

BUDGET 2012-2013

# BUDGET PLAN

## Paper inside pages



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Budget 2012-2013  
Budget Plan

Legal deposit - Bibliothèque et Archives nationales du Québec  
March 2012

ISBN 978-2-551-25174-2 (Print)

ISBN 978-2-550-64246-6 (PDF)

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# **BUDGET PLAN**

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# Section A

## THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

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## HIGHLIGHTS

The government is tabling Budget 2012-2013, which confirms the return to fiscal balance as of 2013-2014. The budget also ensures the funding of public services, continues efforts to reduce the debt for future generations and secures the economic development of Québec.

### ❑ The economy continues to grow

After amounting to 1.6% in 2011, economic growth will continue at a rate of 1.5% in 2012 and will accelerate to 1.9% in 2013.

### ❑ The budgetary situation has improved for the third year in a row

In 2009-2010 and 2010-2011, deficits were \$1.1 billion lower than forecast per year.

For 2011-2012, the anticipated deficit is revised downward by \$500 million in relation to the objective forecast last year and should thus stand at \$3.3 billion.

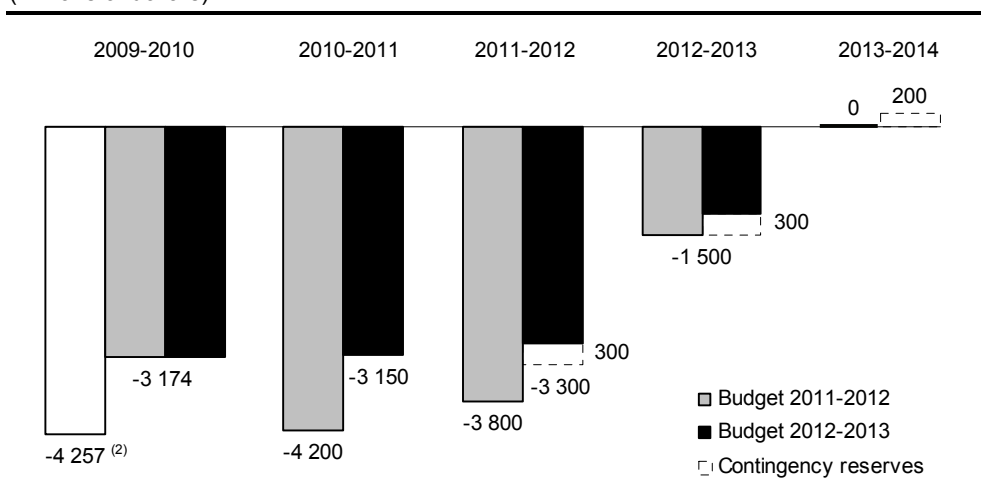
In 2012-2013, the deficit objective of \$1.5 billion will be maintained, in accordance with the *Balanced Budget Act*.

The return to a balanced budget will be achieved as of 2013-2014.

Contingency reserves totalling \$800 million are included in the budgetary balances for 2011-2012 to 2013-2014 to help face unforeseen events.

CHART A.1

### Budgetary balances from 2009-2010 to 2013-2014<sup>(1)</sup> (millions of dollars)



(1) Budgetary balances within the meaning of the *Balanced Budget Act*.

(2) The budgetary deficit of \$4 257 million corresponds to that presented in Budget 2010-2011.

## ❑ Spending reduction effort achieved for the second year in a row

This budget confirms that the government's spending reduction effort provided for under the plan to restore fiscal balance will be achieved for the second year in a row, in 2011-2012.

— This effort has reached \$2.7 billion over the past two years.

## ❑ Developmental action for a strong economy

The government is ensuring that it achieves its spending efforts while maintaining the funding of public services. The supply of services has even been increased in priority sectors such as health, education, family and transportation.

With this budget, the government is continuing to control its spending while taking steps to ensure the funding of priority public services and putting in place targeted actions for a strong, wealth-creating economy. In this regard, Budget 2012-2013 presents:

- the targeted actions taken this year to support economic and social development;
- follow-up on measures already implemented as well as new initiatives to tap into the full potential of our natural resources;
- funding plans for some of the government's main missions, namely, health, university education, roads and public transit, as well as the forest;
- fiscal policy directions for keeping public finances sound after the return to fiscal balance in 2013-2014.

## ❑ A sustainable path for sound public finances

The return to a balanced budget next year is the only sustainable path for sound public finances in the long term.

Moreover, in accordance with the commitments made to reduce the debt, the government will continue to make deposits as planned in the Generations Fund and will allocate additional sums to it as of 2014. In 2016-2017, \$2.5 billion will be deposited in the Generations Fund.

TABLE A.1

### Balanced Budget Act (millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>SURPLUS (DEFICIT)</b>	<b>-2 390</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
Deposit of dedicated revenues in the Generations Fund	-760	-848	-911	-1 041	-1 575	-2 030	-2 504
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>-3 150</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.



## INTRODUCTION

This section of the Budget Plan provides an overview of the government's economic and fiscal policy directions.<sup>1</sup>

The first part discusses the efforts to restore fiscal balance. It presents:

- the government's financial position, which has improved in relation to that presented a year ago;
- the change in government spending, which is based on both spending control in all government departments and the natural increase in the supply of public services in priority sectors.

The second part discusses the developmental measures put forward to foster a strong wealth-creating economy, as well as the government's budgetary actions.

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<sup>1</sup> Throughout this section, the budgetary data for 2010-2011 are actual, those for 2011-2012 are preliminary and those for 2012-2013 and subsequent years are forecasts.



# 1. CONTINUING EFFORTS TO RESTORE FISCAL BALANCE

With the tabling of this budget, the government is embarking on the third year of the plan to restore fiscal balance. It is staying the course towards eliminating the deficit in 2013-2014 and achieving its debt reduction objectives by 2025-2026. The strategy adopted since 2009 has made it possible to position Québec favourably from both an economic and a budgetary standpoint.

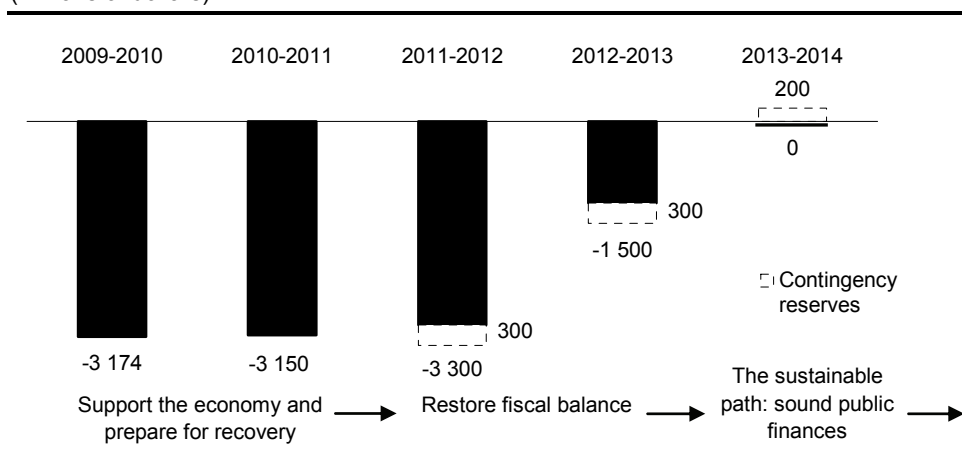
First of all, in 2009 and 2010, the rapid implementation of the plan to support employment and prepare for economic recovery bore fruit, enabling Québec to be among the first to regain and even largely surpass its pre-recession employment level.

Once the recovery was well under way, the plan to restore fiscal balance established a budgetary path for balancing revenue and expenditure while ensuring the long-term funding of public services, especially in health care, education and infrastructure renewal.

With this budget, the government is pursuing its commitment to bring its budget back into balance as of 2013-2014 while fostering long-term economic development.

CHART A.2

## Budgetary balance from 2009-2010 to 2013-2014<sup>(1)</sup> (millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

## 1.1 The economic and budgetary situation

The government is staying the course to restore fiscal balance in 2013-2014 even though the world outlook entails more moderate economic growth in 2012 and 2013 than that forecast last year.

### 1.1.1 The Québec economy continues to grow

With a 1.6% increase in real gross domestic product (GDP), Québec's economy continued to expand in 2011 in the context of the weaker-than-expected economic growth of the United States, Europe and the global economy. The good performance of domestic demand, particularly consumption and business investment, sustained economic activity.

The global economy will continue to expand in 2012, although at lower rate than forecast a year ago, notably because of the temporary recession anticipated in Europe and a more-moderate-than-expected recovery in the United States, Québec's principal trading partner.

Québec's real GDP growth is expected to continue, reaching 1.5% in 2012 and then accelerating to 1.9% in 2013, in pace with the world economy.

- Sustained by the US economy, which is gradually becoming more robust, and by demand from emerging economies for natural resources, exports will make a positive contribution to growth.
- Domestic demand will continue to increase under the impetus of business investment, which will mitigate the impact of the slowdown in the growth of government spending.

On average, economic growth from 2011 to 2013 is expected to be 0.5 percentage points lower than forecast in Budget 2011-2012. Nonetheless, the current forecast is similar to that presented in last fall's *Update on Québec's Economic and Financial Situation*.

TABLE A.2

#### Economic growth in Québec

(real GDP, annual percentage change)

	2010	2011	2012	2013	Average 2011-2013
Budget 2011-2012	3.0	2.0	2.2	2.3	2.2
Update – Fall 2011	2.9	1.6	1.6	2.0	1.7
Budget 2012-2013	2.5	1.6	1.5	1.9	1.7

Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

## 1.1.2 The government's financial position

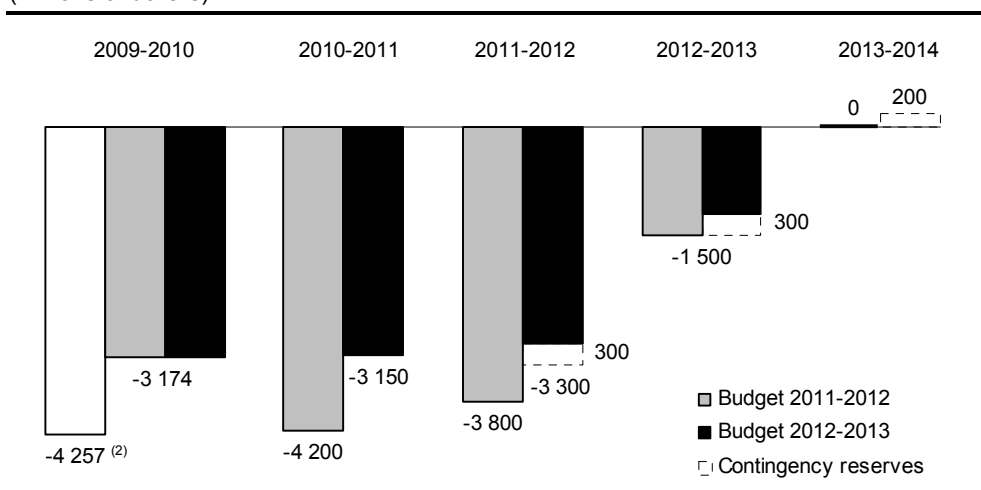
The government's budgetary objectives are being met over the time horizon for restoring fiscal balance.

- For 2009-2010, the budgetary deficit of \$3.2 billion, recognized in the public accounts, is \$1.1 billion less than the figure presented in Budget 2010-2011.
- For 2010-2011, the budgetary deficit of \$3.2 billion, recognized in the public accounts, is also \$1.1 billion less than the figure forecast in Budget 2011-2012.
- For 2011-2012, the budgetary deficit is estimated at \$3.3 billion, a decrease of \$500 million over last year's budget.
- For 2012-2013, the budgetary deficit objective of \$1.5 billion is being maintained in accordance with the target provided for under the *Balanced Budget Act*.
- Lastly, the return to fiscal balance is still forecast as of 2013-2014, as stipulated in the Act.

As a precaution, the financial framework incorporates contingency reserves of \$800 million, i.e. \$300 million in 2011-2012, \$300 million in 2012-2013 and \$200 million in 2013-2014.

CHART A.3

### Budgetary balances from 2009-2010 to 2013-2014<sup>(1)</sup> (millions of dollars)



(1) Budgetary balances within the meaning of the *Balanced Budget Act*.

(2) The budgetary deficit of \$4 257 million corresponds to that presented in Budget 2010-2011.

## □ Adjustments compared with Budget 2011-2012

For 2011-2012, the government forecasts a \$500-million improvement in the budgetary balance, with the budgetary deficit falling from \$3.8 billion to \$3.3 billion.

For subsequent years, the government still plans to achieve the objectives set in March 2011.

TABLE A.3

### Adjustments to the budgetary balance since Budget 2011-2012<sup>(1)</sup> (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>BUDGETARY BALANCE IN BUDGET 2011-2012</b>	<b>-3 800</b>	<b>-1 500</b>	<b>—</b>
<b>Adjustments to expenditure</b>			
Wage adjustments related to GDP	—	-142	-142
Increases in education	-100	-100	-100
Budget 2012-2013 measures			
Maintenance of existing programs	—	-65	-67
New spending initiatives	—	-86	-117
Other items	—	-136	—
Debt service	342	409	507
<b>Total adjustments to expenditure</b>	<b>242</b>	<b>-120</b>	<b>81</b>
<b>Adjustments to revenue</b>			
Own-source revenue	-81	-360	-334
Mining duties and forest royalties	109	131	108
Federal transfers excluding compensation for the harmonization of the QST with the GST	136	-140	-259
Budget 2012-2013 measures	—	-56	-115
<b>Total adjustments to revenue</b>	<b>164</b>	<b>-425</b>	<b>-600</b>
<b>Adjustments to consolidated entities</b>	<b>94</b>	<b>212</b>	<b>277</b>
Compensation for the harmonization of the QST with the GST	—	733	1 467
Deferral to 2014-2015 of measures to be identified	—	-300	-1 025
Increase in contingency reserves	—	-100	-200
<b>TOTAL ADJUSTMENTS</b>	<b>500</b>	<b>—</b>	<b>—</b>
<b>BUDGETARY BALANCE IN 2012-2013</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

## ■ Maintenance of the objectives for 2012-2013 and 2013-2014

Overall, the additional program spending planned for 2012-2013 and 2013-2014 in the financial framework will be offset by the downward revisions to debt service.

