

2003 ♦ 2004 BUDGET

Budget Speech



*Delivered before the National Assembly
by Yves Séguin,
Minister of Finance,
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2003-2004 Budget

Budget Speech

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Introduction

Mr. President:

On April 14, Quebecers chose a new government and gave it a clear mandate to review the workings of the government and reduce their tax burden.

Our priorities were clearly stated in the inaugural address delivered last week. The address established the major orientations of our government and set forth our vision for the future of Québec. Today, we are able to work toward making that vision a reality thanks to its principal instigator, who has been championing it with lucidity and passion for over five years: the MNA for Sherbrooke and Premier of Québec.

This Budget is necessary in order to put the government on a more solid financial footing. Moreover, it will enable more enlightened debate on the major initiatives that will lead our society to make choices better suited to today's realities.

Quebecers want the government to refocus on its essential missions, provide them with top-quality services, create an environment conducive to their prosperity and oversee their security. The citizens of Québec want a government that ensures adequate funding of public services for us and for the generations to come. Lastly, they want a government that is organized in such a way that it is not always asking taxpayers for more.

As Minister of Finance, I am honoured to play an active role in carrying out the mandate entrusted to us by the public, and to work with all of my colleagues in defending the interests of Québec.

From the outset, I wish to pay tribute to the team of competent, hardworking men and women on whom I can count at the ministère des Finances. I would also like to underscore their remarkable work and unfailing professionalism.

But first, let me take this opportunity to explain why it was necessary to waste no time in bringing down this Budget.

On March 11, the previous administration tabled a budget and estimates that were not adopted by the National Assembly, since an election was called the next day.

Under our parliamentary system, government departments cannot use funds until the related estimates have been voted by the National Assembly. To date, one-twelfth of funding has been authorized by order in council each month so that departments and agencies can make essential expenditures.

This situation could not be allowed to continue. We had to move swiftly to enable the National Assembly to vote on the departments' funding, and thereby give the government the legal instruments necessary to manage the State.

More fundamentally, beyond these technical reasons, we had no choice but to table this Budget because, when we came to power, we noted that the government's financial position was far from the one that had been presented by the former government. In fact, it is probably a situation unique in the history of Québec that the financial data of a budget intended to guide government action for an entire year should be so far removed from reality so soon after being tabled before the National Assembly.

A committee of experts chaired by Guy Breton, a former auditor general of Québec, was mandated by the Premier, shortly after the April 14 election, to take stock of the government's finances. The committee found a \$4.3-billion budgetary shortfall for 2003-2004 and identified an amount almost as large for the following year. I am affirming that this shortfall is not the result of an accounting operation to adjust figures to suit political strategy. The shortfall was unforeseeable and the current government was definitely unaware of it.

There can now be no doubt: the draft Budget tabled by the previous government would have led directly to a hefty deficit or to substantial tax hikes. It contained new spending without providing for the necessary funding, and overevaluated federal transfers, thereby inflating revenue. Furthermore, it was based on overly optimistic economic forecasts and lacked transparency on important decisions such as the increase in vehicle registration fees.

The impact of the budgetary shortfall is compounded by the government's growing debt. The debt is a matter of great concern, and I will come back to it later.

It was imperative that this Budget be brought down. We must move swiftly to restore fiscal balance, bring the debt under better control and begin changing the way government works. I am announcing today that this Budget enables us to achieve a zero deficit for 2003-2004, with no tax increases for Quebecers overall.

I. Restoring balance and transparency to public finances

(a) Worrisome rise in the debt

In the days following the election, our government discovered that it had two major public-finance problems on its hands. First, a \$4.3-billion budgetary shortfall. Second, a debt that will grow by nearly \$3 billion in 2003-2004.

Thus, had we not intervened, the debt would have increased by more than \$7 billion this year.

But why does the debt increase even when there is a zero deficit?

For one thing, the government borrows to finance its capital expenditures. It also borrows to finance investments in, or loans to, government corporations.

