

**2006-2007 Budget
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2006-2007 Budget Speech

Shaping the Québec of tomorrow today

Assuming our responsibilities toward future generations

*"It is a budget marked by responsibility, a budget that commits us,
as never before, to future generations.
It is a budget that recognizes the aspirations of Quebecers."*

- Michel Audet

Québec, March 23, 2006 – "I am tabling today a responsible budget inspired by the same vision that has guided our government for three years now. We have refocused the State on its essential missions and put an end to non-targeted intervention. Today we are continuing our action, in accordance with four main objectives. Ongoing improvement of our health and social services system and our education system. Wealth creation in a sustainable development context. Infrastructure development and repair. Debt burden reduction to ensure greater inter-generational equity," affirmed Finance Minister Michel Audet.

Reaping the rewards of budgetary discipline

The government can take action today to reduce the debt burden because of the budgetary discipline it has steadfastly adhered to since 2003.

"During the period covered by the last three budgets, we stringently managed our finances to limit spending growth to an annual average of 3.7%. That performance is all the more remarkable in that, even though we controlled spending, we were able to deliver on our commitment to prioritize health, education, the reduction of Quebecers' tax burden and the modernization of the State and our infrastructure," indicated Mr. Audet.

The Generations Fund

"Because of the work accomplished, we can now go further. Today, we can accentuate our commitment to future generations. The government has therefore chosen to set a demanding target: reduce the debt to less than 25% of GDP by 2025 through the creation of the Generations Fund," continued the Finance Minister.

With the Generations Fund, the government will begin reducing the debt burden now. More than anything else, that will help improve equity toward future generations, but also to ensure sustainable public service funding.

Investing in our future and on behalf of young people

Although the government is pledging today to meet a new challenge to reduce the debt burden, it is remaining focused on Quebecers' priorities of health and education. Consequently, the 2006-2007 Budget Speech provides for the full increase in government spending to be allocated to health and education. For health alone, that represents \$1.3 billion more than last year, or 6.3% annual growth, and \$4.2 billion more since 2003.

An extra \$660 million, representing 5.4% growth, will be injected into education this year. This is an additional \$1.6 billion for education since 2003.

Moreover, to guarantee access to modern, safe sports facilities, the 2006-2007 Budget announces the creation of the Fund for the Development of Sport and Physical Activity. With the participation of the government's partners, the fund will generate total investments of \$500 million over the next five years.

Lastly, with a view to supporting young Quebecers in the pursuit of their ambitions, the Finance Minister pointed out that the Premier of Québec will soon unveil the new youth strategy, which will have a \$110-million budget over three years. As of 2006-2007, the strategy provides for measures totalling almost \$30 million so that each young person may follow his or her path, whether it be at school, in a training project, at work or through community involvement.

Investing in our culture and heritage

The 2006-2007 Budget enables the government's efforts to develop culture and heritage to be stepped up, by announcing the creation of the Québec Cultural Heritage Fund, which will receive annual funding of \$10 million.

Over the next five years, the fund will generate \$200 million in investments, with the contribution of its future partners.

The government will also make \$58 million in funding available for culture to implement capital investment projects for the development of municipal libraries and the enhancement of religious heritage.

Furthermore, again this year, the government plans to continue supporting artists and the various cultural institutions through specific initiatives. Funding of \$5 million will be earmarked for such institutions, which are also important tourist attractions, to support their operations.

"The government wants to promote our culture. Culture is at the heart of our identity and our international visibility, and is a powerful economic lever. The amounts I have just announced will be augmented by \$3 million in various fiscal measures aimed, in particular, at increasing artists' income-averaging annuity," affirmed Mr. Audet.

Facilitating work-family balance

In regard to work-family balance, the Finance Minister made a point of mentioning that over 30 000 daycare spaces had been added in three years. The objective of making 200 000 reduced-contribution daycare spaces available to Québec children has thus been attained.

With the 2006-2007 Budget, the government is continuing its action through two new measures:

- For parents who need child-care services outside of regular hours, funding of \$3 million has been earmarked to support drop-in daycare.
- To help parents with school-age children during spring break, the budget for child-care services offered by schools will be increased by \$4 million a year.