Accordingly, the downward adjustment of \$409 million in 2012-2013 and \$507 million in 2013-2014 in debt service will offset:

- the reserve of \$142 million as of 2012-2013 for wage adjustments related to GDP. This revision comes from the reserve in respect of the anticipated enhancement of the pay parameters for public and parapublic sector employees linked to better economic performance in 2010. This reserve will be reviewed in the light of economic data for 2010 and 2011, which will be published in fall 2012;
- annual revisions of \$100 million in education, including, in particular, the upward adjustment to clienteles, as well as the cost of the collective agreements;
- other items totalling \$136 million in 2012-2013, including the impacts of the Justice Access Plan,<sup>2</sup> the production of seedlings and the additional costs related to the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry.
- the 2012-2013 budget measures which include the maintenance of existing programs totalling \$65 million, as well as \$86 million in new initiatives.

Moreover, the additional revenue from mining duties and forest royalties and the agreement on the harmonization of the Québec sales tax (QST) with the goods and services tax (GST) will enable the government to stay the course towards the objectives set in the last budget and to:

- offset the other revenue adjustments stemming mainly from the less favourable world economic outlook;
- defer until 2014-2015 the identification of new measures to maintain fiscal balance so as to ensure continued economic growth;
- increase the contingency reserve by \$100 million in 2012-2013 and \$200 million in 2013-2014.

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<sup>2</sup> The Justice Access Plan is a series of measures that will be implemented gradually to help simplify the judicial process and reduce delays while increasing the ability of the courts to hear cases and render judgments.

## ❑ Improvement in the budgetary situation over five years

The present budget indicates that the deficits projected over the time horizon for restoring fiscal balance are lower than those indicated in Budget 2011-2012.

The accumulated deficits for the period from 2009-2010 to 2013-2014 amount to \$11.1 billion.

- This is a \$1.6-billion improvement over the deficits forecast in March 2011.
- In addition, the budgetary balances for 2011-2012 to 2013-2014 incorporate contingency reserves totalling \$800 million.

Accordingly, before the addition of contingency reserves in the financial framework, the reduction in anticipated deficits over this five-year period would total \$2.4 billion compared with those forecast last year.

TABLE A.4

### Reduction in anticipated deficits

(millions of dollars)

<b>Total deficits from 2009-2010 to 2013-2014</b>	
Budget 2011-2012	12 674
Less: Budget 2012-2013	11 124
<b>Reduction in anticipated deficits</b>	<b>1 550</b>
Plus: Contingency reserves - Budget 2012-2013	800
<b>REDUCTION IN ANTICIPATED DEFICITS BEFORE THE ADDITION OF CONTINGENCY RESERVES</b>	<b>2 350</b>



## ❑ Smaller deficits than our main partners

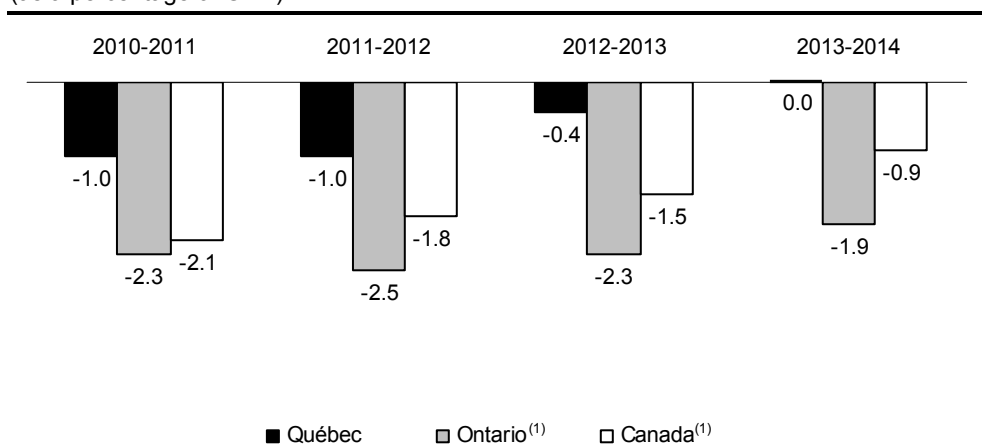
Québec's deficit of \$3.3 billion for 2011-2012, representing 1.0% of GDP, compares favourably with the deficits of its main economic partners. Ontario, for example, is forecasting a deficit of \$16.0 billion, or the equivalent of 2.5% of its GDP, for the same year. In comparison, the federal government is forecasting a deficit of \$31.0 billion, or the equivalent of 1.8% of Canada's GDP.

The \$1.5-billion deficit anticipated for 2012-2013 represents 0.4% of Québec's GDP. By way of comparison, Ontario's deficit stands at \$15.2 billion, i.e. 2.3% of its GDP, and the federal government's deficit should reach \$27.4 billion, i.e. 1.5% of its GDP.

Moreover, Québec still expects to balance its budget in 2013-2014, four years sooner than Ontario (2017-2018) and two years before the federal government (2015-2016).

CHART A.4

### Budgetary balances from 2010-2011 to 2013-2014 (as a percentage of GDP)



(1) The budgetary balances as of 2011-2012 are taken from the fall 2011 economic and financial updates for these jurisdictions.

Sources: Ministère des Finances du Québec, Ontario Ministry of Finance and Department of Finance Canada.

## Change in budgetary balances from 2011 to 2013 for certain governments

Several governments will continue to run high budgetary deficits for the next two years.

Moreover, all of the government in the table below foresee an improvement in their budgetary situation by the end of 2013, thanks to measures implemented to reduce their deficits as well as economic growth that should gradually accelerate.<sup>1</sup>

### Budgetary balances<sup>(1)</sup> (as a percentage of GDP)

	2011-2012	2012-2013	2013-2014
Québec – Québec government	-1.0	-0.4	0.0
Ontario – Ontario government	-2.5	-2.3	-1.9
Canada – Federal government	-1.8	-1.5	-0.9
<b>Other jurisdictions<sup>(1)</sup></b>			
United States – Federal government	-8.7	-8.5	-5.5
United Kingdom	-8.4	-8.4	-7.6
France	-5.4	-4.5	-3.0
Germany	-1.0	-1.0	-0.7
Japan	-9.4	-9.3	-7.2
Italy	-3.9	-2.3	-1.2
Spain	-8.5	-5.8	-5.3
Australia	-2.5	0.1	0.1
Finland	-1.0	-0.7	-0.7
Denmark	-3.8	-5.1	-2.1
Greece	-8.9	-7.0	-6.8
<b>Euro area (17 countries)</b>	<b>-4.1</b>	<b>-3.2</b>	<b>-2.8</b>
<b>G7</b>	<b>-7.9</b>	<b>-7.3</b>	<b>-6.5</b>

(1) The budgetary balances are presented on a fiscal-year basis for each jurisdiction. The budgetary balances concern all levels of public administration (federal, provincial and local), except in the case of the United States.

Sources: Budget documents of various countries, European Commission (EcoFin) and OECD's Economic Outlook.

<sup>1</sup> For a detailed explanation of the measures implemented by certain governments, see Appendix 1 in this section.

### 1.1.3 A balanced budget as of 2013-2014

Québec was one of the first advanced economies to implement a plan to restore fiscal balance. By the end of 2011-2012, the objectives of this plan will be met for the second year in a row.

#### ❑ Continued implementation of the plan to restore fiscal balance

In Budget 2012-2013,<sup>3</sup> the government has determined that \$11.2 billion in measures will have been required to offset the difference between revenue and expenditure between 2009-2010 and 2013-2014. All of the measures needed to achieve this effort have been identified. The government has undertaken to supply 62% of the total effort planned, or \$6.9 billion by the end of 2013-2014, while individuals and businesses must supply 38% of the effort, or \$4.3 billion.

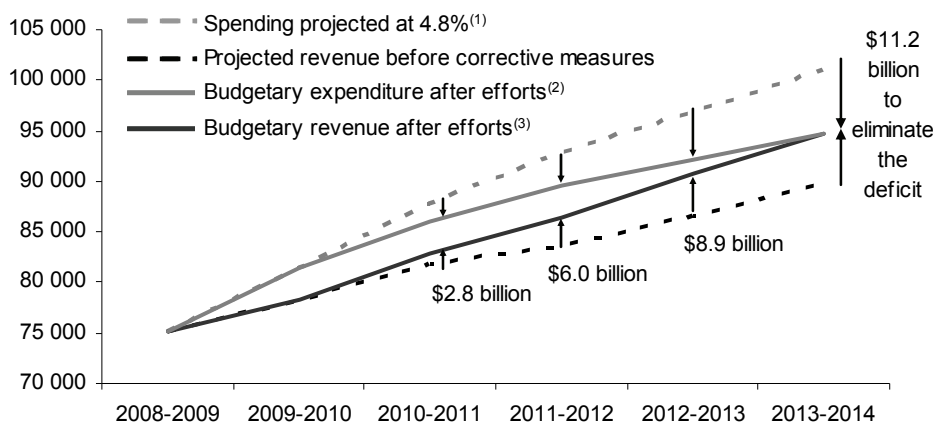
- This budget confirms that more than half of the effort required, i.e. \$6.0 billion, will have been achieved by the end of 2011-2012.
- The cumulative effort will reach \$8.9 billion in 2012-2013.

The financial framework does not require any additional measures to be identified to achieve a balanced budget by 2013-2014.

CHART A.5

#### Impact of the plan to restore fiscal balance on the change in consolidated revenue and expenditure in Budget 2012-2013

(millions of dollars)



(1) This expenditure includes annual program spending growth of 4.8%, i.e. the average annual growth rate of such spending over the period 2003-2004 to 2009-2010 contained in Budget 2010-2011.

(2) This expenditure takes into account spending efforts, deposits in the Generations Fund and contingency reserves.

(3) This revenue includes revenue efforts, related in particular to the fight against tax evasion, and the impact of the stabilization reserve.

<sup>3</sup> For a more detailed explanation of the plan to restore fiscal balance and follow-up on the government effort, see Appendix 1 of this section.

Two years after the launching of the plan, cumulative government efforts amount to \$3.5 billion.

- The spending reduction efforts of government departments and organizations reached \$2 664 million. These efforts stem from, in particular:
  - pay parameters limiting spending on remuneration, including a payroll freeze in departments and organizations;
  - a 10% reduction in administrative operating expenses;
  - limited growth in program spending.
- Efforts by public bodies reached \$272 million.
- The objectives of \$555 million in revenue from the fight against tax evasion should be met.<sup>4</sup>

TABLE A.5

**Plan to restore fiscal balance**

**Results achieved as at March 31, 2012<sup>(1)</sup>**

(millions of dollars)

	Government				Taxpayers			Total
	Departments and organizations	Public bodies	Tax evasion	Subtotal	Individuals <sup>(1)</sup>	Enterprises and other	Subtotal	
Objectives <sup>(2)</sup>	2 289	240	555	3 084	2 128	377	2 505	5 589
Results achieved	2 664	272	555	3 491	2 128	377	2 505	5 996
<b>Difference</b>	<b>375</b>	<b>32</b>	<b>—</b>	<b>407</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>407</b>

(1) These figures include the health contribution.

(2) Objectives as at March 31, 2012.

<sup>4</sup> For a more detailed explanation of the measures to combat tax evasion, see Section F of the Budget Plan.

## **1.2 The government's five-year financial framework**

The government's financial framework confirms that fiscal balance will be restored as of 2013-2014. In subsequent years, as stipulated in the Balanced Budget Act, fiscal balance must be maintained.

The balance of the measures to be identified in order to maintain a balanced budget as of 2014-2015 amounts to \$875 million, or \$150 million less than the figure forecast in Budget 2011-2012, i.e. \$1 025 million.

### **□ Return to a balanced budget in 2013-2014**

The measures introduced in recent years will lead to more rapid growth in revenue than in spending by 2013-2014, making it possible to gradually restore fiscal balance.

- From 2010-2011 to 2013-2014, budgetary revenue will increase by an average of 5.0% per year.
- Over the same period, budgetary expenditure will climb by an average of 2.6% annually.

Starting in 2014-2015, growth in budgetary expenditure will return to a rate similar to that of growth in budgetary revenue, i.e. about 3.0% per year.

### **□ Intensification of efforts to reduce the debt**

The government is continuing with its debt reduction efforts. In 2012-2013 and 2013-2014, deposits of dedicated revenues of \$911 million and \$1 041 million respectively will be made in the Generations Fund.

Deposits will increase substantially as of 2014-2015 owing to additional sums from, in particular:

- a 25% share of mining, oil and gas royalties in excess of \$200 million;
- the gradual rise in the price of heritage pool electricity, which will make it possible to increase the amounts deposited in the Generations Fund by \$315 million per year for five years.

As a result, deposits in the Generations Fund will climb to \$1.6 billion in 2014-2015, \$2.0 billion in 2015-2016 and \$2.5 billion in 2016-2017.