This system, which results in an increase in the debt even when there is a zero deficit, is a matter for concern. Even though the government showed a zero deficit in the last five years, the debt rose \$10.9 billion, standing at \$108.6 billion as at March 31 of this year. On the basis of capital expenditures and the investments committed, the debt should total \$111.5 billion at the end of the year. If we do not reverse that trend, the debt could exceed \$115 billion as at March 31, 2005. We intend to do everything possible to halt that growth.

This situation is compounded by the accumulated deficit of certain institutions in the health sector. I will come back to this point later on.

When the debt increases, higher interest must be paid the following year. The government's ability to provide public services is therefore impaired. For example, a \$7-billion increase in the debt would mean additional interest payments of over \$100 per household per year.

Credit rating agencies, which assign a rating to financial market borrowers, have expressed concern about Québec's debt level on several occasions. Let there be no mistake: a zero deficit does not, in and of itself, guarantee an untouchable credit rating.

We must therefore adopt an action plan establishing debt-control guidelines. To that end, among other things, we will be reviewing, as of this year, the level of investment in government corporations.

(b) Zero deficit in 2003-2004

The rising debt makes it all the more necessary to eliminate the current budgetary shortfall, as it is no longer acceptable for any deficit whatsoever to be added to the debt.

A genuine shortfall

I am announcing today major turnaround measures to balance Québec's public finances. Anyone who doubted the figures being cited surely sees now that we are confronted by a genuine shortfall.

The adjustments announced in this Budget consist first in tightening spending by \$1.5 billion.

Second, revenue measures totalling another \$1.5 billion—\$800 million in tax-expenditure cuts and \$700 million from government corporations—are announced.

Third, to ensure that we achieve a zero deficit, we must use sooner the additional health funding received from the federal government. The \$809-million reserve that was to have been created out of these amounts will therefore not be created. Which is not to say that the health sector will be deprived of this amount: we will draw on our other sources of revenue to free up the necessary funding for the health sector next year.

It should be recalled that the release of the 2001 preliminary census data in March led to a substantial downward revision of federal transfer payments. As soon as I took up my position, I asked the Institut de la statistique du Québec to carry out a thorough review of the census data. At the same time, I began talks with the federal finance minister in this regard. During those talks, Statistics Canada announced that an error had been made in the preliminary population data. We therefore no longer have the data necessary to recalculate the initial bill. The result is an increase in our revenue projections of almost \$300 million. We are continuing to work with the federal government to find an acceptable solution to this matter. However, I managed to convince my federal counterpart that, in the event of a negative impact on Québec once the final data are released, the impact would essentially be spread over five years, as of 2004-2005.

Lastly, this Budget uses a more cautious, 2.5% economic growth projection that reflects, in particular, the lacklustre U.S. economy, the SARS outbreak and the recent appreciation of the Canadian dollar, to name only a few growth-inhibiting factors. The projection also takes into account the impact of the recent increase in the Canadian dollar on debt-service spending. Taken together, our adjustments to the economic and financial outlook result in a \$248-million improvement in the financial framework.

Fiscal 2004-2005

Despite the tough measures we are taking now to eliminate the budgetary shortfall in 2003-2004, there will still be a substantial shortfall next year. But the objective is clear: a zero deficit will be maintained next year and every year thereafter. Everything will be done to absorb the shortfall and give us the leeway we need to cut taxes. We will reorganize government. We will pursue talks with the federal government with a view to increasing equalization payments and the federal contribution to health spending. As I will explain later on, we will continue our examination of the taxation system and the fight against tax evasion.

(c) Greater transparency in public finances

The necessary reorganization of public finances, which is being undertaken today and will be ongoing, will be carried out with the utmost transparency. Quebecers are entitled to demand that we be clear and transparent about our financial position and the measures we will have to take to improve it. And we will be.

The government's budget is an important element in the functioning of our society and democracy. It is a pact between the State and citizens. It requires us to be rigorous. It also requires Quebecers to be fully involved in all stages of the budget process—from the pre-budget consultation to accountability.

