

2011-2012 BUDGET PRESS RELEASE No. 3

2011-2012 BUDGET

A Plan to Control Government Spending

Québec, March 17, 2011 – “Public spending needs will always exceed the available revenue necessary to meet them. Nevertheless, the government will meet its budget deficit reduction targets by slowing the growth of its spending,” declared Minister of Finance Raymond Bachand today in tabling the 2011-2012 Budget.

Efforts on the part of all government departments

Program spending will climb from \$59.8 billion in 2010-2011 to \$61.3 billion in 2011-2012, an increase of \$1 465 million, or 2.4%.

All government departments will have to take part in the collective effort to restore fiscal balance. More specifically, to meet the spending reduction target in 2011-2012:

- program spending by the Ministère de la Santé et des Services sociaux will rise by 3.6%;
- spending allocated to the Ministère de l'Éducation, du Loisir et du Sport will increase by 2.2%;
- that of the Ministère de la Famille et des Aînés will be raised by 6.1%;
- spending by all other departments will drop by 0.2%.

Growth in program spending in 2011-2012¹

(millions of dollars)

| | 2010-2011 | 2011-2012 | Change | |
|----------------------------|---------------|---------------|--------------|------------|
| | | | \$ million | % |
| Santé et Services sociaux | 28 116 | 29 141 | 1 025 | 3.6 |
| Éducation, Loisir et Sport | 15 213 | 15 541 | 328 | 2.2 |
| Famille et Aînés | 2 250 | 2 387 | 137 | 6.1 |
| Other departments | 14 240 | 14 215 | - 25 | - 0.2 |
| TOTAL | 59 819 | 61 284 | 1 465 | 2.4 |

¹ Excluding the expenditures of the Fund to Finance Health and Social Services Institutions, the Land Transportation Network Fund and the Tax Administration Fund.

Source: Secrétariat du Conseil du trésor.

Change in program spending since the 2010-2011 Budget

These expenditures do not include those of the new funds created by the government to better manage certain activities.

The expenditures:

- of the Fund to Finance Health and Social Services Institutions (FINESSS), which are financed by the health contribution introduced in last year's budget, will reach \$575 million in 2011-2012 and help bring health spending growth to 5%;
- of the Land Transportation Network Fund (FORT) for roads and public transit, which are financed by the fuel tax, registration fees and driver's licence fees, will reach \$2 392 million in 2011-2012.
- Of the Tax Administration Fund (FRAF) for the operation of the new Agence du revenu du Québec, which are financed out of tax revenues, will reach \$723 million in 2011-2012.

As planned when the funds were created, the expenditures of FORT and FRAF will henceforth be subtracted from the government's program spending and accounted for under the special funds, as in the case of FINESSS. In addition, the Act respecting the Agence du revenu du Québec stipulates that from now on the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was recorded under program spending.

As shown in the following table, when the expenditures of these three new funds and the expenditure for doubtful accounts are taken into account in program spending, such spending amounts to \$65.8 billion for 2011-2012, on a basis comparable to that of the 2010-2011 Budget.

On this comparable basis, the spending forecast in the 2011-2012 Budget is up by:

- 3.7% in 2010-2011 compared with the forecast of 2.8% in last year's budget;
- 3.1% in 2011-2012 compared with the forecast of 3.2% in last year's budget.

Change in program spending since the 2010-2011 Budget

(millions of dollars)

| | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Program spending in the 2010-2011 Budget | – 60 769 | – 62 561 | – 63 907 | – 65 282 | – 66 686 |
| <i>% change</i> | 3.8 | 2.9 | 2.2 | 2.2 | 2.2 |
| FINESSS expenditures | — | – 180 | – 575 | – 995 | – 1 445 |
| Program spending in the 2010-2011 Budget – Increased by FINESSS expenditures | – 60 769 | – 62 741 | – 64 482 | – 66 277 | – 68 131 |
| <i>% change</i> | 3.8 | 3.2 | 2.8 | 2.8 | 2.8 |
| Adjustments | | | | | |
| Actuarial valuations of retirement plans | — | – 356 | – 357 | – 358 | – 360 |
| Increase in the allowance for doubtful accounts | – 402 | – 402 | – 352 | – 352 | – 352 |
| Costs related to pay equity | — | — | – 217 | – 217 | – 217 |
| Agreement with child-care-service providers | — | — | – 137 | – 143 | – 143 |
| Other adjustments | – 408 | — | – 279 | – 155 | – 378 |
| Total adjustments | – 810 | – 758 | – 1 342 | – 1 225 | – 1 450 |
| Program spending in the 2011-2012 Budget – Increased by FINESSS expenditures – Basis comparable to that of the 2010-2011 Budget | – 61 579 | – 63 499 | – 65 824 | – 67 502 | – 69 581 |
| <i>% change</i> | 5.2 | 3.1 | 3.7 | 2.5 | 3.1 |
| Impact of FORT ¹ and FRAF ² | 2 290 | 2 600 | 3 115 | 3 544 | 3 961 |
| Impact of FINESSS ³ | — | 180 | 575 | 995 | 1 445 |
| Reclassification of the allowance for doubtful accounts against revenue | 900 | 900 | 850 | 850 | 850 |
| Program spending in the 2011-2012 Budget | – 58 389 | – 59 819 | – 61 284 | – 62 113 | – 63 325 |
| <i>% change</i> | 5.3 | 2.4 | 2.4 | 1.4 | 2.0 |

1 Land Transportation Network Fund.

2 Tax Administration Fund.

3 Fund to Finance Health and Social Services Institutions.

Adjustment to spending in 2010-2011 and 2011-2012

On a basis comparable with that of the 2010-2011 Budget, spending in 2011-2012 is \$758 million higher in 2010-2011 and \$1 342 million higher in 2011-2012. These adjustments can be explained by the following factors.

- For 2010-2011, this increase stems from:
 - the impact of the new actuarial valuations of public sector employee retirement plans, announced last fall in the *Update on Québec's Economic and Financial Situation*;
 - the increase in the cost of the allowance for doubtful accounts.
- As of 2011-2012, other factors must also be taken into account, particularly:
 - the additional costs related to pay equity for public sector employees;
 - the cost of the agreement with home child-care-service providers;
 - the impact of the measures announced in the 2011-2012 Budget.

These spending overruns, which are not due to a lack of spending control by government departments and organizations, have nonetheless been offset by the additional revenue generated by the solid performance of the economy in 2010.

Growth in government spending is slowing down

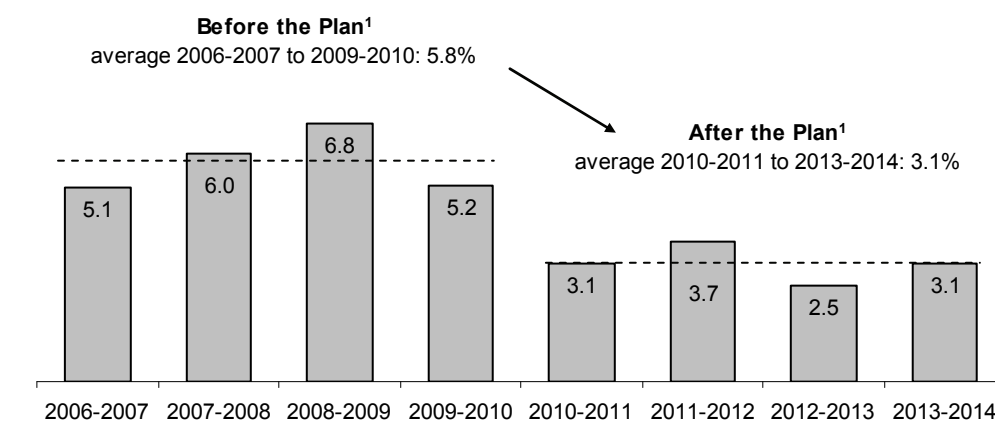
Despite these adjustments, the government has managed to ease the growth of its spending through its actions.