TABLE A.6

**The government's financial framework from 2010-2011 to 2016-2017**  
(millions of dollars)

	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
<b>Budgetary revenue<sup>(1)</sup></b>							
Own-source revenue	47 225	50 364	53 598	56 010	58 140	60 270	62 390
% change	7.1	6.6	6.4	4.5	3.8	3.7	3.5
Federal transfers	15 425	15 175	15 797	16 514	15 847	16 467	17 019
% change	1.7	-1.6	4.1	4.5	-4.0	3.9	3.4
<b>Total budgetary revenue</b>	<b>62 650</b>	<b>65 539</b>	<b>69 395</b>	<b>72 524</b>	<b>73 987</b>	<b>76 737</b>	<b>79 409</b>
% change	5.7	4.6	5.9	4.5	2.0	3.7	3.5
<b>Budgetary expenditure<sup>(1)</sup></b>							
Program spending	-60 166	-61 384	-62 642	-63 751	-65 635	-67 840	-70 116
% change	3.0	2.0	2.0	1.8	3.0	3.4	3.4
Debt service	-6 984	-7 452	-8 237	-8 827	-8 897	-9 090	-9 266
% change	14.2	6.7	10.5	7.2	0.8	2.2	1.9
<b>Total budgetary expenditure</b>	<b>-67 150</b>	<b>-68 836</b>	<b>-70 879</b>	<b>-72 578</b>	<b>-74 532</b>	<b>-76 930</b>	<b>-79 382</b>
% change	4.2	2.5	3.0	2.4	2.7	3.2	3.2
<b>Consolidated entities</b>							
Non-budget-funded bodies and special funds <sup>(2)</sup>	1 190	342	384	254	-330	-682	-902
Health and social services and education networks	160	-45	-100	—	—	—	—
Generations Fund	760	848	911	1 041	1 575	2 030	2 504
<b>Total consolidated entities</b>	<b>2 110</b>	<b>1 145</b>	<b>1 195</b>	<b>1 295</b>	<b>1 245</b>	<b>1 348</b>	<b>1 602</b>
Contingency reserves	—	-300	-300	-200	—	—	—
Differences to be offset	—	—	—	—	875	875	875
<b>SURPLUS (DEFICIT)</b>	<b>-2 390</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
<b>BALANCED BUDGET ACT</b>							
<b>SURPLUS (DEFICIT)</b>	<b>-2 390</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
Deposit of dedicated revenues in the Generations Fund	-760	-848	-911	-1 041	-1 575	-2 030	-2 504
<b>BUDGETARY BALANCE<sup>(3)</sup></b>	<b>-3 150</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Corresponds to the revenue and expenditure of the general fund.

(2) Includes consolidation adjustments.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE A.7

**Financial framework for consolidated revenue and expenditure  
from 2010-2011 to 2016-2017**  
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
<b>Revenue</b>							
General fund	62 650	65 539	69 395	72 524	73 987	76 737	79 409
Special funds	7 372	8 168	8 882	10 018	9 820	10 285	10 672
Generations Fund	760	848	911	1 041	1 575	2 030	2 504
Non-budget-funded bodies	17 335	17 621	18 749	19 768	20 683	21 614	22 662
Health and social services and education networks	34 560	35 786	37 303	38 746	40 231	41 707	43 341
Specified purpose accounts	1 758	2 143	1 368	1 201	994	994	994
Transfers related to the tax system	5 163	5 202	5 286	5 318	5 374	5 473	5 462
Consolidation adjustments <sup>(1)</sup>	-46 735	-48 950	-51 166	-53 835	-56 187	-58 946	-61 447
<b>Consolidated revenue</b>	<b>82 863</b>	<b>86 357</b>	<b>90 728</b>	<b>94 781</b>	<b>96 477</b>	<b>99 894</b>	<b>103 597</b>
<b>Expenditure</b>							
General fund	-60 166	-61 384	-62 642	-63 751	-65 635	-67 840	-70 116
Special funds	-5 613	-6 503	-7 350	-8 265	-8 285	-8 444	-8 690
Non-budget-funded bodies	-15 835	-16 567	-17 364	-18 334	-19 156	-20 070	-20 845
Health and social services and education networks	-33 602	-35 066	-36 659	-37 989	-39 398	-40 745	-42 201
Specified purpose accounts	-1 758	-2 143	-1 368	-1 201	-994	-994	-994
Expenditures related to the tax system	-5 163	-5 202	-5 286	-5 318	-5 374	-5 473	-5 462
Consolidation adjustments <sup>(1)</sup>	45 819	47 847	50 036	52 461	54 498	56 804	58 865
<b>Consolidated expenditure excluding debt service</b>	<b>-76 318</b>	<b>-79 018</b>	<b>-80 633</b>	<b>-82 397</b>	<b>-84 344</b>	<b>-86 762</b>	<b>-89 443</b>
<b>Debt service</b>							
General fund	-6 984	-7 452	-8 237	-8 827	-8 897	-9 090	-9 266
Consolidated entities <sup>(2)</sup>	-1 951	-2 039	-2 147	-2 316	-2 536	-2 887	-3 259
<b>Consolidated debt service</b>	<b>-8 935</b>	<b>-9 491</b>	<b>-10 384</b>	<b>-11 143</b>	<b>-11 433</b>	<b>-11 977</b>	<b>-12 525</b>
<b>Consolidated expenditure</b>	<b>-85 253</b>	<b>-88 509</b>	<b>-91 017</b>	<b>-93 540</b>	<b>-95 777</b>	<b>-98 739</b>	<b>-101 968</b>
Contingency reserves	—	-300	-300	-200	—	—	—
Difference to be offset	—	—	—	—	875	875	875
<b>SURPLUS (DEFICIT)</b>	<b>-2 390</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
<b>BALANCED BUDGET ACT</b>							
Deposit of dedicated revenues in the Generations Fund	-760	-848	-911	-1 041	-1 575	-2 030	-2 504
<b>BUDGETARY BALANCE<sup>(3)</sup></b>	<b>-3 150</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Elimination of inter-entity operations and reclassifications.

(2) Including consolidation adjustments.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

## 1.3 Change in government spending

The government is meeting its budgetary deficit reduction targets, mainly by slowing the growth of its spending.

### 1.3.1 Spending control in all departments

After reaching 5.3% in 2009-2010, program spending growth was gradually rolled back to 3.0% in 2010-2011 and 2.0% in 2011-2012.

Program spending will climb by an additional 2.0%, or \$1 258 million, in 2012-2013, to \$62.6 billion:

- program spending for the Ministère de la Santé et des Services sociaux will rise by \$1 000 million, or 3.4%;
- spending allocated to the Ministère de l'Éducation, du Loisir et du Sport will increase by \$342 million, or 2.2%;
- that of the Ministère de la Famille et des Aînés will be raised by \$40 million, or 1.6%;
- spending by other departments will be reduced overall by \$123 million, or 0.9%.

TABLE A.8

#### Growth in program spending in 2012-2013

(millions of dollars)

	2011-2012	2012-2013	Change	
			\$ million	%
Santé et Services sociaux	29 121	30 121	1 000	3.4
Éducation, Loisir et Sport	15 634	15 976	342	2.2
Famille et Aînés	2 411	2 451	40	1.6
Other departments	14 218	14 095	-123	-0.9
<b>TOTAL</b>	<b>61 384</b>	<b>62 642</b>	<b>1 258</b>	<b>2.0</b>

Note: Since figures are rounded, the sum of the amounts entered for each department may not correspond to the total.

Source: Secrétariat du Conseil du trésor.



### 1.3.2 Program spending

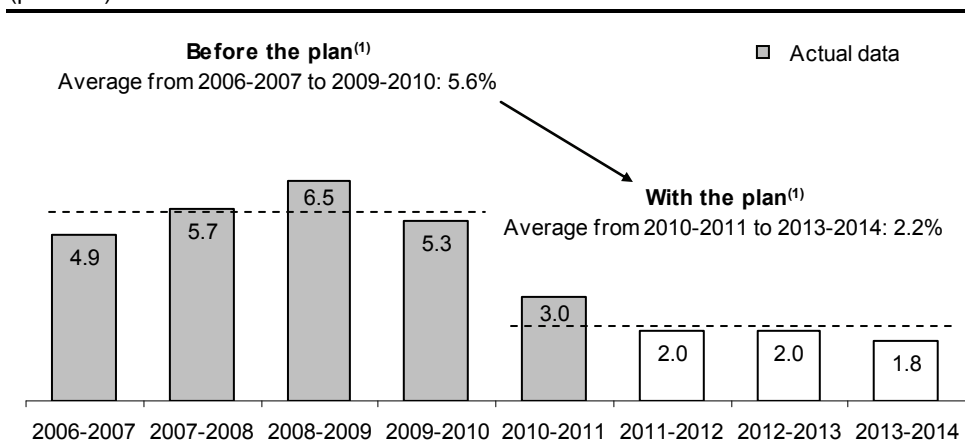
Average growth in program spending from 2010-2011 to 2013-2014 stands at 2.2%, a marked slowdown compared with average growth of 5.6% from 2006-2007 to 2009-2010.

More specifically, program spending is expected to grow by:

- 2.0% in 2011-2012;
- 2.0% in 2012-2013;
- 1.8% in 2013-2014.

CHART A.6

#### Change in program spending growth (per cent)



(1) Plan to restore fiscal balance.

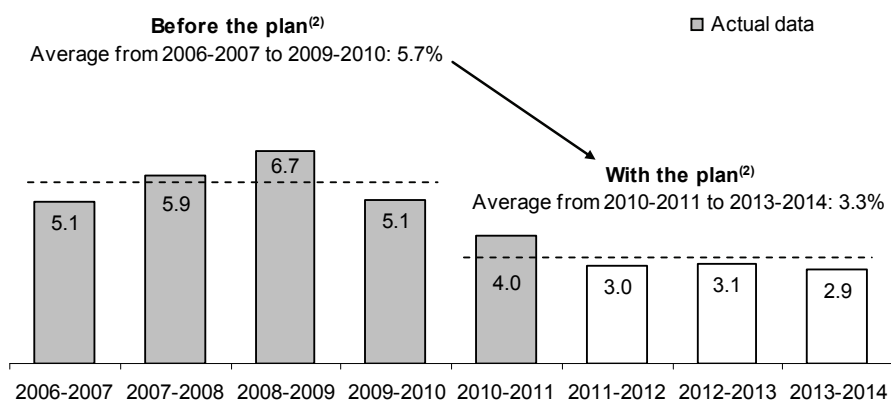
As of 2014-2015, growth in program spending will reach a pace similar to that of growth in budgetary revenue, i.e. 3.2% on average between 2014-2015 and 2016-2017.

## Slower growth in program spending including spending by the Fund to Finance Health and Social Services Institutions and the Land Transportation Network Fund

Since 2010-2011, the government has established certain funds in order to earmark revenue for priority sectors, in particular the Fund to Finance Health and Social Services Institutions (FINESSS) and the Land Transportation Network Fund (FORT).

- After reaching 5.1% in 2009-2010 and 4.0% in 2010-2011, growth in program spending, plus the spending of these funds, was rolled back to 3.0% in 2011-2012.
- Average annual growth of 3.3% is forecast from 2010-2011 to 2013-2014, compared with the average of 5.7% observed for the period from 2006-2007 to 2009-2010.

### Change in program spending growth, including FINESSS and FORT expenditures<sup>(1)</sup> (per cent)



(1) For comparison purposes, data prior to 2010-2011 have been restated.

(2) Plan to restore fiscal balance.

### 1.3.3 Consolidated expenditure

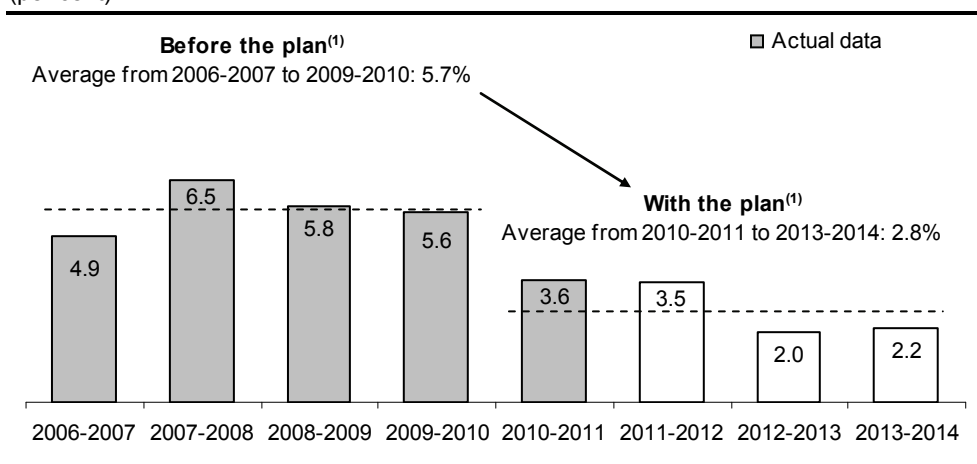
Consolidated expenditure represents all public expenditure included in the government reporting entity. In addition to program spending, consolidated expenditure includes spending by special funds, non-budget-funded bodies and the health and social services and education networks, spending funded by third parties from the specified purpose accounts and spending related to the tax system.<sup>5</sup>

- Consolidated expenditure, excluding debt service, for all government departments and organizations is expected to rise by 2.0% in 2012-2013 and 2.2% in 2013-2014.

This is a marked slowdown compared with the average growth of 5.7% observed from 2006-2007 to 2009-2010.

CHART A.7

#### Change in the growth of consolidated expenditure excluding debt service (per cent)



(1) Plan to restore fiscal balance.

In addition, spending and investments by special funds will henceforth be subject to the same approval process as that which is applied by parliamentarians to the expenditure and investment budgets of government departments and budget-funded bodies. This new approval process will bolster parliamentarians' control over the budget of each special fund, while maintaining the allocation of dedicated revenues to the funding of specific activities.

<sup>5</sup> Following the coming into effect of the new accounting standard on tax revenue on April 1, 2012, most refundable tax credits, which were previously applied against revenue, will be charged to expenditure. This change has no impact on the budgetary balance. For more information, see *Dépenses fiscales, 2011 edition*, page A.65.

