council has approved planned revenue and spending decisions for the coming year. The impact of those decisions should be specifically incorporated into the development of the economic assumptions and the revenue line items.

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#### **Recommendation 2.2**

We recommend the effective date of the economic assumptions be the date they are approved by the Executive Council.

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#### **Recommendation 2.3**

We recommend all key economic assumptions used in the development of the revenue estimates be approved by the Executive Council.

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#### **Recommendation 2.4**

We recommend that, in accordance with GAAP, Federal transfer payments be included in revenue as opposed to being netted against expense appropriations.

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#### **Recommendation 2.5**

We recommend the budget process be reviewed and revised to ensure there is proper cut off of information and that the revenue estimates reflect the most current information available.

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#### **Recommendation 2.6**

We recommend the budget process be reviewed and revised to ensure Finance is made aware of all potential revenue line items so the Department can assess relevant information when determining the Province's estimated revenues and related disclosures.

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## **Audit of Government's Financial Statements**

- 2.16** Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the government's annual consolidated financial statements. The December 2004 Report of the Auditor General, released on December 15,

2004, provides summary observations and recommendations on the results of our audit of the Province's March 31, 2004 consolidated financial statements which were released on September 30, 2004 as part of Volume 1 of the Public Accounts.

- 2.17** We issued a letter to Finance on March 14, 2005 which included a list of information, schedules, documentation and other readiness requirements to be prepared by government management and accounting staff to facilitate the timely and cost-effective completion of the audit of the Province's consolidated financial statements for the fiscal year ending March 31, 2005.
- 2.18** As in prior years, the audit of the consolidated financial statements is to be completed in two phases. Most of the work for the first phase, focusing on the core government consolidated fund accounting balances, is scheduled to start May 25, with an interim exit meeting scheduled for July 18. The second phase involves work on the draft consolidated financial statements, which are to be made available to our Office by August 11.
- 2.19** The following are some of the key accounting, control and other issues that we are aware of which will be considered as part of the 2004-05 financial statement audit:
- the implications of the qualified opinion and deficiencies identified in the service auditor's report on the controls for the centralized SAP infrastructure (see Chapter 3, paragraphs 3.15 to 3.18);
  - the implications of the denial of opinion and identified deficiencies in the audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions completed by a private sector firm during 2004, including the progress made to address identified deficiencies;
  - the implications and status of the investigation of the possible fraud discovered at Service Nova Scotia and Municipal Relations;
  - the accounting for the recognition of various Federal transfer payments, considering the need for a clear trail from the funding provided to the specific expenses incurred in order to properly manage and account for the funds received;
  - the completeness of disclosure of contractual obligations;
  - the reconsideration of the Workers' Compensation Board's government reporting entity status; and
  - the revisions to disclosure in the Public Accounts Volume 1 to take into consideration the *Financial Statement Discussion and Analysis* guideline issued by the Public Sector Accounting Board (PSAB) in 2004.



- 2.20** The target deadline for providing the opinion on the consolidated financial statements, for printing purposes, is September 22, 2005. The scheduled date assumes year-end accounting and audit readiness requirements are met on a timely and appropriate basis.
- 2.21** Generally accepted accounting principles (GAAP) are not static. Standard setters in Canada and internationally continue to develop new or revised pronouncements in important areas. PSAB is the primary body issuing recommendations on public sector accounting in Canada. The following are the more significant matters in progress at PSAB or on which it has recently released final or draft pronouncements:
- financial statement discussion and analysis;
  - government transfers;
  - liabilities, contingent liabilities and contractual obligations;
  - GAAP hierarchy; and
  - financial instruments.
- 2.22** New formal recommendations or guidance in these areas could require changes to government's financial reporting in the future. As we previously recommended, government, where possible, should identify required or planned accounting changes to the House in advance of the start of the fiscal year in which they will be implemented.
- 2.23** Government, primarily through management of the Department of Finance, is responsible for preparation of the Province's consolidated financial statements. This includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets, preventing and detecting error and fraud, and being aware of circumstances that could result in fraudulent financial reporting.
- 2.24** The Auditor General's responsibility is to express an opinion on the consolidated financial statements. The opinion is based on our audit which is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the March 31, 2005 consolidated financial statements will not be detected even though the audit is properly planned and performed.
- 2.25** The audit includes assessing the risk that the financial statements may contain misstatements that, individually or in aggregate, are material to the financial statements taken as a whole; examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and their application; and assessing the significant estimates made by management.

