

# 2007 2008

Budget | Budget Speech

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by Michel Audet,  
Minister of Finance,  
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# Giving Québec the means to fulfil its ambitions

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## INTRODUCTION

Mr. President:

Since 2003, we have acted in a disciplined and responsible manner. We will do so in this budget as well.

Quebecers' priorities have not changed. Nor have those of the government. They are still health, education, the economy, reduction of the tax burden, the regions, sustainable development, families and infrastructure.

We have listened to what Quebecers want for the future and done everything to create an environment more conducive to wealth creation and prosperity.

This year, we are continuing to focus our efforts on the prosperity of Québec—large cities and regions alike. We are supporting Montréal and Québec City as driving forces by meeting their specific needs.

Regarding the regions, we have strengthened their autonomy and are giving them additional means to be the masters of their own development.

We are continuing to take action for the environment and the quality of life of all Quebecers. We are listening to people's needs and we are meeting them.

This budget is also an opportunity to take stock of the government's achievements.

The state of public finances has been a constant challenge during our mandate. Thanks to our discipline, we have maintained a balanced budget. We also created the Generations Fund to tackle the public debt. These efforts have been recognized, as Québec's credit rating was upgraded twice in 2006.

However, to maintain this balance in the long term, the fiscal imbalance issue must be resolved in a durable way. This is a fundamental issue for our government and for Québec.

## □ ***The economic situation***

Our actions have contributed to the solid performance of the economy.

Growth in household spending will exceed 3% this year, as it has done each year since 2003. In addition, new home construction has remained high over the past four years, averaging close to 52 000 dwellings annually. That is more than double the housing starts recorded in the late 1990s.

Private investment has risen 25% since 2003. That is more than four times higher than during the last mandate of the previous government.

Excluding Alberta, business investment in Québec, as a percentage of GDP, is now comparable to that in the rest of Canada. It has grown faster in Québec than in Ontario since 2003.

Furthermore, in 2006, Québec retained its first-place ranking in Canada in venture capital management, accounting for 50% of managed capital. Since 2003, another 15 private funds have emerged in Québec.

This vitality is supported by the tax cuts granted to individuals and businesses since 2003. In 2007, retroactive pay equity payments will increase household income and foster household consumption.

In addition, the labour market situation is sound. Since 2003, nearly 200 000 jobs have been created in Québec, including over 48 000 last year. For the third consecutive year, the vast majority of the jobs created are full-time.

The unemployment rate averaged 8% in 2006, something that has not been seen in 30 years. It even fell to 7.7% last month. Furthermore, for the third consecutive year, over 60% of the population was employed—another record.

This overall performance is especially impressive for having occurred despite the substantial appreciation of the Canadian dollar, high oil prices and increasingly stiff competition from emerging economies.

The government's budgetary and fiscal policy has contributed to Québec's current prosperity. This budget is a new step in building a Québec that has the means to fulfil its ambitions.

# 1. DISCIPLINED, RESPONSIBLE MANAGEMENT OF PUBLIC FINANCES

Mr. President, with this budget, we are staying the course of sound public finances.

## □ *The government's public finance record*

We have taken a number of concrete steps, the results are conclusive.

- We have tabled a balanced budget every year.
- We have exercised tight control over spending.
- We have promoted transparency through the publication of a monthly financial report.
- Modernization of the government has resulted in savings of \$1 billion.

We have also tackled problems such as the public debt and the weak performance of certain government corporations.

## □ *The public debt*

To tackle the public debt, we created the Generations Fund, which will reduce the debt to less than 25% of GDP by 2025. I am particularly proud of that achievement.

In addition, last Thursday, the government made an exceptional contribution of \$500 million to the Generations Fund. This amount stems from Hydro-Québec's sale of its interest in a business in Chile.

I forecast that the Generations Fund will total \$1 billion as of March 31, 2008.

Again this year, we have substantially increased the fund out of which the retirement benefits of government employees will be paid. Since 2003, we have injected \$13 billion into the fund, which now stands at \$27 billion. It is an act of sound management taken in the interest of the government's 540 000 employees.

### ❑ ***Modernization of governance in government corporations***

In 2003, the performance of Québec government corporations was uneven and their accountability, insufficient.

We modernized the governance rules of government corporations by passing, last December, a law concerning seven major government corporations. We will do the same for 17 other government corporations later this year.

We also announced that, within five years, parity would be achieved in the number of men and women on the boards of directors of government corporations.

Through these steps, we have given them the means to be more responsible, transparent and representative of Québec society in their management practices.

### **Another balanced budget**

Mr. President, during our mandate, our management has been disciplined and respectful of Quebecers' priorities.

Average annual spending growth was maintained at 4.1%, compared with 6.3% in the provinces as a whole.

I want to emphasize again this year the exceptional contribution of my colleague, the President of the Conseil du trésor, to maintaining tight control over spending. All of my government colleagues gave her effective support in carrying out that delicate task.

### ❑ ***The 2006-2007 fiscal year***

I am pleased to announce that, for the fiscal year ending on March 31, we will again achieve a zero deficit. However, due to the extraordinary costs relative to pay equity, program spending will increase by 4.6%.

### ❑ ***The 2007-2008 fiscal year***

A balanced budget is also assured for the coming fiscal year. The government will use a \$500-million budgetary reserve created in 2006-2007 and earmarked for pay equity payments. Program spending continues to be tightly controlled, with 4% growth, including the measures in this budget.

□ ***Subsequent years***

A revenue-expenditure gap of \$995 million exists for 2008-2009. As in the past, we will deal with this situation and take the appropriate measures to maintain a balanced budget.

## 2. THE PRIORITIES OF QUEBECERS

In 2003, under the leadership of the Premier, we set ourselves the objective of refocusing government action on the priorities of Quebecers:

- health and education;
- the economy and reduction of the tax burden;
- the regions and sustainable development;
- families; and
- infrastructure.

Our record shows that we have attained our objective.