TABLE A.9

**Change in consolidated expenditure from 2010-2011 to 2013-2014**  
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
<b>Program spending</b>	<b>60 166</b>	<b>61 384</b>	<b>62 642</b>	<b>63 751</b>
<i>% change</i>	3.0	2.0	2.0	1.8
<b>Special funds</b>	<b>5 613</b>	<b>6 503</b>	<b>7 350</b>	<b>8 265</b>
<i>% change</i>	10.9	15.9	13.0	12.4
<b>Non-budget-funded bodies</b>	<b>15 835</b>	<b>16 567</b>	<b>17 364</b>	<b>18 334</b>
<i>% change</i>	-0.9	4.6	4.8	5.6
<b>Health and social services and education networks</b>	<b>33 602</b>	<b>35 066</b>	<b>36 659</b>	<b>37 989</b>
<i>% change</i>	2.4	4.4	4.5	3.6
Specified purpose accounts	1 758	2 143	1 368	1 201
Expenditures related to the tax system	5 163	5 202	5 286	5 318
Consolidation adjustments <sup>(1)</sup>	-45 819	-47 847	-50 036	-52 461
<b>Consolidated expenditure excluding debt service</b>	<b>76 318</b>	<b>79 018</b>	<b>80 633</b>	<b>82 397</b>
<i>% change</i>	3.6	3.5	2.0	2.2
<b>Debt service</b>				
General fund	6 984	7 452	8 237	8 827
<i>% change</i>	14.2	6.7	10.5	7.2
Consolidated entities <sup>(2)</sup>	1 951	2 039	2 147	2 316
<i>% change</i>	13.0	4.5	5.3	7.9
<b>Consolidated debt service</b>	<b>8 935</b>	<b>9 491</b>	<b>10 384</b>	<b>11 143</b>
<i>% change</i>	13.9	6.2	9.4	7.3
<b>CONSOLIDATED EXPENDITURE</b>	<b>85 253</b>	<b>88 509</b>	<b>91 017</b>	<b>93 540</b>
<i>% change</i>	<b>4.5</b>	<b>3.8</b>	<b>2.8</b>	<b>2.8</b>

(1) Elimination of inter-entity operations and reclassifications.

(2) Including consolidation adjustments.

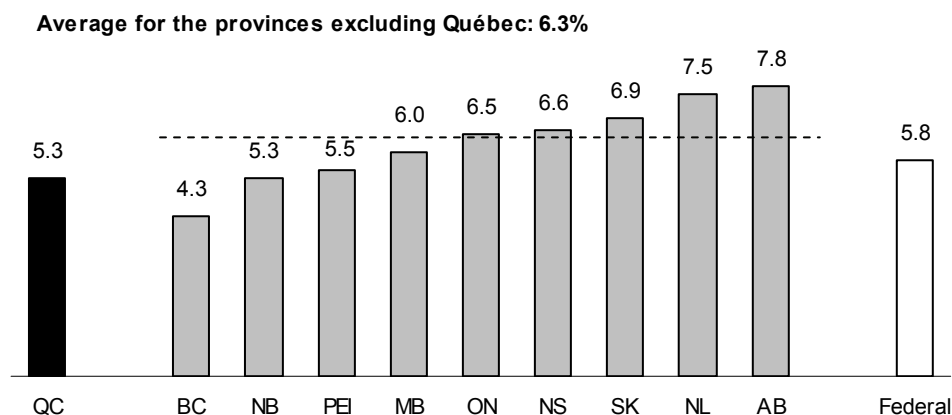
## ❑ Better control over consolidated expenditure

Québec, along with British Columbia and New Brunswick, is one of provinces that has best controlled its spending since 2003-2004.

- In Québec, the average annual growth rate of consolidated expenditure excluding debt service was 5.3% from 2003-2004 to 2011-2012, whereas in the other provinces it was 6.3% over the same period.

CHART A.8

### Consolidated expenditure of the provinces excluding debt service<sup>(1)</sup> Average annual growth from 2003-2004 to 2011-2012 (per cent)



(1) The data are derived from the most recent official document concerning these governments, dated March 12, 2012, and from their public accounts.

Sources: Finance ministries of the provinces and Department of Finance Canada.

### 1.3.4 Natural changes in spending

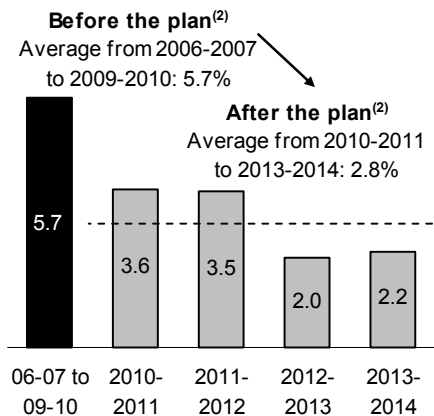
Despite the need to slow spending growth in order to restore fiscal balance, the government must deal with the pressures exerted by natural changes in spending, that is, those that stem from demographic trends<sup>6</sup> and the price of goods and services. In this regard, it may have to free up enough resources to implement new services to meet Quebecers' needs.

Growth in consolidated expenditure excluding debt service between 2010-2011 and 2013-2014 will be limited to an average of 2.8% per year, which is equivalent to the combined growth of prices and of costs related to demographic trends. Over this period:

- the increase in the price of public services will rise by an average of 1.7% per year, while costs related to demographic factors will climb by 1.1% per year.

CHART A.9

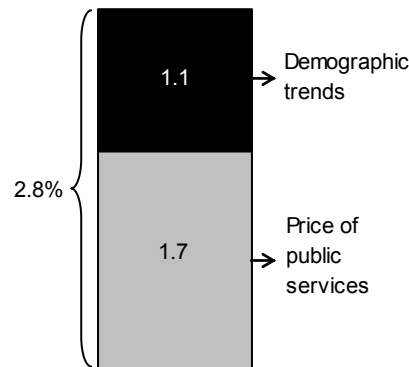
**Growth in consolidated expenditure<sup>(1)</sup> –  
From 2006-2007 to 2013-2014**  
(per cent)



(1) Consolidated expenditure excluding debt service.  
(2) Plan to restore fiscal balance.

CHART A.10

**Growth in consolidated expenditure  
by component<sup>(1)</sup> –  
From 2010-2011 to 2013-2014**  
(per cent)



(1) Consolidated expenditure excluding debt service.

<sup>6</sup> Demographic trends include population growth and the impact of population aging.

Accordingly, while slowing overall spending growth, the government will be able to fund, thanks to savings under the Action Plan to Reduce and Control Expenditures of the Secrétariat du Conseil du trésor, the natural progression in the demand for existing services as well as new services, particularly:

- in **health**, where close to 380 000 more people have access to a family physician thanks to the 14 family medicine groups created between 2009-2010 and 2010-2011;
- in **education**, where 25 000 more young people are expected in elementary schools by fall 2013 and 60 000 students will begin to receive intensive English-language instruction in the sixth grade of elementary school this fall;
- for **families**, where 15 000 more reduced-contribution daycare spaces will be added to existing ones by 2015-2016 and the number of such spaces has increased by nearly 14 000 in the last four years;
- in **transportation**, where investments in recent years continue to bear fruit. The percentage of the road network in good condition increased from 69.4% in 2009-2010 to 72.2% in 2010-2011. The government is staying the course regarding its objective of ensuring that over 80% of Québec's road network is in good condition within the next 10 years;
- in **immigration**, where nearly 155 000 people were admitted to Québec from 2009 to 2011.

# 1.4 Debt reduction

The government is continuing its efforts to achieve the debt reduction objectives it set in 2010.

- As at March 31, 2012, the gross debt is expected to account for 55.0% of GDP and the debt representing accumulated deficits, 35.2% of GDP.
- In 2010, the government set the objective of reducing the ratio of the debt to GDP in 2025-2026 to 45% for the gross debt and 17% for the debt representing accumulated deficits.

The government has taken major steps to achieve this objective:

- fiscal balance will be achieved in 2013-2014 and maintained thereafter;
- additional sums will be deposited in the Generations Fund as of 2014-2015, thanks to a gradual increase of 1 cent/kWh over five years in the price of heritage pool electricity and the payment into the fund of 25% of mining, oil and gas royalties, including amounts derived from the auctioning of licences to explore for petroleum, gas and underground reservoirs, in excess of \$200 million;
- the investments provided for under the Québec Infrastructures Plan in the coming years will be stabilized at a level allowing the quality of public infrastructure to be continually improved.

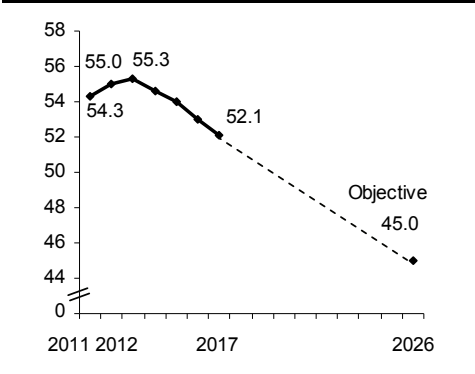
In this budget, the government is announcing an additional deposit of \$300 million in the Generations Fund for 2012-2013, from the accumulated surpluses of the Territorial Information Fund.

With all of the measures announced, the balance of the Generations Fund should reach \$12.6 billion as at March 31, 2017.

CHART A.11

## Gross debt

(as at March 31, as a percentage of GDP)

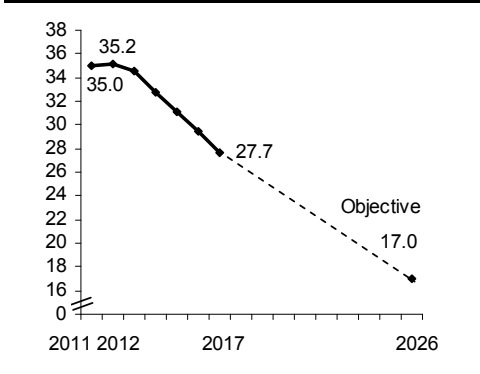


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.12

## Debt representing accumulated deficits

(as at March 31, as a percentage of GDP)





### 1.4.1 Long-term infrastructure management

The government has made major investments for the construction and restoration of numerous public infrastructures.

#### ❑ Infrastructure investment targets by 2025-2026

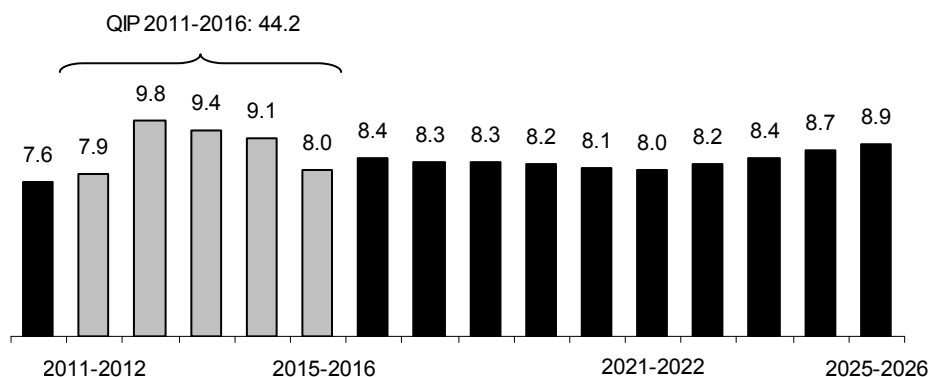
The level of investment is set at \$9.8 billion for 2012-2013 and the five-year investment envelope for 2011-2016 is being maintained at \$44.2 billion, the same level as forecast in last year's budget. This will enable the construction and restoration of numerous roads, municipal infrastructures, schools and hospitals in all regions of Québec.

As of 2013-2014, the annual investment targets will decrease, reaching \$8.0 billion in 2015-2016 and stabilizing thereafter. These targets will make it possible to:

- achieve the debt reduction objectives by 2025-2026;
- complete the major projects that are already under way;
- fund new priority projects;
- meet the objectives of the *Act to promote the maintenance and renewal of public infrastructures*, i.e. to finish offsetting the maintenance deficit by 2022-2023 and continue to invest in asset maintenance.

CHART A.13

#### Annual investments under the Québec Infrastructures Plan (QIP) (millions of dollars)



Note: For additional information on annual amounts under the Québec Infrastructures Plan, see Table C.27 of part 4 of Section C.

Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

**❑ Increase in the importance of public capital stock in the economy**

The capping of infrastructure investment targets will result in a decline in their weight in the economy. After hitting a high of 2.8% in 2012-2013, the weight of government infrastructure investment in GDP will be gradually decreased to 1.6% by 2025-2026.

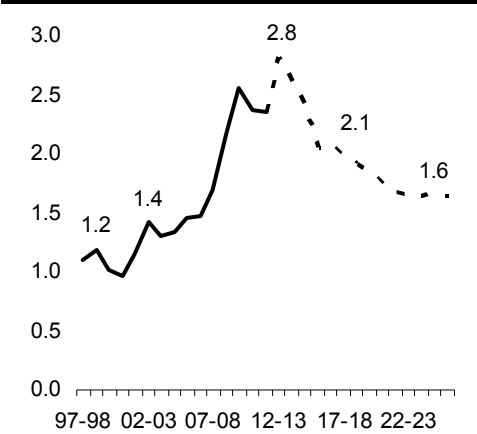
Furthermore, annual infrastructure investment as a percentage of GDP will remain above pre-2008 levels for the next 10 years.

These investment targets will make it possible to continue increasing the importance of public capital stock in the economy, a key determinant of productivity and economic growth.<sup>7</sup>

— Indeed, after rising from 22.5% of GDP in 2002 to 28.1% in 2011, this ratio will continue to increase, growing to 31.7% in 2018 before levelling off in the years thereafter. The ground made up will return public capital stock to the level it was at in the early 1980s.