- 2.26** In conducting our audit, we obtain a sufficient understanding of the systems and controls to plan the audit. Where we intend to rely upon controls, sufficient audit evidence is obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2005 consolidated financial statements will not be sufficient to conclude on the adequacy of the overall level or quality of controls.
- 2.27** The financial statements of various crown corporations and agencies of government are audited by other auditors. As appropriate under generally accepted auditing standards, we rely on the work and reporting of these other auditors.
- 2.28** The Auditor General will express an opinion as to whether the Province's consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Province of Nova Scotia in accordance with Canadian generally accepted accounting principles for the public sector. Our audit will be carried out in accordance with Canadian generally accepted auditing standards.
- 2.29** The concepts of materiality and audit risk are implicit in the wording of the standard auditor's report. It is intended to communicate, amongst other items, that the amounts included in the financial statements are not necessarily precise and that the audit does not provide absolute assurance that the financial statements are not materially misstated. In this regard, as noted, we seek reasonable assurance that the financial statements as a whole are not materially misstated. Government is responsible for maintaining accurate books and records, and the expectation is that non-trivial errors will be corrected.

## Other Matters

- 2.30** [Additional appropriations and special warrants](#) - Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the December 2004 Report of the Auditor General, chapter 2. We provide the following updated comments.
- 2.31** Under the provisions of Section 28 of the Provincial Finance Act, on December 3, 2004 the Executive Council approved Order in Council 2004-469 approving additional appropriations for 2003-04 of \$99,017,194 for program expenses.
- 2.32** As per the 2004-05 forecast information released with the Minister of Finance's April 26, 2005 Budget Address, subject to year-end accounting or audit adjustments, additional spending authority (additional appropriations) of approximately \$222.2 million will need to be approved by OIC within 90 days of the government's release of the March 31, 2005 consolidated financial statements.
- 2.33** We note that since our last Report, there have been no special warrants approved by the Executive Council under Section 29 of the Provincial Finance Act.

- 2.34** [SEC annual filing](#) - In order for the Province to issue debt in the United States market, government must have an Annual Report (Form 18K) on file at the U.S. SEC. This report is supposed to be updated annually by December 31. At the time this chapter was drafted in early May 2005, the Province's Form 18K had not been updated since December 2003 when it was updated for the 2002-03 fiscal year.
- 2.35** We are required to review the content of the Province's annual Form 18K. A draft of the 2003-04 Form 18K was prepared and provided to us for review in mid-December 2004. We had some questions and concerns regarding the content which were communicated to the Department of Finance in December 2004. Some, but not all of our issues had been addressed at the time this chapter was written. Management indicated to us that the delay in responding is partially due to a lack of resources within the Department. Management has indicated that the material will be updated before it is resubmitted for review and finalization.

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#### **Recommendation 2.7**

**We recommend government take steps to ensure the necessary resources and processes are in place to ensure the Province's annual SEC Form 18K report is filed as required on a timely basis.**

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### **CONCLUDING REMARKS**

- 2.36** We acknowledge that government made amendments to the presentation of the surplus amounts in the 2005-06 budget documents to ensure they are GAAP compliant. We support Finance's plan to review the content of government's financial reports to ensure they meet the needs of their users. These actions contribute to the quality of government's financial reporting.
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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, 2006 used in the preparation of the April 26, 2005 Budget Address

Exhibit 2.1

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, 2006 (the 2005-06 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 2, 2005. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2005-06 revenue estimates of \$6,444,214,000 for total revenue as per Schedule 6 in the Financial and Supplementary Information section. My opinion does not cover the budget address, the 2004-05 forecast, the 2005-06 spending estimates, sinking fund earnings, nor recoveries, user fees or other income netted for annual appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2005-06 revenue estimates have been presented including the total revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2005-06 revenue estimate for total revenue, but included elsewhere in the 2005-06 estimates, and have not been included in my examination.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion,

- as at the date of this report, the assumptions used are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2005-06 revenue estimates; and
- the 2005-06 revenue estimates as presented reflect fairly such assumptions.

Since the 2005-06 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matter discussed above, the 2005-06 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
April 21, 2005

**Summary Variance Analysis and Explanations between the 2004-05 Revenue Estimates and the 2004-05 Revenue Forecast included in the 2005-06 Budget (millions)**

Revenue Line Item	2004-05 Estimate	2004-05 Forecast	Variance (increase decrease)	Explanations
Corporate Income Tax (CIT)	\$ 263.8	\$ 316.1	\$ 52.3 19.8%	The base of the model used to estimate this revenue is national corporate taxable income and Nova Scotia's share of that income. The increase in the Provincial corporate taxable income is expected to be 14.4%. This is based upon final 2003 assessment data. This is consistent with the change in the expected growth in national corporate profits between the 2004-05 estimate and 2004-05 forecast.
Equalization	\$1,202.9	\$1,321.4	\$ 118.5 9.9%	The 2004-05 forecast is legislated by the federal government. The federal government plans to increase Equalization transfers to the provinces over a 10 year period as described in the 2005 Federal Budget.
Canada Health Transfer/Canada Social Transfer (CHT/CST)	\$645.4	\$670.8	\$25.4 3.9%	This increase is due mainly to a \$1 billion increase in CHT nationally for 2004-05 as part of the federal plan to increase federal support to strengthen health care as described in the 2005 Federal Budget. Nova Scotia's share of this funding is \$29.4 million.
Wait Times Reduction Funds	\$0.0	\$18.3	\$18.3 100%	This is new funding approved by the Federal government in 2004-05 after the 2004-05 budget process was completed.
Offshore Licenses and Forfeitures	\$0.0	\$54.9	\$54.9 100%	No amount was budgeted for this revenue in the 2004-05 estimate process. Department of Finance and the Auditor General's Office were not made aware of the existence of this possible revenue and the fact that it was not estimated. Department of Energy knew there was potential revenue but they were uncertain as to the amount, if any, that would be realized and thus felt an estimate could not be reasonably determined.
Prior Year Adjustments (PYAs)	\$0.0	\$19.3	\$19.3 100%	PYAs are not budgeted. They represent changes in estimates based upon updated information. The revenue is recognized in the period the updated information becomes available.