- Since 2003, over 80% of growth in spending has gone to health and education.
- Since 2003, we have substantially reduced personal income tax, and lowered business investment costs.
- Since 2003, we have invested \$16.1 billion to upgrade infrastructure. This investment has strongly contributed to supporting economic growth.

### Health care

Since 2003, we have increased the health budget by \$4.4 billion. We have taken action on several fronts to improve health services. For example:

- We introduced guaranteed access to specialized care for hip, knee and cataract surgery, further to the Supreme Court judgment in the Chaoulli case.
- We raised the number of students in the faculties of medicine, and an additional 1 000 nurses work in the health system.
- We increased the number of family medicine groups from 17 to 121, enabling over 950 000 people to have a family physician.
- We networked our health services to better meet people's needs.
- We reorganized work by reducing the number of union bargaining units from 3 600 to 900 and decentralizing bargaining at the institutional level.

These achievements have enabled us to reduce surgery waiting lists. Last December, approximately 18 000 fewer people were awaiting surgery than at the same time in 2003.

We also eliminated wait times of four weeks or more for cancer treatment in radiation oncology.

With this budget, we will continue to make progress in health care. For the coming year, an additional \$1.3 billion will be allocated to this sector, an increase of 6%.

Thus, health and social services will account for two-thirds of the growth in government spending. This increase will enable additional resources to be allocated for specific needs such as support for the elderly, mental health, and physical and intellectual rehabilitation.

And that is not all. We are investing in health care infrastructure, in particular in the construction of new university hospitals in Montréal.

The government is also taking action with regard to prevention. We introduced the new *Tobacco Act*, the benefits of which are already being felt. Last fall, we concluded a partnership with the Fondation Lucie et André Chagnon to set up a fund for the promotion of health and healthy lifestyles. I am confirming today the creation of this fund of \$400 million over 10 years.

## Education

In the area of education, the government has also taken a number of concrete steps. For example:

- We allocated nearly \$100 million over three years to help children with learning difficulties and support their parents through the hiring of specialized professionals.
- We added an hour and a half of class time a week in elementary school, thereby doubling the time allocated for physical education and enabling English to be taught as of the first grade.
- We introduced homework assistance.
- Lastly, we allocated an additional \$320 million for post-secondary education.

Since 2003, the government has reinvested over \$1.7 billion in education. The growth in spending is five times higher than under the previous government.

In 2007-2008, the education budget will increase by 4.4%, that is, \$567 million more.

We are committing ourselves to doing more for post-secondary education. We will do even more if we obtain additional funds from the federal government.

## **Reduction of the tax burden and support for economic growth**

Since 2003, we have continuously cut personal and corporate income tax. With a more competitive tax system, we can:

- attract and retain the most qualified entrepreneurs and workers;
- encourage Quebecers to work by giving back to them a larger share of their income; and
- promote investment in physical and human capital.

These are elements essential to productivity and economic growth. The government has greatly contributed to enhancing Québec's competitiveness by reducing the tax burden.

- We gave \$3.8 billion in tax cuts back to Quebecers.
- We relieved the tax burden of businesses by over \$825 million.

All Quebecers who pay income tax, that is, 3.4 million people, have benefited directly from our government's tax cuts.

### **□ *A further reduction in Quebecers' tax burden***

In 2003, there was a substantial gap between the income tax paid by Quebecers and the average amount paid by taxpayers in the other provinces. The situation was unsustainable. That is why we undertook to narrow the gap, while continuing to invest in health and education. This is what we have done.

In the previous budgets, our priority was to cut the income tax of low-income taxpayers. For example, we:

- introduced the single tax system;
- implemented the child assistance payment and the work premium to help families;
- enhanced tax relief for persons with disabilities and for informal caregivers;
- introduced a \$1 000-deduction for workers;
- enhanced the tax credit for home support of elderly persons; and
- indexed the tax system annually to take into account the effects of inflation.

Consequently, the tax system is now more advantageous for low-income taxpayers than the Canadian average.

In this budget, we want to do more for the other categories of taxpayers.

I am announcing that, as of January 1, 2008, the income thresholds of the tax table will be raised, resulting in a personal income tax reduction of \$250 million.

Thus, since 2003, the gap in the tax burden with the other provinces has been reduced from \$2.2 billion to \$770 million—a reduction of about 65%.

With these cuts, we are no longer the most heavily taxed in North America. We now have the sixth-lowest tax burden of the provinces. That is remarkable progress.

The tax reductions implemented since 2003, including this one, represent a tax cut of \$2 281 for a family with two earned incomes totalling \$75 000.

### □ ***A tax system that fosters the vitality of our businesses***

We have also greatly enhanced our tax system's competitiveness in regard to businesses. We can be proud of our record.

- We reduced the tax rate of small and medium-sized businesses to 8%, benefiting 100 000 businesses.
- We eased the regulations for SMEs with respect to the financing and administration of manpower training plans.
- We announced a gradual decrease in the tax on capital. The tax hinders competitiveness and job creation, which is now a consensus at the National Assembly.
- We also raised the exemption threshold of the tax. As a result, 75% of businesses no longer pay it.
- Lastly, we introduced a capital tax credit to foster new investments.

In this budget, we want to further encourage manufacturing businesses to modernize. The manufacturing industry in Québec, as in the other provinces, the United States and the Western world, is faced with stiff competition from emerging economies. Several sectors, such as the textile, clothing and furniture manufacturing industries, are very severely affected.

The competition from these economies is largely due to their low labour costs. Faced with this competition, Québec businesses have no choice but to adapt. They must become more competitive and, to that end, they must become more productive.

We note that this diagnosis is shared by business and union leaders, creating ideal conditions for better collaboration. I invite the federal government to also take measures, in its next budget, to help businesses rise to this challenge.

The Québec government has already supported businesses in sectors that were experiencing acute difficulties, such as the forest industry. We will do our part for the other manufacturing businesses as well.

Thus, I am announcing that the capital tax credit on new investments in manufacturing and processing equipment will be extended until 2012. In addition, I am announcing that the credit will be doubled, from 5% to 10%, as of midnight tonight.