CHART A.14

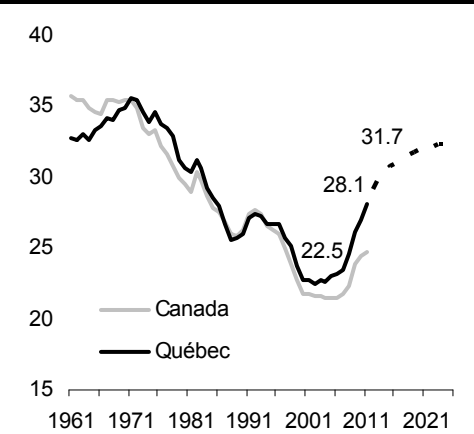
**Annual investments under the Québec Infrastructures Plan**  
(as a percentage of GDP)



Sources: Ministère des Finances du Québec and  
Secrétariat du Conseil du trésor.

CHART A.15

**Change in public capital stock**  
(as a percentage of GDP, in 2002 dollars)



Sources: Ministère des Finances du Québec and  
Secrétariat du Conseil du trésor.

<sup>7</sup> For a detailed discussion of public capital stock in Québec, see Section B of the 2011-2012 Budget Plan.

## 2. THE GOVERNMENT'S BUDGETARY ACTIONS

The government is continuing to control its spending while taking steps to ensure the funding of priority services for Quebecers and carrying out targeted actions for a strong wealth-creating economy. Budget 2012-2013 presents:

- targeted actions taken this year to support economic and social development;
- follow-up on measures already implemented, as well as new initiatives to tap into the full potential of our natural resources;
- funding plans for some of the government's main missions, namely, health, university education, roads and public transit, as well as the forest;
- fiscal policy directions for keeping public finances sound after the return to fiscal balance in 2013-2014.

### 2.1 Concrete actions for a strong economy

Budget 2012-2013 provides for the funding of additional initiatives whose cost will reach \$211.2 million in 2012-2013, \$311.8 million in 2013-2014 and \$331.2 million in 2014-2015.

TABLE A.10

#### Financial impact of the new initiatives in Budget 2012-2013

(millions of dollars)

	2012-2013	2013-2014	2014-2015
<b>The strength of our people and our resources</b>			
Deploying our knowledge and know-how	-25.0	-54.2	-59.4
Responsible development of natural resources	-22.7	-32.1	-21.0
Promoting the growth of our businesses	-32.6	-45.2	-58.1
Promoting our tourist attractions	-14.5	-23.3	-23.3
Partnership for the development of Québec	-59.2	-64.5	-67.5
Consolidating our leadership in sustainable development	-1.6	-2.2	-3.3
<b>The strength of our values</b>			
Growing Old at Home Action Plan	-18.4	-35.5	-50.2
Ensuring an adequate retirement income for all	-2.5	-4.0	-4.0
Continuing to fight poverty and support community organizations	-7.2	-19.5	-12.1
Developing culture in Québec	-16.2	-16.2	-18.7
The strength of physical activity and recreational activity	-5.5	-6.5	-6.5
Fight against tax evasion	—	—	—
Additional initiatives	-5.8	-8.6	-7.1
<b>TOTAL</b>	<b>-211.2</b>	<b>-311.8</b>	<b>-331.2</b>

## **❑ The strength of our people and our resources**

Budget 2012-2013 provides for a series of economic and social development measures that capitalize on the strength of our people and our resources.

### **■ Deploying our knowledge and know-how**

- Strategy for Active Participation by Experienced Workers.
- Enhancement of the Alternative jeunesse program and of the tax credit for young graduates working in remote resource regions.
- \$27 million over three years to accelerate the integration of new immigrants.

### **■ Responsible development of natural resources**

- New mechanisms for taking equity interests.
- Initiatives to boost ore processing in Québec.
- New forest regime and support for secondary and tertiary wood processing.
- New licences and leases regime and revision of hydrocarbon royalty regimes.

### **■ Promoting the growth of our businesses**

- Support for the manufacturing sector, exports and increased access to capital.
- Foster the development of cooperatives and the biofood and financial sectors.

### **■ Promoting our tourist attractions**

- Support for the development of tourist attractions.
- Tax credit for modernizing the supply of tourist accommodations.
- Investments of \$35 million in the parks and wildlife reserves of the Société des établissements de plein air du Québec (SÉPAQ).

### **■ Partnership for the development of Québec**

- Support for regional conferences of elected officers (CREs), regional county municipalities (RCMs) and local development centres (CLDs).
- Creation of greenbelts.
- \$125 million for the 375th anniversary of Montréal and \$30 million for the Théâtre Le Diamant in Québec City.
- \$135 million for the Aboriginal Initiatives Fund.

## ■ Consolidating our leadership in sustainable development

- \$2.7 billion for the 2013-2020 Climate Change Action Plan, including \$1.5 billion for public transit and \$610 million for greener practices in our businesses.

## □ The strength of our values

The government is announcing new initiatives fostering social and cultural development that capitalizes on the strength of Quebecers' values.

## ■ Growing Old at Home Action Plan

- Additional investments reaching \$900 million per year as of 2016-2017.
  - Bolstering home support and building housing.
  - Increased tax assistance and enhanced support for spouses acting as informal caregivers.

## ■ Ensuring an adequate retirement income for all

- Introduction of the new voluntary retirement savings plans (VRSPs) starting January 1, 2013.

## ■ Continuing to fight poverty and support community organizations

- \$330 million for social housing, including \$180 million for the construction of 3 000 social housing units.

## ■ Developing culture in Québec

- \$60-million increase in investments through the Québec Cultural Heritage Fund.
- \$20 million over five years for the digital strategy;
- \$11 million over the next three years to better support Québec's museum network.

## ■ The strength of physical activity and recreational activity

- \$50-million increase in investments in sports and recreational facilities.
- Implementation of Placements Sports.
- Support for Défi sportif AlterGo.

## □ Fight against tax evasion

- Stepping up tax audit activities at Revenu Québec and the fight against tax evasion in at-risk sectors.

## 2.2 Tapping into the full potential of our natural resources

Québec has substantial mineral, forest and water-power resources. It also has significant hydrocarbon potential. The government has taken concrete steps in recent years to tap into the full potential of natural resource development, particularly through water-power royalties, the introduction of a new mining duties regime and the announcement of a forest regime based on timber auctions.

- This year the government is announcing a new royalty regime for on-shore oil resources.

The development of Québec's natural resources already benefits society as a whole.

- Royalties from mineral resources will rise from \$355 million in 2012-2013 to \$415 million in 2016-2017, or 10 times the average observed over the period from 2006-2007 to 2009-2010.
- The new forest regime will help to raise royalties from \$170 million in 2012-2013 to \$282 million in 2016-2017, an increase of 70% compared with the average from 2006-2007 to 2009-2010.
- Royalties from water-power resources are expected to total \$721 million in 2012-2013 and will reach \$785 million in 2016-2017.

Thanks to the various steps taken by the government, royalties will reach slightly over \$1.4 billion in 2014-2015, or double what they were six years earlier.

TABLE A.11

### Gross royalties from natural resources in Québec (millions of dollars)

	Average (2006-2007 to 2009-2010)	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Mining <sup>(1)</sup>	42	305	365	355	375	395	405	415
Forest <sup>(2)</sup>	166	120	111	170	223	268	292	282
Water-power <sup>(3)</sup>	473	653	699	721	732	747	768	785
Oil and gas	—	—	—	—	—	—	—	—
<b>TOTAL</b>	<b>681</b>	<b>1 078</b>	<b>1 175</b>	<b>1 246</b>	<b>1 330</b>	<b>1 410</b>	<b>1 465</b>	<b>1 482</b>
Including: deposits in the Generations Fund	446	650	696	718	729	789	815	832

(1) This item includes, among other things, mining royalties and credits for losses.

(2) This item includes forest royalties and revenue from timber auctions.

(3) Gross water-power royalties do not include Hydro-Québec profits of approximately \$2.5 billion.

## 2.3 A funding plan for the government's main missions

The last two budgets gave the government the opportunity to table medium-term funding plans for certain public services, such as health care, universities and the levels of investment available for infrastructure renewal.

Budget 2012-2013 updates these planned projections. It also contains a medium-term funding plan for the sustainable development of Québec's forest.

### ❑ Multi-year planning of public spending

Unprecedented efforts have been made to ensure stable funding for the government's main missions, despite the spending reduction effort that has to be made to achieve fiscal balance.

- Medium-term funding plans have been established for the health sector, universities, road infrastructures, public transit and now the forest development sector. Nearly 50% of the government's consolidated expenditure has a medium-term financial framework.

These projections will make it possible to better plan activities in these sectors.

TABLE A.12

### Five-year funding plans for certain government missions (millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Santé et services sociaux <sup>(1)</sup>	29 736	31 126	32 630	34 248	35 947	37 730
Universities <sup>(2)</sup>	3 089	3 036	3 112	3 245	3 356	3 454
Road and public transit infrastructures	2 400	2 750	3 224	3 608	3 977	4 349
Forest development	519	539	536	529	522	516
Subtotal	35 744	37 451	39 502	41 630	43 802	46 049
<b>AS A PERCENTAGE OF CONSOLIDATED EXPENDITURE<sup>(3)</sup></b>	<b>45.2</b>	<b>46.4</b>	<b>47.9</b>	<b>49.4</b>	<b>50.5</b>	<b>51.5</b>
Consolidated expenditures <sup>(3)</sup>	79 018	80 633	82 397	84 344	86 762	89 443

(1) Program spending and expenditures of the Fund to Finance Health and Social Services Institutions.

(2) Subsidies to universities on a government fiscal year basis, including long-term infrastructure funding.

(3) Consolidated expenditure excluding debt service.

## Multi-year budgeting across the OECD

In proposing a stable funding plan for its main missions, the Québec government is drawing on best budget practices to promote the efficient use of public money.

Indeed, Québec's approach is similar to multi-year budgeting, a recognized practice in which spending objectives for each year are stated by mission, department and/or other sectoral criteria. Multi-year budgeting has several advantages, namely:

- It defines, in an explicit and integrated manner, government priorities and the actions to be taken over time to achieve those objectives.
- It ensures that the government's various actions are consistent and facilitates the implementation of reforms.
- It offers a medium-term framework for monitoring the performance of government departments and organizations.

In practice, multi-year budgeting has a certain flexibility that makes it possible to incorporate new initiatives and adapt to unforeseen changes in the economic and budgetary situation.

Many governments have recognized the usefulness of multi-year budgeting for optimizing the management of their public finances and have adopted this practice. In fact, it is now commonplace in OECD governments.



### 2.3.1 Health

In Budget 2010-2011, the government took steps to ensure the sustainability of funding for health spending.

- In this regard, it pledged to grant an annual increase of 5.0% to the funding envelope of the health-care system and introduced the health contribution.
- From 2009-2010 to 2011-2012, the average annual growth in government funding for health, i.e. program spending in health and that financed by the health contribution paid into the Fund to Finance Health and Social Services Institutions (FINESSS), was 5.1%.
- The respective increases of 4.7% and 4.8% in government funding for health in 2012-2013 and 2013-2014 are sufficient to meet the commitment made in the March 2010 budget.

The funding envelope established for health three years ago is being complied with. The government funding of \$31.1 billion in 2012-2013 provided for in this budget is \$97 million higher than anticipated in Budget 2010-2011.

The average annual growth in government funding for health will be 5.0% from 2009-2010 to 2013-2014.

During the 2008-2014 period, the annual increase of 5.0% granted to health will have made it possible to raise the annual level of spending allocated to the health-care system by \$7 billion, thus raising the level of government funding from \$25.6 billion in 2008-2009 to \$32.6 billion in 2013-2014.

TABLE A.13

#### Government funding for health from 2008-2009 to 2013-2014

(millions of dollars)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Average growth <sup>(1)</sup>
<b>Program spending</b>	<b>25 621</b>	<b>27 466</b>	<b>28 514</b>	<b>29 121</b>	<b>30 121</b>	<b>31 185</b>	
<i>% change</i>		7.2	3.8	2.1	3.4	3.5	<b>4.0</b>
<b>FINESSS expenditures</b>			<b>252</b>	<b>615</b>	<b>1 005</b>	<b>1 445</b>	
<b>Government funding</b>	<b>25 621</b>	<b>27 466</b>	<b>28 766</b>	<b>29 736</b>	<b>31 126</b>	<b>32 630</b>	
<i>% change</i>		7.2	4.7	3.4	4.7	4.8	<b>5.0</b>
		5.1					

(1) Average annual growth rate since 2008-2009.

## ❑ Continuing to improve the supply of health services

Thanks to growth in revenue from the health contribution, FINESSS spending will total over \$1 billion in 2012-2013, which is \$390 million higher than the amount forecast in 2011-2012, i.e. \$615 million. This spending will make it possible, in particular, to allocate:

- \$177 million to services for seniors, including the amounts allocated to the seniors investment plan, and to ensure the quality of long-term accommodation;
- \$35 million to intellectual and physical disability services;
- \$120 million to support family medicine groups;
- \$275 million to promote access to surgery and ensure the operation of the new facilities provided for this purpose;
- \$141 million to oncology care;
- \$160 million to the maintenance of dialysis services.

In addition, legislative amendments will be made to the *Act respecting the ministère de la Santé et des Services sociaux* to specify which beneficiaries will be eligible for funds from FINESSS and to thus better meet the needs of health and social services institutions.