The table provides the major positive and negative contributions to the overall variance.

The 2004-05 total revenue estimates were \$ 5,916.3 million and the 2004-05 total revenue forecast was \$6,190.9 million for a total net variance of \$274.6 million or 4.6%.

## Summary Variance Analysis and Explanations between the 2004-05 Revenue Forecast and the 2005-06 Revenue Estimates included in the 2005-06 Budget (millions)

Exhibit 2.3

Revenue Line Item	2004-05 Forecast	2005-06 Estimate	Variance (increase decrease)	Explanations
Personal Income Tax (PIT)	\$ 1,456.7	\$1,553.6	\$ 96.9 6.6%	Model used to estimate revenue is based upon Federally-determined national taxable income. The key economic assumption used by the Federal government to determine this is the national personal income growth. The Federal government is expecting a 5% growth in national personal income. This accounts for a majority of the variance.
Corporate Income Tax (CIT)	\$316.1	\$350.2	\$34.1 10.8%	<p>The base of the model used is national corporate taxable income. It is expected that national corporate taxable income will grow by 7.5% over 2004. This is consistent with the expected growth in national corporate profits.</p> <p>Expected credit take-up in 2005-06 is moderately lower than in 2004-05 with credits falling by \$8 million mainly due to the sunset of the manufacturing investment tax credit.</p> <p>There is \$8 million in offshore CIT included in the 2005-06 estimate. An estimate for this item is not included in the 2004-05 forecast.</p>
Harmonized Sales Tax (HST)	\$1,031.1	\$1,068.9	\$37.8 3.7%	Consumer expenditures are the main driver of this model. The estimated growth in consumer expenditures for 2005 is 4.2%.
Equalization	\$1,321.4	\$1,343.5	\$22.1 1.7%	These two amounts are legislated by the Federal government. The Federal government plans to increase Equalization transfers to the provinces over a 10 year period as described in the 2005 Federal Budget.
Canada Health Transfer (CHT)	\$425.9	\$578.4	\$152.5 35.8%	The majority of this variance is due to the fact that the Federal government has increased the national allocation for CHT by \$6 billion in 2005-06 as described in the 2005 Federal Budget. Nova Scotia's share of this base increase is \$157.1 million which is based upon Nova Scotia's share of the Canadian population. The 2005-06 CHT amount includes the health reform fund which was a separate revenue line item in the 2004-05 forecast and is shown further down in this exhibit.

Revenue Line Item	2004-05 Forecast (millions)	2005-06 Estimate (millions)	Variance (millions)	Explanations
Canada Social Transfer (CST)	\$244.9	\$257.4	\$12.5 5.1%	According to legislation, the national total federal allocation for CST will increase by \$325 million between 2004-05 and 2005-06. Nova Scotia's share of this increase is \$9.5 million which is based upon Nova Scotia's share of the Canadian population.
Canada Health and Social Transfer (CHST) Supplement	\$58.6	\$0.0	(\$58.6) 100%	This funding was approved in 2004-05 and was fully and appropriately recognized in 2004-05.
Health Reform Fund	\$44.0	\$0.0	(\$44.0) 100%	Federal government moved this funding to be part of the CHT transfer in 2005-06.
Offshore Oil and Gas Payments	\$0.0	\$57.1	\$57.1 100%	This is as a result of the new Offshore Accord Agreement entered into with the Federal government in February, 2005. This was not known at the time of the 2004-05 estimate process.
Offshore Licenses and Forfeitures	\$54.9	\$0.0	(\$54.9) 100%	There were 22 plots with licenses which expired during 2004-05. For 2005-06 there are only six plot licenses which could expire so the potential revenue is significantly less. We have noted a potential understatement of this revenue on our summary of possible differences.
Offshore Offset	\$34.0	\$4.0	(\$30.0) 88.2%	The amount for each year is legislated by the Federal government.

The table provides the major positive and negative contributions to the overall variance. The 2004-05 revenue forecast is \$6,190.9 million and the 2005-06 estimates are \$6,444.2 million for a total increase of \$253.3 million or 4.1%.