With this measure, the cost of investing in Québec's manufacturing sector has never been lower.

I want to emphasize that, with these measures, manufacturing companies that invest in the purchase of new machinery or in the modernization of their equipment will generally no longer pay the tax on capital.

Indeed, provided their investment is sufficient, the credit they obtain will fully offset the amount of tax they would have had to pay on their capital.

Mr. President, it is an immediate competitive advantage. This is the best way to stimulate investment in the manufacturing sector.

## **Infrastructure renewal**

Public infrastructure is one of the pillars of economic growth and development. The government's efforts to upgrade public infrastructure are directly reflected in the vitality of the Québec economy.

- Since the beginning of our mandate, the government has invested \$16.1 billion in infrastructure development.
- Average annual investment rose from \$2.9 billion between 1997 and 2003 to \$4.7 billion last year—a remarkable increase.

That does not take into account the investments we prompted our partners to make in various projects.

In fact, my colleague, the Minister of Transport, and my colleague, the Minister for Transport, announced investments of \$7.9 billion by 2011 in roads, bridges and viaducts.

Several projects are well under way:

- the 25 in Montréal and Laval;
- the 30 in the Montérégie region;
- the 50 in the Outaouais and Laurentides regions;
- the 73 in the Beauce;

- the 175 in the Saguenay; and
- the 185 in the Bas-St-Laurent region.

In addition, several municipal bridges and civil engineering works are in need of major intervention to prevent further deterioration. Consequently, investments to improve the condition of these municipal structures will be raised by \$22 million, reaching \$30 million in 2007-2008.

Also, with government funding from the Société de financement des infrastructures locales (SOFIL), municipalities and public transit agencies will invest \$2.3 billion over the next four years.

These investments will improve infrastructure regarding public transit, drinking water supply, wastewater treatment and local road networks.

The government is also ensuring that its own infrastructure remains in good condition. Under the new policy on assets maintenance, funds are now being allocated to hospitals and educational institutions to help them properly maintain their buildings and improve the quality of services to the public.

Since 2003, we have raised assets maintenance budgets from \$645 million to \$1.2 billion.

In this respect, my colleague, the Minister of Education, Recreation and Sports, recently announced an investment of \$175 million for building upkeep in the education network.

### 3. A BETTER QUALITY OF LIFE FOR ALL QUEBECERS

From the outset of our mandate, we have worked to make Québec a place for people of all ages, by giving special attention to the elderly, families and young people.

#### Support for the elderly

Since 2003, the level of annual financial assistance for the elderly has climbed from \$303 million to \$661 million. The government's achievements include:

- free medication for 74 000 low-income seniors;
- mandatory accreditation of private residences for the elderly; and
- modernization of the *Supplemental Pension Plans Act*, which now provides for retiree representation.

In addition, roughly 370 000 retired couples will see their income tax reduced through the retirement income splitting I announced last December.

For example, a couple with a single retirement income of \$40 000 will receive a tax cut of \$878.

We are doing even more.

I am announcing today that we are increasing the income eligible for the tax credit for retirement income from \$1 000 to \$1 500. Over 356 000 retirees will now be able to claim the tax credit.

#### ***Ensuring a better quality of life for the elderly***

Nearly 90% of seniors live at home, and they want to remain there as long as possible.

To help seniors remain at home, we have enhanced the tax credit in their regard by injecting an additional \$74 million. This measure enables 300 000 seniors to remain in their home longer.

Moreover, informal caregivers play a key role in ensuring that elderly people can remain in their homes. We already support informal caregivers through a special tax credit. We now want to recognize the exceptional contribution of the volunteers who support them.

To recognize this contribution, the government is introducing an innovative measure. I am therefore announcing that a refundable tax credit of up to \$500 will be granted to volunteers who provide the equivalent of at least one day a week in respite services to informal caregivers.

It is a way to give well-deserved encouragement to our informal caregivers. This measure will involve the health and social services centres. It is explained in detail in *Additional Information on the Budgetary Measures*, an integral part of this budget speech.

## □ **Active seniors**

Seniors in good health often wish to stay longer in the labour market. Unfortunately, too many older workers are discouraged by the lack of flexibility of pension plans.

Phased retirement is a response tailored to these workers' needs. In the past year, the government resolutely undertook to promote phased retirement. The rules governing our pension plans must be eased to make gradual withdrawal from the labour market more advantageous. We have begun working with the federal government to that end.

The series of measures I have just announced are part of the Action Strategy for the Elderly that accompanies this budget.

## **Support for families**

Our financial assistance for families will total over \$4.7 billion in 2007, an increase of more than 30% over 2003.

We have taken steps on a number of fronts to create a more favourable environment for families.

- We brought in the most flexible and generous parental insurance program in North America.
- We increased the disposable income of young families through the child assistance measure.
- We facilitated family life in Québec by modernizing the law governing business hours in commercial establishments.
- We created the Fund for the Development of Sport and Physical Activity to generate half a billion dollars in investments for projects that will enable families to play sports and engage in healthy forms of entertainment.

- We created more than 36 000 reduced contribution daycare spaces, thereby meeting our commitment of 200 000 spaces announced in 2003.
- We also supported 250 community drop-in daycare centres.

In response to requests linked to the popularity of these drop-in centres, I am announcing that we are making their annual funding of \$3 million permanent.

I am also announcing that, from now on, parents will be able to claim the refundable tax credit for child care expenses regardless of their income. This extends the deduction to the agricultural sector and certain self-employed workers who were not able to claim it before. It is additional assistance of \$10 million for families.

In addition, we are introducing a new refundable tax credit to encourage parents and grandparents to save for the post-secondary education of their children and grandchildren. Each annual investment of \$2 000 in a registered education savings plan will give entitlement to a tax credit of up to \$250, which will be added to the plan.

Moreover, we are improving the tax system for parents with children engaged in post-secondary studies. From now on, students will be able to transfer the tax credit for tuition fees to their parents or grandparents.