Given that the Budget had to be prepared so quickly this year, a broad consultation was not possible, although several groups were heard. From now on, I intend to broaden and systematize pre-budget consultations. Every fall I will publish a consultation paper presenting the fiscal environment, components of revenue and expenditure forecasts and the principal issues relative to public finances. I want everyone who wishes to express his or her opinion to be able to do so in an appropriate forum throughout Québec. I will announce the terms and conditions of the consultation at the end of September.

Government financial statements certified by the Auditor General are crucial documents in terms of accountability. As of 2003-2004, I pledge to release them within six months following the end of the fiscal year—hence, much more rapidly than has been the case in recent years.

Transparency also means ensuring that the financial statements give a complete picture of the state of public finances. Currently, however, the financial results of the health and education sectors are not included in those of the government, even though the deficits accumulated by certain institutions could ultimately affect government debt.

We will assume our responsibilities in order to correct this anomaly, as the Auditor General has been requesting for several years. But before we can

apply new accounting practices in this regard, we must implement the required mechanisms regarding the management of these sectors and the oversight of their operations, which we hope to do in conjunction with the next Budget.

In the meantime, the financial information on these sectors will be published as a note in the government's financial statements, as of this year, greatly enhancing the quality of information provided to the public.

II. Making decisions now to secure our future

Our government pledged to all Quebecers that it would champion a new vision of the future. A vision of the future that leads us today to rethink the workings of government. We have to adopt new procedures, better suited to the 21st century, that will enable us to rise to the challenges facing us.

Three main objectives underlie the renewed vision we are proposing, and will guide us throughout our work:

- restructure the State around its essential functions in order to prioritize health and education and provide adequate funding for our public services so as to sustain them in the future;
- allow for initiative and entrepreneurship through better-targeted government intervention in the economy;
- improve efficiency, performance, transparency and integrity in regard to management and accountability.

We must also solve the problem of the budgetary shortfall, which is all too real and can be eliminated only through concrete measures with a fiscal impact. Thus, the choices in this Budget are a short-term response to an urgent situation, and must be implemented now. Other decisions requiring more in-depth analysis will be made in the coming months.

(a) Tightening of government spending

The first course of action in this Budget consists in tightening government spending.

Because of the constant pressure to increase the role and size of government, the State has become omnipresent and very costly. The Québec government is one of the most interventionist in North America and too expensive to operate.

Our objective is simple: truly respect Quebecers' ability to pay. Accordingly, the organization of government as well as all spending will have to be examined.

That exercise will have to be undertaken now, given the scale of the budgetary shortfall before us. This Budget therefore contains major initiatives to tighten government spending. These initiatives are threefold:

- First, we will reduce program spending by \$793 million compared with that announced on March 11.

- Then, we will take the necessary steps to absorb the \$354 million in overruns that the former administration failed to include in its total spending.
- We have also cancelled the \$400 million in initiatives provided for in the March 11 Budget.

These considerable tightening initiatives have enabled us to table a Budget providing for \$45 800 million in program spending, a 3.8% increase over last year. It should be pointed out that, although the increase is a sizeable one, it is still below nominal GDP growth and well below what might have been had we not intervened to slow that growth.

Priority has been given to health and education in the above program spending. Not only will there be no increase in the budgets of the other departments, but, overall, the budgets will be maintained at last year's levels.

My colleague the President of the Conseil du trésor will explain in greater detail the results of these efforts. I would like to thank her for her collaboration and congratulate her on her determination.

Together with our other Cabinet colleagues, she will see to it that our \$45 800-million expenditure budget is respected to the end of the year.

Making health and education a priority

In accordance with our commitment to Quebecers, we have made the health and education sectors a priority in this Budget.

Hence, the budget of the ministère de la Santé et des Services sociaux will total \$19 115 million for fiscal 2003-2004, an increase of \$1 287 million, or 7.2%, over the previous year.

As of this year, we will therefore be able to lay the groundwork for our strategy in this sector. That is why, on May 22, my colleague the Minister of Health and Social Services announced an action plan to begin making the shift we promised. He has been guaranteed the financial means to implement that plan.

The budget of the ministère de l'Éducation has been set at \$11 485 million for fiscal 2003-2004, an increase of \$397 million, or 3.6%, over spending in 2002-2003.