TABLE A.14

### Use of funds from the Fund to Finance Health and Social Services Institutions (millions of dollars)

	2011-2012	2012-2013
<b>Access to front-line services</b>		
Seniors investment plan <sup>(1)</sup>	105	173
Inspections in public accommodation centres and private residences for seniors	—	4
Intellectual and physical disability access plan	8	35
Family medicine groups (FMGs)	100	120
Specialized nurse practitioners	18	22
<b>Access to services and increase in volumes</b>		
Access to surgery – Volumes	180	200
Operation of new facilities	50	75
Oncology care	130	141
Dialysis	—	160
Other service access measures	20	60
<b>Support for performance improvement</b>		
Lean Health Care projects and optimization assistance	4	15
<b>TOTAL</b>	<b>615</b>	<b>1 005</b>

(1) Including annual amounts of \$5 million in 2011-2012 and 2012-2013 for the Financial Assistance Program for Domestic Help Services.

## ❑ **Activity-based funding: creation of an expert panel and financial support for concrete initiatives**

Activity-based funding,<sup>8</sup> which is sparking growing interest in the field of health care, involves funding methods that promote a culture of innovation and put patients' needs at the centre of the health-care system.

To maximize the benefits of these funding models while making it possible to act on the proposals of the Association québécoise d'établissements de santé et de services sociaux (AQESSS), the government is announcing the creation of an expert panel responsible for making recommendations on the implementation of activity-based funding.

- The expert panel, chaired by Wendy Thomson, will identify concrete initiatives to which this type of funding will apply.<sup>9</sup>

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<sup>8</sup> Activity-based funding can include care-episode funding as well as performance pay.

<sup>9</sup> For additional information on the creation of the expert panel and support for concrete initiatives, see Section G of the Budget Plan.

## Stable funding for health until 2016-2017

Substantial investments have been made to modernize, develop and improve Québec's health-care system. Concrete examples of this are the increase in the number of family medicine groups, as well as improved care for seniors and people with intellectual or physical disabilities.

Government funding for health will rise at a rate of 5.0% per year until 2016-2017.

- In 2013-2014, part of the sums received from the federal government under the sales tax harmonization agreement will be used to make up the \$430-million shortfall of FINESSS.
- As of 2014-2015, there will still be a \$430-million difference to be offset in order to complete health funding.

### Government funding for health from 2011-2012 to 2016-2017

(millions of dollars)

	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
<b>Program spending</b>	<b>29 121</b>	<b>30 121</b>	<b>31 185</b>	<b>32 803</b>	<b>34 502</b>	<b>36 285</b>
<i>% change</i>	<i>2.1</i>	<i>3.4</i>	<i>3.5</i>	<i>5.2</i>	<i>5.2</i>	<i>5.2</i>
<b>FINESSS expenditures</b>						
Health contribution	615	1 005	1 015	1 015	1 015	1 015
Allocation of part of the compensation from the harmonization of the QST with the GST	—	—	430	—	—	—
Difference to be offset	—	—	—	430	430	430
<b>Total FINESSS expenditures</b>	<b>615</b>	<b>1 005</b>	<b>1 445</b>	<b>1 445</b>	<b>1 445</b>	<b>1 445</b>
<b>GOVERNMENT FUNDING</b>	<b>29 736</b>	<b>31 126</b>	<b>32 630</b>	<b>34 248</b>	<b>35 947</b>	<b>37 730</b>
<i>% change</i>	<i>3.4</i>	<i>4.7</i>	<i>4.8</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>

## 2.3.2 Universities

In March 2011, the government announced a funding plan for Québec universities, which provided for a 25% increase in their revenue by 2016-2017. The government is updating this plan to take into account the upward revision of clientele over the past year

- An additional amount of roughly \$967 million is currently provided in order to ensure the development of excellence in our universities by 2016-2017, whereas the initial plan was for \$850 million. Therefore, growth in university revenue between now and 2016-2017 will amount to an average of 3.7% per year.

The government's contribution will reach \$493 million in 2016-2017, or \$63 million more than forecast last year.

- Therefore, over six years, the government will have increased its contribution by \$293 million compared with the plan announced in Budget 2011-2012.

Even with the tuition fee increase starting next fall, the government's contribution to the funding plan is still higher than the total contribution of the other actors as a whole.

TABLE A.15

### **Funding plan for Québec universities<sup>(1)</sup>** (millions of dollars, on an academic year basis)

	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
<b>Contributions</b>						
Québec government	103	158	195	316	418	493
Students	44	95	152	202	243	279
Other revenue sources for universities <sup>(2)</sup>	34	62	88	110	126	141
Donations from individuals and businesses	9	18	27	35	44	54
<b>Funding plan – Budget 2012-2013</b>	<b>190</b>	<b>333</b>	<b>462</b>	<b>663</b>	<b>831</b>	<b>967</b>
<b>Including:</b>						
Funding plan – Budget 2011-2012	148	270	386	572	724	850
Impact of the upward revision of university clientele	42	63	76	91	107	117
<b>Total university operating revenue</b>	<b>4 113</b>	<b>4 255</b>	<b>4 390</b>	<b>4 585</b>	<b>4 753</b>	<b>4 889</b>
<i>Average annual growth from 2011-2012 to 2016-2017</i>						3.7%

(1) Additional operating revenue on a university fiscal-year basis, excluding, in particular, subsidies for long-term infrastructure funding.

(2) These other revenue sources consist, for the most part, of research revenue, revenue from certain continuing education services and ancillary revenue.

### 2.3.3 Land transportation infrastructures

The Land Transportation Network Fund (FORT) was created in 2010 to fund road network and public transit infrastructures.

FORT is financed, in particular, by revenues from the fuel tax as well as driver's licence and vehicle registration fees. These revenues are collected for maintaining and developing the road network and public transit, thus creating a direct link between the users of transportation infrastructures and the funding of these infrastructures.

In accordance with the requirements of the *Act to promote the maintenance and renewal of public infrastructures*,<sup>10</sup> the work needed to offset the maintenance deficit of the road network accounts for a large share of FORT investments.

Furthermore, FORT will receive additional revenue as of 2012-2013 from the creation of a system of tradable permits for greenhouse gas emission rights, which will fund transportation activities.

During the period 2011-2012 to 2016-2017, FORT's annual balance will go from a surplus of \$509 million to a deficit of \$399 million. The fund's accumulated surplus will make it possible to offset the difference between revenue and expenditure as of 2015-2016.

TABLE A.16

**Funding plan of the Land Transportation Network Fund<sup>(1)</sup>**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
<b>Total revenue</b>	<b>2 909</b>	<b>3 147</b>	<b>3 501</b>	<b>3 681</b>	<b>3 868</b>	<b>3 950</b>
<b>Expenditure</b>						
Road network	1 968	2 214	2 552	2 812	3 097	3 395
Public transit	432	536	672	796	880	954
<b>Total expenditure</b>	<b>2 400</b>	<b>2 750</b>	<b>3 224</b>	<b>3 608</b>	<b>3 977</b>	<b>4 349</b>
Surplus (deficit)	509	397	277	73	-109	-399
Accumulated surplus	<b>1 146</b>	<b>1 543</b>	<b>1 820</b>	<b>1 893</b>	<b>1 784</b>	<b>1 385</b>

(1) Including the funding of transportation measures under the Climate Change Action Plan.

<sup>10</sup> R.S.Q., c. M-1.2.

### 2.3.4 Sustainable forest development

With this budget, the government is tabling a five-year funding plan for sustainable forest development, covering the period from 2012-2013 to 2016-2017.

This plan will promote the development of Québec's forest resources while ensuring full benefit from these resources and the sustainable development of Québec's territory. This plan will include:

- the implementation of the new forest regime, which will come into effect in April 2013 and lead to an increase in revenue from royalties and fees on felled timber. This revenue should climb gradually from \$113 million in 2011-2012 to \$314 million in 2016-2017;
- the allocation of an annual amount of \$200 million as of 2013-2014 for carrying out the silvicultural work needed to maintain the production capacity of Québec's forests. This will help to maintain some 10 000 jobs in the regions;
- over \$300 million for sustainable forest management and development, as well as maintenance of expertise in this sector.

The plan stipulates that the funding allocated to sustainable forest development will remain above \$500 million per year from now until 2016-2017, including the measures contained in Budget 2012-2013.

TABLE A.17

#### Net government contribution to sustainable forest development (millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
<b>Royalties and fees on felled timber</b>	<b>113</b>	<b>173</b>	<b>253</b>	<b>299</b>	<b>324</b>	<b>314</b>
<b>Expenditure</b>						
Silvicultural work <sup>(1)</sup>	187	189	200	200	200	200
Forest management	332	350	336	329	322	316
<b>Subtotal – Expenditure</b>	<b>519</b>	<b>539</b>	<b>536</b>	<b>529</b>	<b>522</b>	<b>516</b>
<b>NET CONTRIBUTION</b>	<b>–406</b>	<b>–366</b>	<b>–283</b>	<b>–230</b>	<b>–198</b>	<b>–202</b>

(1) Financed by royalties and budgetary appropriations.

## **2.4 Preparing for the post-2013-2014 period: a sustainable path for sound public finances**

With the return to fiscal balance in the next budget, the government will continue its actions to better plan public services and foster the development of a strong economy. In this regard, it will continue to follow the main fiscal policy directions that have constantly guided its actions, particularly:

- maintenance of a balanced budget;
- natural growth in spending that is consistent with growth in revenue thanks to targeted actions that create prosperity;
- a commitment to future generations to reduce the debt.



## APPENDIX 1: FOLLOW-UP ON THE PLAN TO RESTORE FISCAL BALANCE

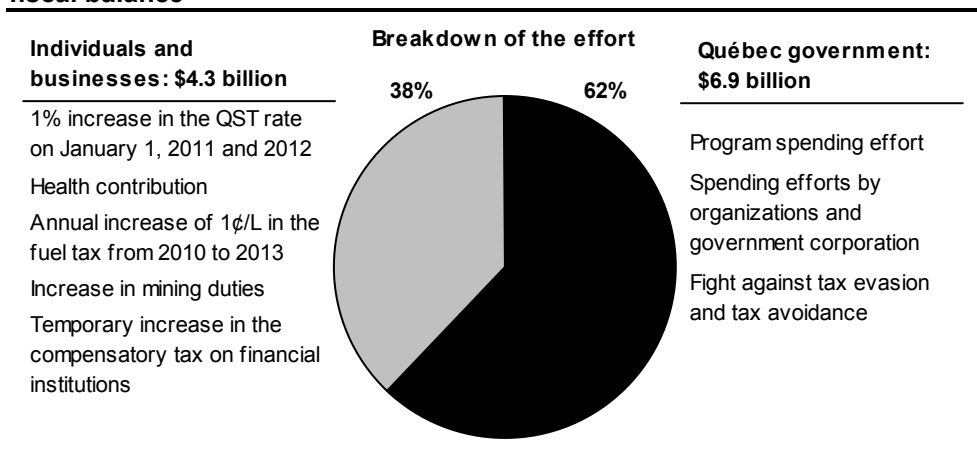
With Budget 2012-2013, the government confirms that the return to fiscal balance will be achieved in 2013-2014.

— In addition, the total effort needed to offset the difference between revenue and expenditure left by the recession, i.e. \$11.2 billion, has been identified.

In this regard, the government has pledged to supply 62% of the total effort identified, or \$6.9 billion, by 2013-2014, while individuals and businesses must supply 38% of the effort, or \$4.3 billion.

CHART A.16

### Breakdown of the \$11.2-billion effort identified under the plan to restore fiscal balance



### ☐ A plan complied with since 2010-2011

The total effort to be supplied by the government and taxpayers for the first two years of the plan to restore fiscal balance, i.e. 2010-2011 and 2011-2012, was expected to reach \$5.6 billion. In fact, the effort supplied over the past two years reached \$6.0 billion, confirming that the plan has been complied with since 2010-2011.

TABLE A.18

**Follow-up on the plan to restore fiscal balance – As at March 31, 2012**  
(millions of dollars)

	Actual	2011-2012			
	2010-2011	Initial objective	Achieved	2012-2013	2013-2014
<b>Budgetary balance before plan to restore fiscal balance</b>					
<b>Budget 2011-2012</b>	<b>-5 951</b>	<b>-9 389</b>	<b>-9 389</b>	<b>-10 666</b>	<b>-12 236</b>
Efforts to be identified					
Budget 2011-2012	—	—	—	300	1 025
<b>Adjustments</b>					
Budgetary revenue	—	—	164	308	437
Budgetary expenditure	—	—	242	-120	81
Consolidated entities	—	—	94	212	707
Contingency reserves	—	—	—	-100	-200
Deferral of efforts to be identified	—	—	—	-300	-1 025
<b>Total adjustments</b>					
<b>Budget 2012-2013</b>	<b>—</b>	<b>—</b>	<b>500</b>	<b>—</b>	<b>—</b>
Other adjustments offset by additional efforts	—	—	-407	—	—
<b>Budgetary balance before plan to restore fiscal balance</b>					
<b>Budget 2012-2013</b>	<b>-5 951</b>	<b>-9 389</b>	<b>-9 296</b>	<b>-10 366</b>	<b>-11 211</b>
<b>PLAN TO RESTORE FISCAL BALANCE</b>					
<b>Government efforts</b>					
Departments and organizations	1 377	2 289	2 664	3 699	5 204
Public bodies	110	240	272	365	530
Fight against tax evasion	338	555	555	875	1 200
<b>Subtotal</b>	<b>1 825</b>	<b>3 084</b>	<b>3 491</b>	<b>4 939</b>	<b>6 934</b>
<b>Effort by taxpayers</b>					
Individuals	391	1 553	1 553	2 329	2 536
Health contribution	252	575	575	945	945
<b>Subtotal</b>	<b>643</b>	<b>2 128</b>	<b>2 128</b>	<b>3 274</b>	<b>3 481</b>
Enterprises and other	333	377	377	653	796
<b>Subtotal</b>	<b>976</b>	<b>2 505</b>	<b>2 505</b>	<b>3 927</b>	<b>4 277</b>
<b>Total effort identified</b>	<b>2 801</b>	<b>5 589</b>	<b>5 996</b>	<b>8 866</b>	<b>11 211</b>
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>-3 150</b>	<b>-3 800</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

## ❑ Government effort achieved for the second year in a row

For 2010-2011 and 2011-2012, the government was to supply efforts totalling \$3 084 million in order to fulfil its share of the plan to restore fiscal balance:

- \$2 289 million from spending control by government departments and organizations;
- \$240 million from spending efforts and the increased productivity of public bodies;
- \$555 million from the fight against tax evasion.