Lastly, we are enhancing the tax credit for infertile couples who have recourse to *in vitro* fertilization. The ministère de la Santé et des Services sociaux plans to make changes to the fertilization protocol to reduce the currently high number of multiple pregnancies. Since this procedure will be more expensive, I am announcing that the increased cost will be accounted for in the tax credit.

Mr. President, the tax measures announced today, together with retirement income splitting, mean an overall reduction of \$464 million in the tax burden of Quebecers, without taking into account the indexation for 2008, evaluated at \$355 million.

## **Support for people with low incomes**

The government wants to reduce poverty in Québec. Our record shows several concrete actions and results in this regard:

- the plan to combat poverty and social exclusion coordinated by my colleague, the Minister of Employment and Social Solidarity;
- the work premium, a key element in our efforts;
- the increase in the minimum wage from \$7.30 in 2003 to \$8.00 on May 1 of this year;

- free medication for all social assistance recipients; and
- the first increase in legal aid thresholds in 20 years.

In all, we have invested a total of \$3 billion to combat poverty.

Since 2003, the number of Quebecers on social assistance has fallen by 52 000. In our view, employment is the first step in fighting poverty.

Lastly, with respect to social housing, the government is staying the course regarding its goal of building 20 000 new social housing units. Investments in the renovation of existing affordable housing, among other measures, will round out this major effort. To that end, we have at our disposal additional financial resources announced in the last federal budget.

## **Pay equity finally a reality**

My colleague, the Minister of Families, Seniors and the Status of Women, recently published the policy for equality between women and men. Essentially, it means transitioning from equality of right to equality of fact.

Ten years after the *Pay Equity Act* was passed, I am proud to point out that it was the determination of our government that enabled us to reach an agreement with the union associations last June.

Further to that agreement, more than 360 000 employees, primarily women, have received, since January 1, 2007, the first adjustments stemming from that settlement. In a few weeks, these employees will receive a retroactive payment covering the period from 2001 to 2006.

To ensure pay equity for public-sector employees, the government will pay them a total of almost \$2.7 billion by March 31, 2008.

## **Major investments in culture**

The vitality of Québec culture affirms our identity and enriches the life of all Quebecers. UNESCO's adoption of the Convention on the Protection and Promotion of the Diversity of Cultural Expressions is one of the greatest achievements of Québec diplomacy.

Under the leadership of my colleague, the Minister of Culture and Communications, we have taken several initiatives that bear witness to the extent of our commitment to culture:

- investments in cultural infrastructure, including the renovation of the Palais Montcalm in Québec City and the announcement of the construction of a new concert hall for the Orchestre symphonique de Montréal;

- creation of the Québec Cultural Heritage Fund;
- creation of the Placements Culture program;
- the policy on Canada's Francophonie; and
- tax measures to support artists' income and the cultural industry.

Since 2003, government spending on culture has risen by \$125 million.

In the film sector, I am pleased to confirm that we are renewing the \$10 million in extraordinary assistance on a recurring basis. This amount will maintain the sector's vitality.

The government's other measures include:

- granting an extra, recurring amount of \$5 million to bolster museum funding;
- making a recurring allocation of \$2 million to our public libraries, in particular to upgrade technology and create a union catalogue;
- injecting another \$3 million into the budget for the Placements Culture program;
- supporting community media organizations.

## **Support for cultural communities**

Immigrants of all origins contribute to the modernity of Québec. To make the most of their contributions, it is essential to forge strong ties between newcomers and the society that takes them in, in particular by sharing knowledge of French with them.

I am therefore announcing an additional \$5.3 million for the ministère de l'Immigration et des Communautés culturelles, in particular for the francization of immigrants.

## 4. DYNAMIC REGIONS AND LARGE CITIES

Mr. President, the prosperity of all regions of Québec is at the heart of our government's concerns. It was the main theme of our pre-budget consultations, during which we met with representatives of some 40 groups.

We also consulted the public on-line. We made due note of their comments, which guided us in preparing this budget.

Since 2003, we have been working to focus regional development on the autonomy of the regions. Our action is twofold:

- transferring powers and responsibilities to the regions, and granting resources to exercise them; and
- ensuring accessibility for all regions to the economic tools necessary to their development.

Our achievements speak for themselves. To foster regional autonomy, we:

- created and funded the regional conferences of elected officers;
- transferred responsibility for local development centres to the RCMs;
- invested \$3.8 billion in the agreement on a new fiscal and financial partnership with the municipalities; and
- undertook the signature of 91 agreements under the national policy on rurality, which will total \$280 million.

We also provided major economic leverage by creating the regional economic intervention funds (FIER) to facilitate business financing in the regions. FIER's success is reflected in the 40 regional funds created with private partners, representing capitalization of \$316 million to support the start-up and growth of businesses.

Mr. President, we want to do more. I am happy to inform you of the main components of the Strategy for the Development of Every Region. I would like to congratulate my colleagues, the Minister of Municipal Affairs and Regions, the Minister of Economic Development, Innovation and Export Trade and the Minister of Natural Resources and Wildlife, who worked on the development of the Strategy, the details of which are presented in a paper accompanying the budget documents.

I am announcing that we are allocating \$825 million over five years to the new strategy, which is comprised of three components:

- additional means and instruments enabling the regions to take charge of their development;
- investments in projects in Montréal and Québec City; and
- targeted government support for certain structuring sectors in the regions.

## **More autonomy and means for the regions**

The new development strategy for the regions is part of our efforts to foster regional autonomy. We are giving the regions control over additional financial means so that they can fully assume their role in their development.

First, I am announcing that we will grant \$300 million over five years to the Fonds de développement régional. This amount, under the direct authority of the regional conferences of elected officers, will be used to support the regions in their efforts to diversify their economies and tailor government programs to their needs.

Second, I am announcing that \$165 million over five years will be allocated to support economic development initiatives spearheaded by the regions. This amount will be divided as follows:

- an extra \$75 million will be allocated to finance ACCORD projects for the development of regional niches of excellence. Fourteen out of a possible fifteen agreements have already been signed;
- \$90 million will be put at the disposal of local development centres to support entrepreneurship and the development of business plans for companies in the start-up phase.