Construction and renovation of social housing

The 2006-2007 Budget Speech also announces investments of \$158 million for the construction and renovation of social housing.

“We are going to build 1 400 additional social housing units, thereby raising to 20 000 the total number of new dwellings built since we took office. We are going to invest an extra \$16 million over three years to renovate low-rental housing. Including the contribution of the federal government, this represents an investment of \$45 million. Lastly, we are going to allocate another \$29 million to the Société d’habitation du Québec, in order to offset the increase in costs and maintain the current rate of construction,” indicated the Finance Minister.

Continued reduction of the tax burden

Because fiscal competitiveness is an unavoidable issue for prosperity, the Minister of Finance announced that the deduction for workers introduced last year will be doubled as of January 1, 2007, and therefore increase from \$500 to \$1 000.

“With this measure, we are further easing Quebecers’ tax burden, bringing the relief to \$2.9 billion. We are pursuing our efforts to attain the objective of reducing the tax burden to the Canadian average,” affirmed Mr. Audet.

Targeting sustainable economic development

In addition to various measures aimed at enhancing the competitiveness of the economy by spurring innovation, in particular through a new reduction in the tax rate of SMEs from 8.5% to 8% as of March 24, 2006, the 2006-2007 Budget contains measures for the forest sector, with funding of \$925 million over four years, as well as measures for transportation infrastructure and equipment, with an investment of \$1.5 billion over the next three years.

The 2006-2007 Budget also announces substantial support for Québec farmers.

The agriculture sector is going through a transition period. It must take action to ensure the integrity of the food chain in the face of new public health risks, and invest to meet sustainable development requirements.

Consequently, the Finance Minister announced investments of \$79 million to protect public health, in particular for the construction of new animal disease laboratories and the confinement of reared birds, as well as a new, 30% refundable tax credit for the acquisition of pig manure treatment facilities. This tax assistance will help pig producers make the investments required to ensure a healthy environment.

A new partnership with the municipalities

In conjunction with the government's efforts regarding decentralization and regionalization, the Minister of Finance announced the conclusion of an agreement in principle on a new financial partnership with the municipalities. The agreement includes gradual reimbursement to the municipalities of the sales tax they pay on their purchases of goods and services.

"The new partnership is part of a common desire to make sweeping changes in the relations and procedures between the government and municipalities. By its scale and scope, it marks a new era in our relations with elected officials," affirmed Mr. Audet.

The 2006-2007 Budget also presents various measures for municipalities, in particular improved cost-sharing for Sûreté du Québec services and tools tailored to large cities.

"With this budget, the government is unequivocally making the inhabitants of the municipalities a priority. Just with the measures announced today, municipalities will receive almost \$1.7 billion more in the next five years, without taking into account the new financial partnership," pointed out the Finance Minister.

Pursuing decentralization and regionalization

Furthermore, the 2006-2007 Budget Speech provides for various measures to support regional vitality, in particular through increased funding for regional economic intervention funds (FIER) and local investment funds (FLIs), and an additional investment of \$12.5 million, as of this year, in the tourism partnership fund.

Discipline and transparency

Lastly, with the 2006-2007 Budget Speech, the Québec government commits to modernizing the governance of government corporations and fostering greater transparency in public finances.

Because government corporations manage a large share of our collective heritage, their administrators must meet strict, rigorous governance criteria. Certain government corporations have gone through difficult periods, due in part to rules of governance that are no longer adequate.

Accordingly, Mr. Audet has pledged to table, in the near future, a policy statement to modernize the governance of government corporations.

The Finance Minister noted that, in 2003, the government made a commitment to greater transparency so that Quebecers would be better able to evaluate the government's financial position.

Steps have already been taken toward greater budgetary transparency, but Mr. Audet pointed out that the government will innovate, as of this year, by publishing a monthly report that can be used to monitor changes in the financial position. Québec will therefore be the first province to publish information on its financial activities with such frequency.

To conclude, the Finance Minister defined as follows the 2006-2007 budget tabled today: "A budget that reflects our determination to do better for the future of Québec. In short, a budget that outlines the road to a better, more responsible Québec heading toward greater prosperity."

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