The government confirms that it has met its objective. As at March 31, 2012, efforts totalled \$3 491 million.

TABLE A.19

### Cumulative government effort (millions of dollars)

	2010-2011	2011-2012			2012-2013	2013-2014
	Achieved	Forecast	Achieved	Difference		
Departments and organizations	1 377	2 289	2 664	375	3 699	5 204
Public bodies	110	240	272	32	365	530
Fight against tax evasion	338	555	555	—	875	1 200
<b>TOTAL</b>	<b>1 825</b>	<b>3 084</b>	<b>3 491</b>	<b>407</b>	<b>4 939</b>	<b>6 934</b>

## ■ Rigorous management of spending in departments and organizations

In all, the corrective effort expected from departments and organizations was \$2 289 million for 2010-2011 and 2011-2012. The effort achieved amounts to \$2 664 million, or \$375 million more than the projected target.

TABLE A.20

**Spending efforts required of government departments and organizations**  
(millions of dollars)

	From 2010-2011 to 2011-2012	From 2010-2011 to 2013-2014
	Achieved	Objective <sup>(1)</sup>
<b>SPENDING MEASURES IDENTIFIED</b>		
<b>1. Reduction of public administration costs</b>		
Parameters to limit salary growth, including a payroll freeze	977	1 573
10% reduction in administrative operating expenses	100	252
Control of spending on computer resources	40	200
Rationalization of administrative services and other measures		
– Health optimization plan: Rationalization of administrative services	52	200 <sup>(2)</sup>
– Reduction of government spaces and office development projects	18	30
– Other measures	51	217
<b>Subtotal</b>	<b>1 238</b>	<b>2 472</b>
<b>2. Review of program parameters</b>		
Business assistance	268	298
Reimbursement of the price of generic drugs	118	190
Improvement of the performance of programs in departments and the health and social services networks and education networks		
– Health optimization plan: Improvement of program performance	50	270
– Other measures	84	265
<b>Subtotal</b>	<b>520</b>	<b>1 023</b>
<b>3. Budgetary discipline</b>		
Limited budget growth and a reduction in the funding envelope allocated to new programs as of 2011-2012	906	1 709
<b>Subtotal</b>	<b>906</b>	<b>1 709</b>
<b>TOTAL IDENTIFIED MEASURES</b>	<b>2 664</b>	<b>5 204</b>

(1) The overall target for 2013-2014 remains unchanged in relation to that presented in Budget 2011-2012. However, the breakdown of the effort among the various measures has been revised to take into account progress to date.

(2) Excluding an amount of \$70 million appearing under the heading "Control of spending on computer resources".

Source: Secrétariat du Conseil du trésor.

## ■ Public bodies

The cumulative effort expected from public bodies was \$240 million for 2010-2011 and 2011-2012. The effort achieved amounts to \$272 million, or \$32 million more than the projected target.

TABLE A.21

### Spending reductions by public bodies (millions of dollars)

	2011-2012		2012-2013	2013-2014
	Forecast	Achieved		
Spending reductions and productivity gains by commercial government corporations				
– Hydro-Québec	100	100	150	250
– Loto-Québec	25	29	40	50
– Société des alcools du Québec	25	25	40	50
Spending reductions and productivity gains by other public bodies				
– Special funds and non-budget-funded bodies	40	68	60	80
– Gradual reduction of health and social services network deficits	50	50	75	100
TOTAL	240	272	365	530

The commercial government corporations, Hydro-Québec, Loto-Québec and the Société des alcools du Québec, are meeting the objective set. The effort supplied by Hydro-Québec and the Société des alcools du Québec corresponds to the objective set, while that supplied by Loto-Québec, which cut its spending by \$29-million, was \$4 million more than required.

In the case of non-budget-funded bodies and special funds, savings of \$68 million will be achieved, or \$28 million more than the projected target of \$40 million. Lastly, organizations in the health and social services network met their deficit reduction targets for 2011-2012, i.e. \$50 million.

## Certain countries and US states are banking on increased tax receipts ...

Like Québec, many European countries and US states have adopted revenue measures to help restore fiscal balance.

- For example, England, Spain, France, Italy, California and New York have increased their consumption tax rate, while the nine countries and states presented in the table below have increased personal income tax.
- In addition, eight have adopted specific taxes or duties: tobacco (5 countries and states), alcohol (5 countries and states), automobiles (5 countries and states), tuition fees (3 countries and states) and fuel (England and New Jersey).

### Measures to increase revenue – 6 European countries and 3 US states

	Ger.	Eng.	Den.	Sp.	Fr.	Ital.	Cal.	N.J.	N.Y.
<b>General consumption tax rate</b>		✓		✓	✓	✓	✓		✓
<b>Income tax</b>									
Tax rate				✓			✓		
Income thresholds			✓		✓				
Exemptions or deductions		✓	✓	✓	✓		✓	✓	✓
<b>Social benefits</b>									
Individuals	✓	✓			✓			✓	
Businesses		✓			✓				
Civil servants		✓					✓	✓	✓
<b>Taxes on the financial sector</b>									
Tax on bonuses		✓			✓	✓			
Tax on banks	✓	✓			✓				
<b>Duties and excise taxes</b>									
Tobacco		✓	✓		✓			✓	✓
Alcohol		✓	✓		✓			✓	✓
Fuel		✓						✓	
Automobiles			✓		✓	✓	✓		✓
Tuition fees		✓					✓		✓
<b>Capital gains</b>		✓			✓	✓			
<b>Business profits</b>		✓			✓		✓		✓

Sources: Stability programs, austerity plans and budget statements of the governments concerned.

### ... and spending cuts

These countries and US states have announced specific measures, such as limiting growth in the salaries of government employees (Germany, England and New Jersey) and freezing (England, Spain, France, Italy and New York) or reducing (Spain and California) the civil service payroll.

Other countries and US states have provided for a decrease in public investment (England, Denmark, Spain, Italy and New York) or in the amounts (Germany, England, France, Italy and California) or accessibility (Denmark and England) of social benefits.

In addition, the size of government will continue to be reduced in some of these jurisdictions (Spain and France) or start to be reduced in others (Germany, England, Italy and two of the US states) by replacing only one out of every two employees who retire (France) or by putting a freeze on hiring (England and Italy).

#### Measures to reduce spending – 6 European countries and 3 US states

	Ger.	Eng.	Den.	Sp.	Fr.	Ital.	Cal.	N.J.	N.Y.
<b>Number of government employees</b>	✓	✓		✓	✓	✓	✓		✓
<b>Remuneration of employees</b>									
Limited increase in salaries	✓	✓						✓	
Salary freeze		✓		✓	✓	✓			✓
Reduction in salaries				✓			✓		
Reduction in bonuses or premiums	✓								
<b>Investment spending</b>		✓	✓	✓		✓			✓
<b>Health spending</b>									
Prescription drugs				✓	✓		✓	✓	✓
Radiologists and biologists					✓	✓			
Hospital sector					✓			✓	✓
<b>Social benefits</b>									
Family allowances		✓			✓		✓		
Employment insurance	✓	✓	✓						
Shelter allowance	✓	✓			✓				
Social assistance						✓	✓		
Parental leave	✓								
Loss in universality		✓							
<b>Transfers to local governments</b>		✓	✓		✓	✓	✓	✓	✓
<b>Postponement of retirement</b>		✓		✓	✓	✓		✓	✓

Sources: Stability programs, austerity plans and budget statements of the governments concerned.

## ■ Fight against tax evasion and unreported work

Tax recovery targets have been set for Revenu Québec as part of the plan to restore fiscal balance. In addition to its regular tax recovery activities, Revenu Québec was expected to recover an additional \$555 million for 2011-2012.

Following the change in Revenu Québec's status to that of an agency, the targets were revised upward to \$705 million.

— These targets will be achieved.

TABLE A.22

### Preliminary results of the fight against tax evasion – 2011-2012

(millions of dollars)

	Target 2011-2012	As at January 31, 2012		
		Target	Results	Difference
<b>Plan to restore fiscal balance</b>	<b>555</b>	<b>368</b>	<b>369</b>	<b>1</b>
Increase following the change in status	150	100	100	0
Subtotal	705	468	469	1
Regular tax recovery activities	2 272	1 873	1 913	40
<b>TOTAL</b>	<b>2 977</b>	<b>2 341</b>	<b>2 382</b>	<b>41</b>



## **APPENDIX 2: NEW ACCOUNTING STANDARD FOR GOVERNMENT TRANSFERS**

The Québec government deems compliance with public sector accounting standards to be a priority. Over the past five years, the Auditor General has not issued any restrictions or comments about the government's financial statements. The government intends to pursue this course and to apply the revised standard on government transfers in a disciplined, transparent manner.

### **❑ Revised standard as of April 1, 2012**

Starting April 1, 2012, governments must apply a new accounting standard on government transfers. As stipulated in Section PS 3410 of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (CICA), the government must record expenditures in the fiscal year in which the transfers are authorized and in which the recipient satisfies the eligibility criteria.

According to the Québec government, the revised standard will allow it to maintain its current practice. For over 30 years now, the government has funded a share of the investments of municipalities in, for example, sewers, water supply systems and public transit, and the capital expenditures of universities by granting annual subsidies to cover reimbursements of principal and interest.

The goal is to match government spending with infrastructure use, which is fair for taxpayers from an intergenerational standpoint. The annual subsidies are stipulated in each of the agreements signed with municipalities and universities. They must be submitted annually to the National Assembly of Québec for approval through the adoption of appropriation acts.

### **❑ Position of the Québec government**

Bearing in mind that only the Parliament of Québec, i.e. the National Assembly and the Lieutenant-Governor, may authorize expenditures, this standard must be interpreted as implying the need for the transfers to first be authorized by Parliament before the government may record transfer expenditures. The Canadian Constitution confers on Parliament the power to authorize the government to make expenditures. Consequently, the recording of transfer expenditures must be aligned with Parliamentary authorization, which must reflect the legal commitment contracted by the government in respect of the recipients.

According to the Auditor General of Québec's interpretation, transfer expenditures must be fully recorded by the government as the work progresses. The Auditor General believes that the government's decisions prior to the authorization to spend given by the National Assembly of Québec are sufficient to deem the entire commitment made by the government to be authorized and that the commitment must, consequently, be recorded as an expenditure.

The government has indicated to the Auditor General that it cannot prepare its financial statements by assuming that Parliament will grant appropriations in future years. This would go against the right and prerogatives of parliamentarians. Such an interpretation would mean that the National Assembly's authorization would be assumed for all commitments made by the government.

The consequences of the government applying the Auditor General's interpretation of the new standard would be to:

- exempt the appropriations required to grant financial assistance for the acquisition of such investments from the vote of parliamentarians. Currently, infrastructure project agreements stipulate that government funding is conditional on the granting of the budgetary appropriations required by the National Assembly;
- oblige the government to review all of its financial commitments with partners because of the ensuing financial repercussions.

In this context, the government is taking its advice from three independent firms, PricewaterhouseCoopers, Samson Bélair/Deloitte & Touche and Ernst & Young, and is of the opinion that its practice complies with the new standard, based on the annual approval of appropriations.

Financial assistance for programs administered by the Société de financement des infrastructures locales du Québec (SOFIL) and the Société d'habitation du Québec (SHQ) does not require annual authorization of appropriations by the National Assembly since the latter has granted their boards of directors, under the bodies' statutes of incorporation, the power to authorize their financial commitments.

- The Ministère des Finances has made a preliminary estimate that, on account of the new standard, the government's accumulated deficits and liabilities will be restated, as at April 1, 2012, by \$1.2 billion, which represents the contractual obligations on that date.
- Lastly, the budget's financial framework has provided for spending adjustments to take into account the application of the new standard by SOFIL and the SHQ.

# Section B

## THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2012 AND 2013

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## INTRODUCTION

This section of the Budget Plan presents the economic forecasts underpinning Budget 2012-2013. It is divided into five parts.

The first part discusses the **economic situation in Québec**. The economy will continue to grow in 2012 at a similar pace to that in 2011 and then accelerate in 2013. Household spending and business investment will continue to support domestic demand, while the international economy will favour exports more.

In 2012 and 2013, Québec exports will benefit in particular from a stronger U.S. economy and sustained demand for commodities by emerging economies. In addition, Québec has diversified its exports in recent years, with an increasing share being destined for emerging markets.

The second part provides an overview of **the economic situation of Québec's main trading partners**. Even though it has diversified its exports, Québec still conducts a significant amount of trade with Canada and the United States. The U.S. economy is continuing its recovery, sustained by a gradual acceleration of job creation and growth in consumer spending. For its part, Canada's economy will benefit from a greater contribution from its external sector and substantial investment in the energy sector.

The third part describes the **international context**. The world economy will continue to expand in 2012 and 2013, but the major economies will grow at different paces. Emerging economies will continue to drive global economic growth and help keep commodity prices at historically high levels. As employment grows, U.S. domestic demand will continue to strengthen gradually, whereas the euro area's economy is expected to witness a recession in 2012.

The fourth part provides an overview of the **major risks** related to the forecasts and their possible effects on the Québec economy.

The last part reports on **productivity and standard of living gains** made by Québec in recent years. It also examines the factors underpinning this progress and compares it against other Canadian provinces and other OECD countries.