Making families a priority

Families are at the heart of our priorities. Accordingly, special attention is given to them in this Budget. We want to make it easier to balance family and work by making more daycare spots available, in keeping with taxpayers' ability to pay.

Our commitment is firm: we plan to make available 200 000 daycare spots by March 2006. But our approach will be predicated on four main principles:

- Accelerate, as of 2003-2004, the availability of daycare spaces.
- Allow parents more freedom of choice. Parents are the ones who can choose what is best for them, whether it be an early childhood centre, a family daycare centre or a private daycare centre.
- Ensure adequate funding for this program, in accordance with Quebecers' ability to pay. Daycare services currently cost \$1.3 billion a year.
- Allow the funding formula to lead to an increase in federal government contributions.

Given these principles, my colleague the Minister of Employment, Social Solidarity and Family Welfare will draw up a series of proposals for consultation purposes and will make recommendations to the government at the end of August.

But even before the end of the consultation process, I am announcing an additional investment of \$20 million, as of this year, to accelerate the availability of new daycare spots.

Supporting the most underprivileged

Our government's desire to adequately support the less affluent members of our society was also taken into account in preparing this Budget.

We are therefore taking concrete measures to make it easier for underprivileged youth to enter the labour market. We want to take up the major challenge of ensuring that as many young people as possible acquire initial vocational training, and enable them to get ahead in today's job market.

To that end, I am announcing today \$5 million in aid for young people receiving employment assistance who want to acquire their first work experience. This aid will consist of funding for pilot projects set up by businesses for that purpose.

For years, parents of children with autism or other pervasive development disorders have been waiting for adequate services to be made available.

We acknowledged the need to take action and committed ourselves to doing so. Acting on our commitments, we will be spending \$18 million primarily to set up intensive behaviour intervention services for children under six years of age, and to improve rehabilitation services for school-age children and adults. Support measures for these families, who are

faced with many challenges, will also be enhanced. It is a first step, and a significant effort given the current budgetary context.

In addition, the current housing crisis affects many of the most disadvantaged households in our society, including low-income families, single-parent families, families with children, the elderly and people with disabilities. Consequently, we have already brought in a new emergency assistance program to palliate the housing crisis. We also must find a long-term solution to these problems by taking steps to develop the affordable housing stock. I am confirming that my colleague the Minister of Municipal Affairs, Sports and Recreation will have an additional \$10.7 million at his disposal to step up government action in these areas.

Reviewing spending in the economy

Over the years, Québec has adopted levers of intervention for supporting and guiding the development of its economy. Today, it is legitimate to evaluate these tools.

We must change the focus of government intervention in order to meet Quebecers' most pressing needs. We are currently paying more in support for businesses than for daycare services. Our government undertook to make services to the public a priority. And we will do that.

The time has come to reassess all of our interventions in terms of our social priorities. To that end, we will examine the subsidies, loans and other forms of assistance granted to businesses, and maintain only those that are truly effective and essential. This exercise will be carried out by my colleague responsible for economic and regional development.

Our first concrete step is to reduce the funding of the FAIRE program. This is necessary not only because of the current budgetary context, but also to halt the escalation in commitments. The current commitments under the program will cost Quebecers \$1.8 billion over the next few years. This leaves the government that much less manoeuvring room.

Regarding the Deschambault aluminum smelter, we have decided not to go through with the project in its present form, as it is not in line with our objectives.

(b) Reduction in tax expenditures, and other measures to tighten the taxation system

Under our tightening measures, our second course of action, after spending, concerns tax expenditures and the various options for tightening the taxation system.

We know that the cost of tax assistance for businesses has more than doubled since 1997, reaching almost \$2 billion. In 2000-2001, the tax expenditures introduced in Québec to support businesses were double

those in Ontario. What is more, according to available data, without further government involvement, these tax expenditures would have continued to climb, growing by more than 9% within the next two years.

Moreover, the assistance granted is sometimes paid out over many years, reducing the government's long-term leeway. Commitments totalling more than \$3 billion over the next 10 years have already been made with regard to hundreds of businesses.