Third, I am announcing that \$45 million over five years will go toward funding the activities of the new regional natural resource and land commissions. These commissions have been set up further to the recommendations of the Coulombe report, and will be responsible for the preparation of regional plans for integrated resource and land development.

I am also announcing that the government will enhance its programs by injecting \$100 million over five years to promote business investment and productivity in all the regions. We will improve the economic projects support program and bolster assistance for business productivity.

Economic development gaps exist between the resource regions and the other regions of Québec.

Consequently, the government granted them special support. In 2006, the support totalled \$104 million in tax relief.

Certain regional stakeholders drew the government's attention to the fact that the measures could cause undesirable regional competition.

In the last budget speech, we adjusted the three tax credits for the resource regions to exclude equipment installation.

We are making other adjustments this year.

First, we will gradually reduce the tax holiday for the resource regions as of 2008, since it is not related to investment and job creation. However, the tax credits for secondary and tertiary processing activities will be in effect until 2009, and we will continue to administer them closely.

Concerning the anticipated termination of a number of tax credits for the resource regions and new economy sectors, I am announcing the creation of a task force to examine the impact. The task force will be chaired by Robert Gagné, of the École des Hautes Études Commerciales de Montréal, who will work with all the socioeconomic players involved.

## **Targeted support for Montréal and Québec City**

We are very aware of the major role played by Montréal and Québec City in the vitality of Québec.

Since 2003, we have demonstrated our support for both cities in a number of ways. Apart from initiatives designed specifically for them, they profit substantially from the benefits of the government's economic development policies and strategies.

The new innovation strategy presented by my colleague, the Minister of Economic Development, Innovation and Export Trade, affects all regions, but especially Montréal and Québec City, since they account for 67% of Québec's private research and development activities.

The new fiscal and financial agreement with the municipalities also benefits our large cities. Montréal will obtain close to \$900 million, and Québec City, almost \$300 million.

Citizen safety is an important issue for large cities. Consequently, we will invest \$34 million over the next three years to implement the Québec Street Gang Intervention Plan.

## □ **Montréal**

The metropolis plays a crucial role in the economic development of Québec. Wealth creation in Québec is dependent on the growth and prosperity of its metropolis.

Montréal must rise to considerable challenges in order to position itself on the North American and world stages. It has received undeniable benefits to that end, but is not always able to take full advantage of them.

Montréal clearly defined its objectives and action plan in its development strategy entitled *Imaginer-Réaliser Montréal 2025*.

The government will support the deployment and implementation of the strategy, by granting \$140 million to the Ville de Montréal over the next five years.

Montréal also receives other forms of financial assistance, such as:

- full compensation in lieu of property taxes of state museums and the Grande Bibliothèque;
- refund of the fuel tax to the Société de transport de Montréal;
- implementation of the first responder service;
- financial assistance to refinance the deficit of the pension plan for Ville de Montréal employees, which will represent \$240 million when fully implemented;
- support for several major economic projects, in particular in the aeronautics and information technology industries.

In addition, since 2003, we have awarded \$265 million in subsidies to the Ville de Montréal, including:

- \$69 million for operating expenditures;
- \$148 million for debt service; and
- almost \$38 million in compensation of the amusement tax.

Moreover, an agreement is in the works regarding regional distribution of the cost of Montréal's metro system.

I am announcing that, for the duration of the agreement, the government will assume part of the deficit of Montréal's metro system, to a maximum of \$11 million annually over a five-year period.

## □ **Québec City**

The Capitale-Nationale region is experiencing a period of exceptional prosperity. It ranks fourth among 20 metropolitan areas in Canada and the northeastern United States for economic vitality.

To enable Québec City to build on these results, \$25 million will be granted to it under the Strategy for the Development of Every Region, for preparation and implementation of an economic development plan.

As in the case of Montréal, the government has supported the national capital in various ways.

We have already announced our support for a number of structuring projects, including \$15 million to modernize the Jean-Lesage international airport and \$36.5 million to clean up the rivière Saint-Charles.

Québec City has a special role to play as the national capital. To enable it to fully assume that role, we raised the \$5-million subsidy it previously received by \$2.8 million a year.

Québec City also receives full compensation in lieu of property taxes regarding the Grand Théâtre and state museums on its territory. In addition, we granted it financial assistance to balance its budget in recent fiscal years.

We invested substantial amounts in the road network, including \$55 million for Autoroute Robert-Bourassa. For the coming year alone, my colleague, the Minister of Transport, announced an investment of over \$166 million in the Québec City area's road system.

Moreover, 2008 will mark an important time in our collective history. Québec City is making intensive preparations for its 400th anniversary. We allocated \$110 million for the organization of the event, including \$70 million for the Promenade Samuel-de-Champlain.

The government is pleased to support this event, which will be a source of pride for all Quebecers.

## Targeted support for certain sectors

The government also supports certain sectors—mining, tourism, agrifood and forestry—to help them cope with specific challenges.

### □ *Mining sector*

The mining industry is in a period of substantial growth due to high metal prices and Québec's favourable tax treatment stimulating mining exploration.

As of 2004, our government announced its decision to make the flow-through share system permanent.

In my last budget, I announced assistance of \$3 million to finance the work of Géologie Québec.

As part of the new strategy for the regions, I am announcing that we will allocate additional funding of \$7 million a year over the next three years for mining potential evaluation activities.

This extra funding will increase exploration in Québec and the participation of new mining companies from outside Québec.

Over the past four years, a dozen mining projects totalling more than \$1.5 billion were implemented. The government supported a number of them, including:

- production start-up at the Goldex gold mine near Val-d'Or; and
- the expansion of the Raglan mine in Québec's Far North, announced during the Premier's visit.

As a result of our government's action, Québec remains one of the best places in the world to invest in mining.

### □ *Tourism*

In support of the tourism industry, I have already had the pleasure of announcing various measures to assist with special events and the development of regional attractions.