In the 2010-2011 Budget, program spending including expenditures financed by the health contribution deposited in the Fund to Finance Health and Social Services Institutions (FINESSS) stood at \$62.7 billion in 2010-2011, an increase of 3.2%, and was forecast to grow at an annual rate of 2.8% between 2011-2012 and 2013-2014, for an average annual growth rate of 2.9% from 2010-2011 to 2013-2014.

For the period from 2010-2011 to 2013-2014, the average annual growth in program spending in the 2011-2012 Budget, increased by the expenditures of the new funds and presented on a basis comparable to that of the 2010-2011 Budget, is now 3.1%, compared with the 2.9% annual growth forecast in last year's budget. This is a slowdown from the growth rate of 5.8% observed between 2006-2007 and 2009-2010.¹

Change in program spending growth according to the presentation used in the 2010-2011 Budget

(per cent)



¹ Plan to restore fiscal balance.

¹ For the period 2003-2004 to 2009-2010, program spending grew at an average annual rate of 5.0%.

Continuation of the government effort: a commitment upheld in 2010-2011

The slowdown in spending growth from 5.2% in 2009-2010 to 3.1% in 2010-2011 is due to the fulfilment of a commitment made by the government in last year's budget speech.

In the 2010-2011 Budget, the government undertook to assume \$6.9 billion, or 62%, of the \$11.2 billion in measures already identified in the plan to restore fiscal balance by 2013-2014.

Over the past year, all of the spending measures needed to deliver on that commitment were identified and announced. In addition, the \$1.4 billion objective set for 2010-2011 will be achieved.

For the year currently ending, the government had to make an effort of \$1 372 million and assume its share of the plan to restore fiscal balance, broken down as follows:

- \$972 million from spending control by departments and organizations;
- \$80 million from spending efforts and the increased productivity of public bodies;
- \$320 million from the fight against tax evasion and tax avoidance.

The government confirms that it has not only met its \$1 372-million objective, but has surpassed it by \$432 million compared to the figure announced. These additional efforts offset other adjustments to the government's financial framework. Moreover, this result made it possible to cover the additional costs of \$405 million related, in particular, to pay equity and the agreement with home child-care-service providers.

Government effort in 2010-2011

(millions of dollars)

| | 2010-2011 | | | 2013-2014 objective |
|--|--------------|-----------------------|------------|------------------------|
| | Planned | Achieved ¹ | Difference | |
| Departments and organizations | 1 152 | 1 557 | 405 | 6 649 |
| Additional funding for health and social services institutions | – 180 | – 180 | — | – 1 445 |
| Subtotal | 972 | 1 377 | | 5 204 |
| Public bodies | 80 | 107 | 27 | 530 |
| Fight against tax evasion and tax avoidance | 320 | 320 | — | 1 200 |
| TOTAL | 1 372 | 1 804 | 432 | 6 934 |

¹ The following pages discuss the results of the government efforts in detail.

Rigorous management of spending in 2010-2011

Departments and organizations made a total effort of \$1 377 million in 2010-2011, or \$405 million more than the target. This was achieved primarily through:

- parameters limiting wage and salary growth, including a freeze of total payroll (\$530 million);
- a 10% reduction in administrative operating expenditures (\$78 million);
- the limiting of budget growth to 2.4% (\$759 million).

The budget documents present a more-detailed report on the results of the measures taken by the government to achieve its objectives.