I am announcing today that we are tightening tax expenditures to businesses considerably, with a view to better targeting our assistance. These tightening measures will enable savings of \$759 million over a full year, representing a 27% reduction in tax assistance to businesses.

We first looked at whether we were granting undue benefits to individuals or businesses and taking risks in their stead. We also examined whether the advantages stemming from our action exceed the value of the benefits granted.

We will continue our examination in the coming months, going into greater depth, since one of the major initiatives announced by the Premier aims to reduce red tape and lighten the tax burden. A large number of these tax benefits are already being scaled back or eliminated in this Budget.

Elimination of designated sites

To start with, I tackled designated sites entitled to special tax benefits: E-Commerce Place, E-Commerce Zone, the Cité du multimédia, information technology development centres, the Centre national des nouvelles technologies de Québec, new economy centres, the Zone de développement des biotechnologies, innovation centres, the Cité des nutraceutiques, the Cité de l'optique, the Technopôle Angus and the Mirabel zone.

I do not intend, as Minister of Finance, to rewrite history. The previous government made its choices. Our party proposed other choices, and Quebecers decided. However, my duty is to examine the books, and we noted that the designated-sites model does not meet public-interest criteria. In general, our government does not believe in this outdated intervention model, which consists in imposing a geographic location rather than allowing entrepreneurs to use their judgment. This approach led to costs that were disproportionately high compared with the number of jobs actually created. A large percentage of the jobs we subsidized—up to 40% over 10 years—would have been created anyway. Furthermore, part of the assistance granted served only to pay the businesses' high rent or relocation costs.

I am therefore announcing that, as of today, we are terminating all tax benefits for businesses looking to set up in these designated sites. In so doing, we are eliminating no fewer than 12 different tax credits.

That said, I want to emphasize that the government will honour the commitments already made. Some businesses located in these sites have already borne substantial start-up costs in return for formal promises of government assistance.

The elimination of these tax benefits for designated sites will enable us to save more than \$1 billion by 2013.

Further details are given in the document *Additional Information on the Fiscal Measures*, an integral part of this new Budget. Moreover, this document enables the fiscal measures provided for in the March 11 Budget to be officially eliminated.

Abolishment of seven specific advantages

Seven other tax benefits targeting businesses are no longer justified. We have therefore decided to abolish them. This will ultimately result in savings of \$134 million.

Chief among these measures are the benefits granted to banks and savings and credit unions. I am announcing that their lower taxation rates and basic tax on capital exemptions have been eliminated.

The measure regarding 125% accelerated depreciation on investments in the manufacturing sector is also being abolished. The measure did not produce the anticipated results, primarily because it did not have enough of a financial impact on the businesses claiming it. From now on, manufacturing businesses in Québec will be entitled to the 30% annual depreciation rate in effect in the rest of Canada.

Lower rates for all tax credits and tax holidays

We also reviewed each of the rates of the various tax credits and tax holidays for businesses.

As a result of that exercise, I am announcing that all of the tax credits and tax holidays for businesses will be tightened. The goal is to rethink our fiscal policy and, at the same time, reduce our budgetary shortfall. Most of the credits and holidays will be decreased by 25%, while the most strategic ones will be cut by 12.5%, for annual savings totalling \$202 million.

No fewer than 22 tax credits, deductions and holidays will be 25% lower. They include those for international financial centres, multimedia titles and design activities, as well as the tax holiday for new corporations.

The various tax credits for Québec regions are among those that have been reduced by 25%. However, I want to stress that we will continue to grant these credits regarding mining exploration, maritime regions, the Vallée de l'aluminium and resource regions in general.

We believe, though, that special treatment should be accorded to the cultural sector, the foremost symbol of our identity. The rates for this sector will therefore be reduced less than the aforementioned ones. For example, the tax credit for film and television productions will be 39%, compared with the rate of 45% in effect to date.

The cultural industry will receive even better support this year, as a special \$10-million budget has been set aside to implement the Québec film policy.

Having worked on an improved fiscal status for artists with the culture minister of the time, I will be pleased to work with the new minister and begin talks with the cultural sector with a view to better recognizing our creators and artists.