I am pleased to announce that the new strategy for the regions provides for an additional allocation of \$5 million to the ministère du Tourisme for the support of festivals and tourism events.

As a reminder, I would point out that we are moving forward with construction of a cruise ship terminal at the A.-Lepage pier in Saguenay. The project represents a total investment of close to \$30 million, to be shared equally by the Ville de Saguenay, the federal government and the Québec government. We are continuing to study similar projects in other cities in Québec.

## ❑ **Agrifood sector**

The agrifood industry is going through a period of change. It must also meet the public's new expectations regarding food safety and quality, and environmental protection.

We have already taken steps to protect public health by investing \$79 million in the construction of new animal disease laboratories and the confinement of reared birds.

In addition, Québec farmers are faced with increasingly stiff competition on the local and international markets.

The profound changes affecting the agriculture industry raise many questions about its future. A number of today's policies were drafted in the mid-1960s. We believe a thorough examination of the situation is necessary.

The government will continue to assist farmers in coping with this difficult situation, through La Financière agricole. This corporation directed over \$625 million this year, nearly \$200 million more than last year, mainly toward farm income stabilization. The rapidly changing situation of La Financière agricole requires our attention.

The Commission on the future of agriculture and agrifood in Québec, set up last fall, will examine this issue, among others. The Commission's recommendations will lay the groundwork for a new vision for the development of agriculture and the agrifood industry.

Moreover, I am announcing that we will allocate \$25 million to the agrifood industry under the new strategy for the regions:

- \$10 million in financial assistance to help the fishing industry increase productivity; and
- \$15 million over five years to support leading food processing businesses step up their production capacity.

My colleague, the Minister of Agriculture, Fisheries and Food, will soon announce the terms of this financial assistance.

In addition, we are taking concrete action to further relieve the tax burden of farmers.

I am announcing, Mr. President, that the tax on capital exemption threshold for farming and fishing corporations is being raised from \$400 000 to \$5 million. As a result, 99% of these corporations will pay no tax on capital. This is a key measure for promoting investment in these activity sectors.

### □ **Forest industry**

The forest is the livelihood of many workers and the backbone of the economy in a number of regions.

We created the Commission for the study of public forest management in Québec, and are following up on its recommendations to ensure the sustainability of the resource.

In addition, our government backed the settlement of the softwood lumber dispute between Canada and the United States, through which Québec businesses recovered over \$950 million in countervailing and antidumping duties. The settlement ended a dispute that had lasted six long years.

The forest industry has been experiencing turbulent times for a number of years. Since 2003, we have intervened to help the workers and communities affected, and promote the diversification and consolidation of the industry.

The result was the announcement of assistance of \$1.4 billion over four years.

Benefits are already being felt:

- More than 6 500 workers are already availing themselves of the measures in place.
- Businesses have submitted projects totalling \$500 million.
- Plans for the construction and major repair of forest roads and bridges, worth almost \$80 million, have been submitted.
- Some 20 diversification and development contracts have been concluded with the RCMs.

To further assist forestry companies in modernizing their equipment, I am announcing that the capital tax credit of 15% for manufacturing and processing equipment is extended until December 31, 2012.

We are confident that the forest industry will be able to adapt to the new conditions and that it will come out of the current transition period stronger than before.

## 5. SUSTAINABLE DEVELOPMENT AND THE ENVIRONMENT

This year, Québec confirmed its position as a world leader in the area of sustainable development. Quebecers are very sensitive to environmental issues, and it is for them that we have taken concrete steps toward a green Québec.

### The new energy strategy

The new strategy—Energy to build the Québec of tomorrow—was presented by my colleague, the Minister of Natural Resources and Wildlife, last spring. The strategy announced that new impetus would be given to hydroelectric development, with \$25 billion in investments over the next 10 years.

The new energy strategy also emphasizes the development of wind power, another clean, renewable form of energy. In the coming years, \$6 billion will be devoted to this new energy sector.

These investments in renewable energy will be made in Québec's regions, creating 70 000 jobs there. Not only will we be able to meet our own energy needs, but we also generate surpluses for sale at a profit on neighbouring markets. Mr. President, that is the way to create prosperity.

### The fight against climate change

From a sustainable development perspective, our government has acted responsibly. The Action Plan on Climate Change tabled by my colleague, the Minister of Sustainable Development, Environment and Parks, has been recognized by environmental groups as an example to be followed in North America.

This ambitious plan comes with major financial commitments of \$1.2 billion over six years.

Our perseverance in our efforts to persuade the federal government to contribute to the funding of the Action Plan on Climate Change has yielded results. Last week, the Prime Minister of Canada and the Premier of Québec announced that nearly \$350 million would be earmarked for climate change in the next federal budget. This shows that the federal government recognizes Québec's leadership in the fight against climate change.

Automobiles emit large quantities of greenhouse gases. Last year, we introduced a QST refund of up to \$1 000 to encourage people to buy hybrid vehicles. I am announcing that, as of midnight tonight, we are raising the QST refund to \$2 000.

It is another concrete gesture in favour of the environment.

## **Restoration of contaminated sites**

There are currently over 400 contaminated sites in Québec. They are a threat to the environment and public health.

The government has decided to take responsible action in resolving this problem. I am announcing a national policy on contaminated sites. Through the policy, it will be possible to accelerate decontamination, better plan future disbursements, and protect the environment and public health.

Restoration will be spread over 10 years. The policy entails costs of \$333 million. It will have major economic benefits for the regions, to say nothing of the benefits for the environment, which are priceless.

Mr. President, our government has demonstrated long-term vision through its commitment to the environment and sustainable development.

## 6. THE NEED TO ARRIVE AT A DURABLE SOLUTION TO THE FISCAL IMBALANCE

Québec is an active partner in the Canadian federation. Since 2003, our Premier has innovated by promoting the Council of the Federation and having the principle of asymmetrical federalism recognized for the first time in the history of Canada. In addition, Québec is now recognized as a nation within Canada and has been granted the right to be represented at the Canadian permanent delegation to UNESCO.