Spending efforts required of government departments and organizations

(millions of dollars)

| | 2010-2011 | 2013-2014 |
|--|--------------|--------------|
| | Achieved | Objective |
| IDENTIFIED SPENDING MEASURES | | |
| 1. Reduction in public administration costs | | |
| Parameters to limit wage and salary growth, including a freeze of total payroll | 530 | 1 639 |
| 10% reduction in administrative operating expenditures | 78 | 322 |
| Control over computer projects | — | 200 |
| Other measures | 6 | 391 |
| Subtotal – Reduction of public administration costs | 614 | 2 552 |
| 2. Review of program parameters | | |
| Business assistance | — | 298 |
| Reimbursed price of generic drugs | — | 190 |
| Consolidation of programs under a “one-stop” approach ¹ | — | 60 |
| Other measures | 4 | 444 |
| Subtotal – Review of program parameters | 4 | 992 |
| 3. Budget discipline | | |
| Budget growth limited to 2.4% in 2010-2011 and a reduction in the funding envelope allocated to new programs as of 2011-2012 | 759 | 1 660 |
| Subtotal – Budget discipline | 759 | 1 660 |
| TOTAL IDENTIFIED MEASURES | 1 377 | 5 204 |

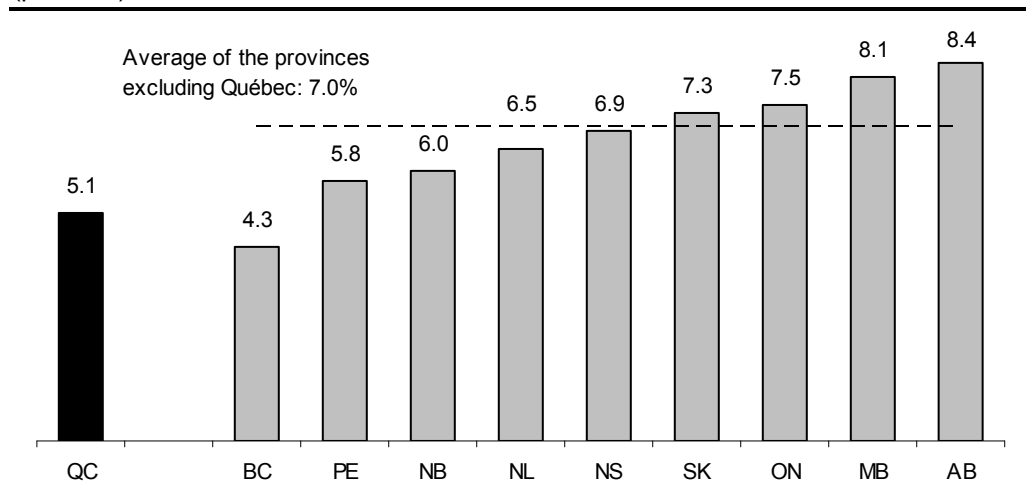
¹ In the following sectors: municipal, regional agencies, education, employment integration and French-language instruction for immigrants, and support for events.

Better control over consolidated expenditure

Québec and British Columbia are the two provinces that have best controlled their consolidated expenditure since 2003-2004. Consolidated expenditure includes not only program spending but also spending by special funds, non-budget-funded bodies and the health and social services and education networks.

Consolidated expenditure, which excludes debt service, rose an average of 5.1% per year in Québec from 2003-2004 to 2010-2011, compared with annual average growth of 7.0% in the other provinces over the same period.

Consolidated expenditure of the provinces excluding debt service^{1, 2} Average annual growth between 2003-2004 and 2010-2011 (per cent)



1 Most recent official document concerning the jurisdictions, dated March 10, 2011.

2 For Québec, debt service is the debt service of the consolidated revenue fund.

Sources: Provincial finance departments and Department of Finance Canada.

“A year ago, the government undertook to assume 62% of the effort required to restore fiscal balance. The most recent data confirm that we will deliver on that commitment for 2010-2011. We will continue on this path until 2013-2014. Québec has managed to reduce the growth in its spending in order to restore fiscal balance. It continues to rank among the governments doing the best job of controlling their spending,” the Minister of Finance concluded.

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