Tax credits for research and development, which are crucial to Québec's economic growth, will be cut by 12.5%. However, even after this tightening measure, our support program for research and development will remain both generous and competitive. For example, the tax credits are fully refundable, which is not generally the case in other jurisdictions.

Tightening of tax benefits for heads of companies

Restrictions will be placed on certain benefits targeting primarily heads of companies and their senior executives. I am therefore announcing an initial tightening in the tax treatment of securities options, an increasingly widespread method of remunerating heads of companies and senior executives. From now on, securities options will be taxed at a rate 25% higher than the current rate. In addition, to curtail abuse, entertainment expenses will henceforward be capped at 1% of a business's annual sales. These two measures will ultimately represent savings totalling \$23 million.

We will continue our reflection on the tax benefit enabling a number of taxpayers to deduct financial expenses from their income.

Tightening of assistance for business capitalization

I am also taking certain measures to limit the cost of our tax assistance for business capitalization.

The main benefits in this regard are those granted to labour-sponsored funds and Capital régional et coopératif Desjardins. The amount of capital they will be able to obtain under the Québec tax credit will be reduced for one year. Moreover, we are broadening the investment criteria applicable to them in order to enhance their performance even more.

All other such measures—the Québec Stock Savings Plan (QSSP), Québec business investment companies and the Cooperative Investment Plan—will be re-evaluated. In the meantime, I am announcing a moratorium on the related tax benefits, except in the case of work cooperatives.

Lower tax on capital for SMEs

As of this year, we will act on our intention to reduce the tax on capital payable by SMEs. Beginning on January 1, 2004, all SMEs whose paid-up capital is less than \$600 000 will be exempt from the tax. As of that date, 70% of Québec businesses will no longer pay tax on capital. The current situation, however, obliges us to defer the planned rate reduction for the other businesses long enough to create the necessary financial leeway.

In addition, we are able to help businesses, SMEs in particular, through a measure that does not affect the government's financial framework. The requirement to devote 1% of their payroll to worker training does more to create problems for small businesses than it does to promote the training of their workers. Currently, only businesses whose payroll is less than \$250 000 are exempt from the requirements under the legislation governing labour training. Our government will table a bill raising that exemption to \$1 million.

Measures to ensure that everyone pays their taxes

It is important to ensure that all taxpayers fulfil their fiscal obligations and contribute to the funding of public services. That is why my colleague the Minister of Revenue will take vigorous measures to counter tax evasion and the underground economy. His department will step up its auditing activities, primarily with regard to businesses in the industrial and financial sectors. In addition, given the strong rate of new housing construction, the government will provide additional support to the Commission de la construction du Québec so that it can increase the number of inspections and investigations carried out. These measures will increase revenue by \$50 million.

(c) Improving the performance of government corporations

Higher profits

If transforming the State involves taking actions regarding government spending and tax expenditures, it also involves taking action regarding government corporations. Some of the corporations are already profitable, but they can be even more profitable. Others operate in the red, a situation that must be turned around.

We have already asked three major government corporations—Hydro-Québec, Loto-Québec and the Société des alcools du Québec—to improve their performance. They have agreed to meet additional net-profit objectives.

In the longer term, changing State intervention necessarily involves reassessing the various government corporations. To that end, the mission, orientations, intervention methods, capitalization and governance of these corporations will be analysed.

Better rules of governance

Further to the suggestions made by the new chairman and CEO of the Caisse de dépôt et placement du Québec, Henri-Paul Rousseau, whose collaboration is much appreciated, we will be carrying out a thorough review of the act governing the CDPQ over the next few months. Passed in 1965, the act has not undergone a major reform since the CDPQ was created. The review will take into account the new business governance standards adopted in the United States and Europe. It will redefine the CDPQ's structure, as well as that of the mandates entrusted to its management team and board of directors. The orientations established further to the review will serve as guidelines for the governance of other government corporations.

(d) New relationship with local and regional authorities

Our desire to use the talents and creativity of Quebecers will also lead us to greater decentralization. We want the citizens to take responsibility for the future of their communities and their regions.