Progress of \$14 billion has been made in regard to federal transfers. Our government has signed a number of important agreements with the federal government, in particular respecting transfers for health, infrastructure and family policy.

Québec has many important responsibilities. In most cases, they involve direct services to the public, such as health and education. Moreover, due to population aging, health spending is increasing more rapidly.

This is also true of the cost of the other direct services offered to the public by the Québec government. As a result, Québec's balanced budget is much more fragile than that of the federal government, which has budget surpluses year after year.

Our government has made every possible effort in the past four years to put forward Québec's position on the fiscal imbalance, be it in talks with the provinces and the federal government or before groups of experts who examined the issue.

The position defended by our government is not just in Québec's interest, it is also in the interest of all our partners in the federation.

- Above all, the federal government must implement a complete reform of the equalization program. This is a major issue.
- Second, the federal government must restore its contribution to post-secondary education and the other social programs to the level prior to the cuts of the mid-1990s. Through the efforts of our Premier, a consensus was reached in this regard between all the provinces as well as between all the main players in Québec.
- Third, federal spending power must be limited by the right to opt out with financial or fiscal compensation when the federal government uses its spending power in areas under provincial jurisdiction.

## □ **The main issue: equalization**

Why does Québec consider equalization reform the main issue in resolving the fiscal imbalance?

First of all, because equalization is not a federal transfer like the others. It is the only transfer whose objective is written into the Canadian Constitution. It is a fundamental objective, and I quote:

*“... ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation”.*

The current equalization program no longer meets that objective.

It should be remembered that, in the fall of 2004, the federal government radically changed the system by introducing a “closed envelope” approach with 3.5% annual indexation. As a result, the size of the equalization envelope no longer takes into account wealth differences between the provinces, which is incompatible with the program’s objective.

In early 2005, the federal government also concluded bilateral agreements with certain provinces that drove a bigger wedge between the equalization program and its fundamental principles.

This approach must be abandoned. The equalization program must be based on an adequate formula and must bring each receiving province up to the average fiscal capacity of the 10 provinces. To measure the fiscal capacity of the provinces, all their sources of revenue must be taken into account.

Finally, in-depth reform of the equalization system is fundamental because it is an essential condition for a redistribution of tax room between the federal government and the provinces.

We are on the verge of an important development concerning the fiscal imbalance. The federal government indicated that it would soon make a decision in this regard. We strongly encourage it to follow up on its commitments to Québec.

## CONCLUSION

Mr. President, the budget I am tabling today shows that we have many achievements to our credit and that we intend to add more.

We have listened to the people of Québec, in both the regions and large cities. Everywhere there was a desire for local populations to have more tools in order to take charge of the development and future of their community. We have given them that.

The government continues to play a crucial role in enhancing the quality of life of Quebecers and the environment in which they live.

We have also stayed the course with regard to the priorities we announced at the outset of our mandate. For each of them, we have taken the means to obtain durable results, refocusing the government on its essential missions and considerably improving the services provided to Quebecers.

The government's achievements have given us better health care, a better education system, infrastructures in better condition, a lighter tax burden, a more prosperous economy, a better quality of life for families and a positive environmental record. This progress must continue.

Our government has also taken determined action to facilitate wealth creation and increase prosperity throughout Québec. Success has already been achieved and this budget will lead to further progress in realizing Québec's full potential.

I am all the prouder of the achievements of our government in that they were accomplished within Quebecers' ability to pay.

With this budget:

- the government clearly positions itself to defend the interests of Québec;
- the government takes action to increase the prosperity of Montréal and Québec City and of all the regions;
- the government continues to implement measures to enhance the quality of life of Quebecers; and
- the government gives Québec the means to fulfil its ambitions.



Gouvernement du Québec  
**Summary of consolidated financial transactions**  
**2006-2007 fiscal year**  
(millions of dollars)

	<b>March 2006 Budget Speech</b>	<b>Preliminary results</b>
<b>BUDGETARY REVENUE</b>		
Own-source revenue	47 105	48 533
Federal transfers	10 796	10 956
<b>Total</b>	<b>57 901</b>	<b>59 489</b>
<b>BUDGETARY EXPENDITURE</b>		
Program spending	– 50 873	– 51 519
Debt service	– 7 205	– 6 990
<b>Total</b>	<b>– 58 078</b>	<b>– 58 509</b>
<b>NET RESULTS OF CONSOLIDATED ORGANIZATIONS</b>	<b>177</b>	<b>37</b>
<b>Deposit in the Generations Fund<sup>1</sup></b>		<b>– 500</b>
<b>Allocation to the budgetary reserve</b>		<b>– 500</b>
<b>CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE <i>BALANCED BUDGET ACT</i></b>	<b>0</b>	<b>17</b>
<b>Net results of the Generations Fund</b>	<b>74</b>	<b>575</b>
<b>CONSOLIDATED BUDGETARY BALANCE</b>	<b>74</b>	<b>592</b>
<b>CONSOLIDATED NON-BUDGETARY TRANSACTIONS</b>		
Investments, loans and advances	– 1 495	– 1 672
Capital expenditures	– 1 249	– 1 342
Retirement plans	2 257	2 405
Other accounts	– 82	– 1 273
<b>CONSOLIDATED NON-BUDGETARY REQUIREMENTS</b>	<b>– 569</b>	<b>– 1 882</b>
<b>CONSOLIDATED NET FINANCIAL REQUIREMENTS</b>	<b>– 495</b>	<b>– 1 290</b>
<b>CONSOLIDATED FINANCING TRANSACTIONS</b>		
Change in cash position	2 590	– 3 148
Net borrowings <sup>2</sup>	966	9 494
Retirement plans sinking fund	– 2 987	– 4 481
Generations Fund	– 74	– 575
<b>TOTAL CONSOLIDATED FINANCING TRANSACTIONS</b>	<b>495</b>	<b>1 290</b>

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

1 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

2 The preliminary results for 2006-2007 take into account pre-financing of \$5 955 million.

Gouvernement du Québec  
 Summary of consolidated financial transactions  
 2007-2008 forecast  
 (millions of dollars)