For years, the inhabitants of outlying regions have been asking for more power and more financial resources regarding the levers enabling them to better ensure their development and realize their full potential.

Our government has therefore opted to promote decentralization, in an effort to achieve greater democracy and deliver public services more efficiently.

We have also undertaken to rethink our financial relationship with the municipalities.

In this regard, we intend to comply with the principles of the city contracts reached with Québec and Montréal. But we will be initiating talks with these cities to bring the amounts committed under these contracts more in line with our financial resources.

We also intend to honour the commitments made by the Québec government to certain municipalities regarding the funding of infrastructure projects. I am announcing today an additional \$130 million for such projects.

Moreover, we want to work with all of the municipalities to come up with a new approach that will meet their needs through financial policies with a greater structuring, enabling effect. To guide us in these discussions, my

colleague the Minister of Municipal Affairs, Sports and Recreation and I will release a working document in fall 2003 presenting the financial situation of Québec municipalities.

III. A new approach to financial relations with the federal government

Part of our Budget is covered by transfer payments from the federal government. There are a number of challenges facing us in this regard.

Only a year ago, I had the privilege of chairing the Commission on Fiscal Imbalance. So I can attest to the gravity of the problem before us. On the one hand, there is the federal government, whose revenue tends to increase more rapidly than its spending. On the other, there are the provincial governments, for which the reverse is true. Ottawa accumulates surpluses, while the provinces struggle to avoid a deficit.

To ensure that this problem is given its due attention, the Premier proposes the creation of the Fiscal Imbalance Office with our partners in the other provinces. The objective is to create a forum in which Québec and its Canadian partners can work together to find adequate solutions.

Another challenge before us is the renewal of the equalization program, to be completed on April 1 of next year. The program's complex calculations, along with its payment methods, pose major problems. The formula must be less subject to random variations such as those stemming from the 2001 census data. Similarly, the program must be more in line with the relative wealth of each province, in particular as regards property taxes. Québec has been asking for adjustments in this regard for over 20 years. I pledge to rapidly table a series of solutions to this major problem.

Conclusion

Even though this Budget restores a hard-won balance to public finances, I cannot say “mission accomplished”. To start with, there is still a substantial shortfall for next year. Second, this Budget is only the first step toward changing the role of the State.

The exercise in which I am asking Quebecers to participate is not merely one of balancing the books. We must go further and ask ourselves whether the money we collect from taxpayers is used soundly, and in an efficient, transparent manner.

To that end, we must adapt the State so that it is able to fulfil our ambitions. We must retarget its actions towards its essential missions. Rather than asking what the State can do for us, we should ask ourselves what we can do without it.

There is a broad consensus within our society: Quebecers pay too much income tax. This Budget contains no tax increases, and we reiterate our commitment to reduce the tax burden of Quebecers as of the next Budget. I know, as do my colleagues, just how rigorous we will have to be to accomplish that. But, for our government, that choice is a priority.

This Budget is a demanding one. Above all, it is a sound, honest one. It presents a challenge that we will rise to.

Thank you, Mr. President.

GOUVERNEMENT DU QUÉBEC

SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS¹

(in millions of dollars)

	2001-2002	2002-2003	
	Actual results	Financial situation as at March 11, 2003	Preliminary results
Budgetary transactions			
Own-source revenue	41 004	43 712	43 403
Federal transfers	9 305	9 108	9 303
Total revenue	50 309	52 820	52 706
Operating expenditure	- 43 976	- 45 540	- 45 570
Debt service	- 7 261	- 7 280	- 7 136
Total expenditure	- 51 237	- 52 820	- 52 706
Budgetary reserve			
Use of funds allocated to the reserve to finance spending and maintain a balanced budget	950	—	—
Budgetary surplus after reserve	22	0	0
Non-budgetary transactions			
Investments, loans and advances	- 1 142	- 1 966	- 1 801
Capital expenditures	- 995	- 1 642	- 1 471
Retirement plans	2 089	1 987	2 007
Other accounts	- 589	- 306	- 320
Non-budgetary requirements	- 637	- 1 927	- 1 585
Net financial surplus (requirements)	- 615	- 1 927	- 1 585
Financing transactions			
Change in cash position ²	132	- 2 043	- 2 279
Change in direct debt ²	3 623	5 628	5 505
Retirement plans sinking fund	- 3 140	- 1 658	- 1 641
Total financing of transactions	615	1 927	1 585

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.

1 On the basis of the 2003-2004 budgetary and financial structure.

2 The preliminary results for 2002-2003 take into account borrowings of \$3 945 million made in advance, whereas the actual results for 2001-2002 include \$1 154 million in borrowings made in advance.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS¹
2003-2004 FORECAST

(in millions of dollars)

Budgetary transactions

Revenue	54 949
Expenditure	– 54 949
Budgetary surplus (deficit)	0

Non-budgetary transactions

Investments, loans and advances	– 1 814
Capital expenditures	– 1 334
Retirement plans	2 041
Other accounts	– 716

Non-budgetary requirements **– 1 823**

Net financial surplus (requirements)

Consolidated Revenue Fund	– 300
Consolidated organizations	– 1 523
	– 1 823

Financing transactions

Change in cash position	4 454
Change in direct debt	– 278
Retirement plans sinking fund	– 2 353

Total financing of transactions **1 823**

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.

1 Based on the budgetary and financial structure in effect in 2003-2004.

GOUVERNEMENT DU QUÉBEC **BUDGETARY REVENUE** **2003-2004 FORECAST**

(in millions of dollars)

Own-source revenue	
Income and property taxes	
Personal income tax	16 891
Contributions to the Health Services Fund	4 640
Corporate taxes ¹	3 926
	25 457
Consumption taxes	
Sales	9 014
Fuel	1 638
Tobacco	915
	11 567
Duties and permits	
Motor vehicles	695
Alcoholic beverages	158
Natural resources ²	128
Other	178
	1 159
Miscellaneous	
Sales of goods and services	467
Interest	352
Fines, forfeitures and recoveries	386
	1 205
Revenue from government enterprises	
Société des alcools du Québec	570
Loto-Québec	1 464
Hydro-Québec	2 130
Other	- 222
	3 942
Consolidated organizations	2 035
Total own-source revenue	45 365
Federal transfers	
Programs	
Equalization	4 145
Canada Health and Social Transfer	4 133
EPF and other transfers related to fiscal arrangements	15
Other programs	895
Consolidated organizations	396
Total federal transfers	9 584
Total budgetary revenue	54 949

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 telecommunications, gas and electricity.

² Includes forest, mining and hydraulic resources.

**GOVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
2003-2004 FORECAST**

(in millions of dollars)

Operating expenditure	
Program spending	– 45 800
Consolidated organizations	– 1 637
Total operating expenditure	– 47 437
Debt service	
Consolidated Revenue Fund	– 6 862
Consolidated organizations	– 650
Total debt service	– 7 512
Total budgetary expenditure	– 54 949

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
2003-2004 FORECAST

(in millions of dollars)

Investments, loans and advances	
Consolidated Revenue Fund	– 1 513
Consolidated organizations	– 301
Total investments, loans and advances	– 1 814
Capital expenditures	
Consolidated Revenue Fund	
Net investments	– 336
Depreciation	214
	– 122
Consolidated organizations	– 1 212
Total capital expenditures	– 1 334
Retirement plans	
Contributions	5 190
Benefits and other payments	– 3 149
Total retirement plans	2 041
Other accounts	
Consolidated Revenue Fund	– 562
Consolidated organizations	– 154
Total other accounts	– 716
Total non-budgetary transactions	– 1 823

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

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
2003-2004 FORECAST

(in millions of dollars)

Change in cash position	
Consolidated Revenue Fund	3 945
Consolidated organizations	509
Total change in cash position	4 454
Change in direct debt	
Consolidated Revenue Fund	
New borrowings	2 608
Repayment of borrowings	– 3 900
	– 1 292
Consolidated organizations	
New borrowings	2 310
Repayment of borrowings	– 1 296
	1 014
Total change in direct debt	– 278
Retirement plans sinking fund	– 2 353
Total financing of transactions	1 823

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.