<b>BUDGETARY REVENUE</b>	
Own-source revenue	48 021
Federal transfers	12 241
<b>Total</b>	<b>60 262</b>
<b>BUDGETARY EXPENDITURE</b>	
Program spending	- 53 594
Debt service	- 7 229
<b>Total</b>	<b>- 60 823</b>
<b>NET RESULTS OF CONSOLIDATED ORGANIZATIONS</b>	<b>61</b>
<b>Use of the reserve to finance pay equity</b>	<b>500</b>
<b>CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT</b>	<b>0</b>
<b>Net results of the Generations Fund</b>	<b>446</b>
<b>CONSOLIDATED BUDGETARY BALANCE</b>	<b>446</b>
<b>CONSOLIDATED NON-BUDGETARY REQUIREMENTS</b>	<b>- 1 062</b>
<b>CONSOLIDATED NET FINANCIAL REQUIREMENTS</b>	<b>- 616</b>
<b>CONSOLIDATED FINANCING TRANSACTIONS</b>	
Change in cash position	5 955
Net borrowings	63
Retirement plans sinking fund	- 4 956
Generations Fund	- 446
<b>TOTAL CONSOLIDATED FINANCING TRANSACTIONS</b>	<b>616</b>

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

**Gouvernement du Québec**  
**Budgetary revenue of the Consolidated Revenue Fund**  
**2007-2008 forecast**  
(millions of dollars)

<b>OWN-SOURCE REVENUE</b>	
Income and property taxes	
Personal income tax	18 081
Health Services Fund	5 469
Corporate taxes <sup>1</sup>	4 565
	<b>28 115</b>
Consumption taxes	
Retail taxes	10 244
Fuel	1 700
Tobacco	679
Alcoholic beverages	438
	<b>13 061</b>
Duties and permits	
Motor vehicles	755
Natural resources	- 46
Other	179
	<b>888</b>
Miscellaneous	
Sales of goods and services	381
Interest	485
Fines, forfeitures and recoveries	431
	<b>1 297</b>
Revenue from government enterprises	
Hydro-Québec	2 545
Loto-Québec	1 329
Société des alcools du Québec	745
Other	41
	<b>4 660</b>
<b>Total</b>	<b>48 021</b>
<b>FEDERAL TRANSFERS</b>	
Equalization	6 462
Health transfers	3 631
Transfers for postsecondary education and other social programs	1 288
Other programs	860
<b>Total</b>	<b>12 241</b>
<b>TOTAL BUDGETARY REVENUE</b>	<b>60 262</b>

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on public services.

**Gouvernement du Québec**  
**Budgetary expenditure of the Consolidated Revenue Fund**  
**2007-2008 forecast**  
(millions of dollars)

<b>PROGRAM SPENDING BY DEPARTMENT</b>	
Affaires municipales et Régions	1 769.3
Agriculture, Pêcheries et Alimentation	692.3
Assemblée nationale	105.2
Conseil du trésor et Administration gouvernementale	626.3
Conseil exécutif	311.1
Culture et Communications	615.5
Développement durable, Environnement et Parcs	192.2
Développement économique, Innovation et Exportation	755.3
Éducation, Loisir et Sport	13 394.9
Emploi et Solidarité sociale	4 124.2
Famille, Aînés et Condition féminine	1 803.8
Finances (excluding debt service)	159.6
Immigration et Communautés culturelles	111.1
Justice	633.9
Persons designated by the National Assembly	63.6
Relations internationales	116.0
Ressources naturelles et Faune	446.7
Revenu	925.7
Santé et Services sociaux	23 609.8
Sécurité publique	988.9
Services gouvernementaux	85.7
Tourisme	132.5
Transports	2 127.9
Travail	31.5
<b>Sub-total</b>	<b>53 823.0</b>
Anticipated lapsed appropriations	- 150.0
Deferred appropriations	- 78.8
<b>Total</b>	<b>53 594.2</b>
<b>DEBT SERVICE</b>	
Direct debt service	4 991.0
Interest ascribed to the retirement plans	2 238.0
<b>Total</b>	<b>7 229.0</b>
<b>TOTAL BUDGETARY EXPENDITURE</b>	<b>60 823.2</b>

**Gouvernement du Québec**  
**Consolidated non-budgetary transactions**  
**2007-2008 forecast**  
(millions of dollars)

<b>INVESTMENTS, LOANS AND ADVANCES</b>	
Consolidated Revenue Fund	– 1 469
Consolidated organizations	– 223
<b>Total</b>	<b>– 1 692</b>
<b>CAPITAL EXPENDITURES</b>	
Consolidated Revenue Fund	
Net investments	– 330
Depreciation	230
	– 100
Consolidated organizations	– 1 854
<b>Total</b>	<b>– 1 954</b>
<b>RETIREMENT PLANS</b>	
Contributions	6 017
Benefits and other payments	– 3 899
<b>Total</b>	<b>2 119</b>
<b>OTHER ACCOUNTS</b>	
Consolidated Revenue Fund	11
Consolidated organizations	454
<b>Total</b>	<b>465</b>
<b>TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS</b>	<b>– 1 062</b>

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

Gouvernement du Québec  
**Consolidated financing transactions**  
**2007-2008 forecast**  
(millions of dollars)

<b>CHANGE IN CASH POSITION</b>	
Consolidated Revenue Fund	5 955
Consolidated organizations	—
<b>Total</b>	<b>5 955</b>
<b>NET BORROWINGS</b>	
Consolidated Revenue Fund	
New borrowings	3 849
Repayment of borrowings	— 5 348
	<u>— 1 499</u>
Consolidated organizations	
New borrowings	2 486
Repayment of borrowings	— 924
	<u>1 562</u>
<b>Total</b>	<b>63</b>
<b>RETIREMENT PLANS SINKING FUND</b>	<b>— 4 956</b>
<b>GENERATIONS FUND</b>	<b>— 446</b>
<b>TOTAL CONSOLIDATED FINANCING TRANSACTIONS</b>	<b>616</b>

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.