# 1. THE ECONOMIC SITUATION IN QUÉBEC

This section presents the economic outlook for Québec, particularly changes in real GDP and its components in 2012 and 2013, as well as a five-year economic forecast.

The Québec economy will continue growing in 2012, at a similar pace to that in 2011. Economic activity will then accelerate in 2013, reaching a growth rate equivalent to the historic average. After rising 1.6% in 2011, Québec's economy should expand by 1.5% in 2012 and 1.9% in 2013.

In 2011, economic activity was driven by:

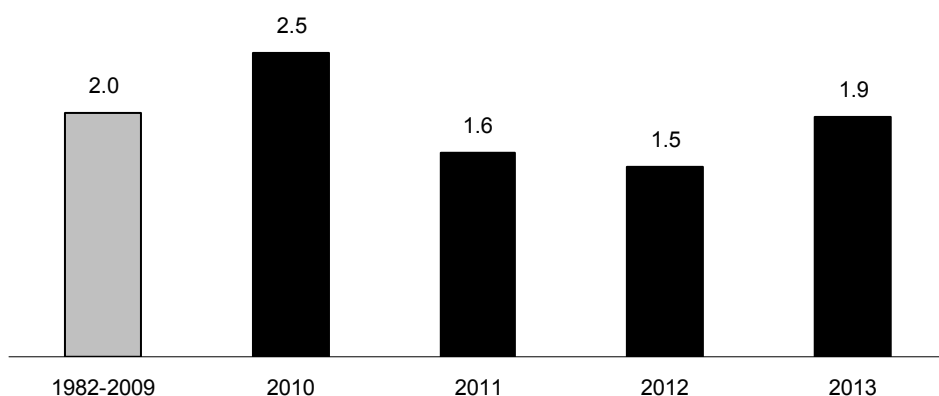
- domestic demand, in particular household consumption expenditures, which were bolstered by income growth;
- robust growth in business investment, helped by low interest rates and the strong Canadian dollar, which prompted machinery and equipment imports.

Export growth remained modest, however, as a result of the very gradual recovery in U.S. demand and the persistently high Canadian dollar. Exports should pick up as the economic situation improves in the United States.

These forecasts involve risks related to international events, which are discussed further on.

CHART B.1

## Economic growth in Québec (real GDP, percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

## The Québec economy in 2011

Québec withstood the recession better than its main trading partners. Its economy continued to expand in 2011, with real GDP increasing by 1.6% after growing 2.5% in 2010.

Growth in household income and the sound financial position of businesses continued to sustain domestic demand in 2011. Businesses took over the lead from governments and raised the level of their investment by 10.1%.

Meanwhile, Québec exports increased by only 1.4% in real terms. While the conditions for a sustained recovery were in place at the beginning of 2011, a series of shocks during the year affected the still-fragile recovery and hampered global economic growth.

- These shocks include soaring oil prices as a result of the popular uprisings in the Middle East, the earthquake in Japan, which caused shortages in several global supply chains, the economic uncertainty in the United States, and the worsening sovereign debt crisis in the euro area.

Although the international context influenced the confidence of Québec consumers, household spending continued to grow at a rate of 1.3%. Businesses took advantage of sustained demand for their products to invest in increasing their production and efficiency.

In addition, faced with heightened tensions on global financial markets, monetary authorities implemented the measures necessary to ensure financial stability and support economic activity.

- More specifically, the Bank of Canada maintained its expansionary monetary policy, and interest rates remained exceptionally low, allowing households and businesses to obtain advantageous financing conditions.



## Growth outlook for 2012 and 2013

Domestic demand will make a more moderate contribution to economic growth in 2012 and 2013 than in 2011, reflecting, among other things, a smaller contribution from governments and consumers.

- Consumer spending will continue to grow in 2012, at an equivalent rate to that in 2011, and then pick up pace in 2013.
- Residential construction will ease in 2012 and 2013, while remaining above its historical average level.
- Following a sharp increase in 2011, growth in non-residential business investment is expected to remain strong in 2012 and 2013.

On the other hand, the external sector's contribution to real GDP growth will increase in 2012 and 2013. The anticipated stability of the Canadian dollar following years of significant appreciation will be favourable to exports.

- Export growth will be supported by, among other things, a gradual improvement in the U.S. economy.
- At the same time, imports should grow at a more moderate pace with the expected deceleration in growth in domestic demand.

TABLE B.1

### Québec real GDP and its major components (percentage change)

	2010	2011	2012	2013
<b>Domestic demand</b>	<b>4.2</b>	<b>2.1</b>	<b>1.2</b>	<b>1.5</b>
Consumption of goods and services	3.3	1.3	1.4	1.9
Residential construction	12.9	0.7	-3.5	-4.1
Non-residential business investment	5.9	10.1	4.6	4.6
<b>External trade</b>				
Total exports	0.8	1.4	3.4	3.4
Total imports	5.3	3.4	2.1	2.2
<b>REAL GDP</b>	<b>2.5</b>	<b>1.6</b>	<b>1.5</b>	<b>1.9</b>

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

## Standard of living in Québec

### Rise in real GDP from 2003 to 2011

In 2011, the size of the Québec economy, measured by real GDP, represented 21% of Canada's real GDP. Québec's real GDP growth compares well against that of its North American trading partners despite less favourable population growth in Québec.

- From 2003 to 2011, real GDP expanded at an average annual rate of 1.6%, the same rate as in the United States. Canada's real GDP grew by 1.8% and Ontario's, by 1.3%.
- During the same period, Québec's population growth averaged 0.8%, a lower rate than that of Canada (1.1%), Ontario (1.1%) and the United States (0.9%).

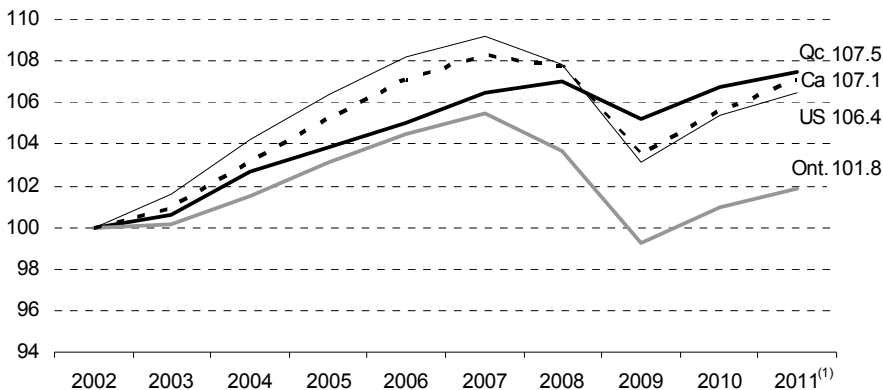
### Increase in real GDP per capita — standard of living

Growth in Québec's real GDP between 2003 and 2011 enabled substantial improvement in Quebecers' standard of living. Since 2002, wealth per capita grew at a faster pace in Québec than in Canada, the United States and Ontario.

The standard of living, as measured by real GDP per capita, increased at an average annual rate of 0.8% in Québec between 2003 and 2011.

- This is a higher growth rate than that of Ontario (0.2%) and equivalent to that of Canada (0.8%) and the United States (0.7%).

### Real gross domestic product per capita (index, 2002 = 100)



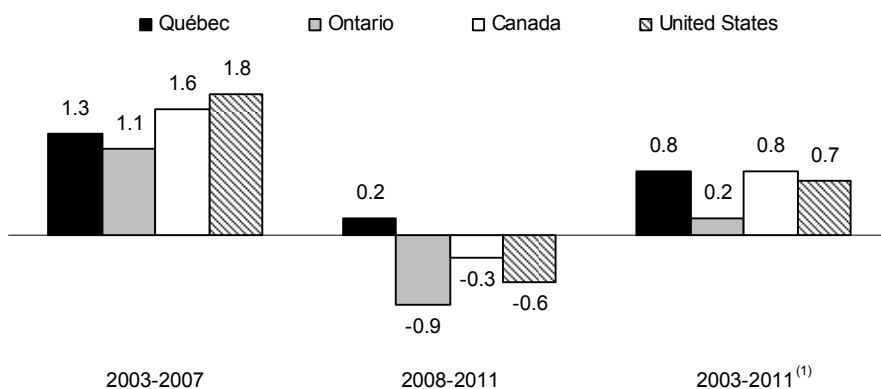
(1) For Québec, the estimate of real GDP per capita in 2011 is based on the economic forecasts of the Ministère des Finances du Québec. Conference Board of Canada forecasts were used for Ontario.  
Sources: Statistics Canada, Institut de la statistique du Québec, Conference Board of Canada, Bureau of Economic Analysis and Ministère des Finances du Québec.

### Standard of living in Québec (continued)

These results are mainly attributable to Québec's relatively good economic performance during the last recession and the subsequent recovery. Québec's real GDP per capita continued to rise by 0.2% per year from 2008 to 2011 despite the global recession.

– Over the same period, real GDP per capita fell by 0.9% in Ontario, 0.3% in Canada and 0.6% in the United States.

#### Real gross domestic product per capita (average annual percentage change)



(1) For Québec, the estimate of real GDP per capita in 2011 is based on the economic forecasts of the Ministère des Finances du Québec. Conference Board of Canada forecasts were used for Ontario.

Sources: Statistics Canada, Institut de la statistique du Québec, Conference Board of Canada, Bureau of Economic Analysis and Ministère des Finances du Québec.

# 1.1 The labour market

After the rapid recovery of the jobs lost during the 2009 recession, job creation should continue in 2012 and 2013.

- Following the creation of 66 700 and 38 500 jobs in 2010 and 2011, respectively, continued economic growth should enable the creation of 21 300 jobs in 2012 and 35 700 in 2013.

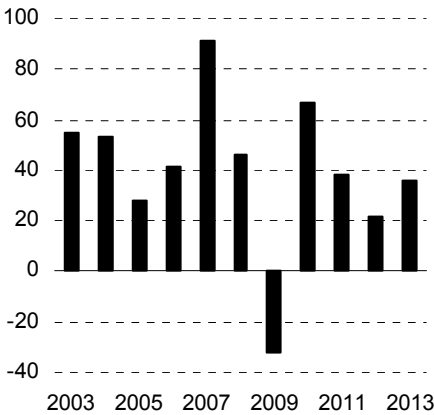
At 7.8% on average in 2011, the unemployment rate remained low based on historical levels. It was also comparable to the rate of 7.4% for Canada as a whole.

Good labour market performance should help keep the unemployment rate at 8.0% in 2012 and 7.9% in 2013. Job creation will thus grow in tandem with new arrivals into the labour market.

- Note that 66 700 jobs were created in Québec in 2010, following the recession, bringing the unemployment rate down to 8.0%.

CHART B.2

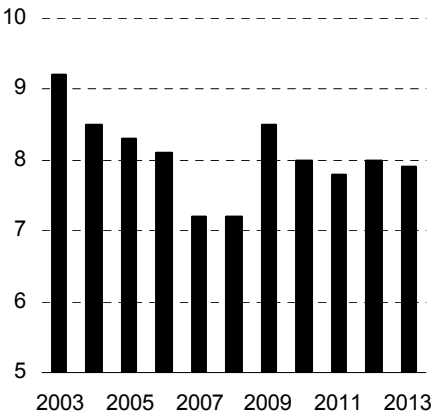
**Job creation in Québec**  
(change in thousands)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.3

**Unemployment rate in Québec**  
(per cent)



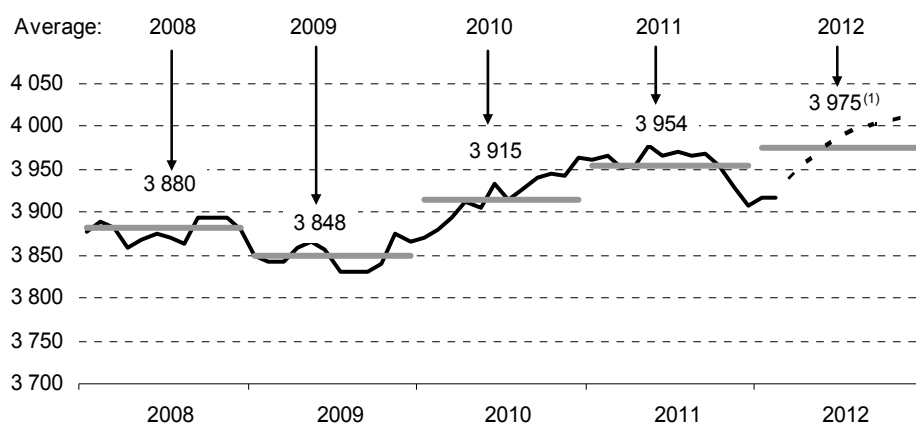
Sources: Statistics Canada and Ministère des Finances du Québec.

## Québec's labour market in 2011

Québec's labour market performance in 2011 was positive overall. A total of 38 500 jobs were created during the year compared with the average in 2010, when 3.95 million people were working. The average unemployment rate in 2011 was 7.8%.

However, the last few months of 2011 seem to have been marked by significant job cuts. According to Statistics Canada's *Labour Force Survey* (LFS), Québec lost 61 000 jobs between October and December and the unemployment rate rose, standing at 8.7% in December 2011.

### Job levels in Québec (thousands)



(1) Forecast.

Sources: Statistics Canada and Ministère des Finances du Québec.

These recent statistics must be interpreted with caution, however, owing to the significant volatility of monthly survey data, something a number of economic analysts have stressed. Most of the recent economic statistics show that the economy continued to grow. In the fourth quarter of 2011:

- retail sales gained 2.1%, while automobile sales rose by 6.2%;
- housing starts stood at over 45 000 units, a higher level than the historical average, while home resales climbed 7.3% over the same period;
- international exports of goods increased by 8.3% in real terms;
- employee compensation rose by 1.4%, outstripping the growth for Canada as a whole.

Furthermore, according to Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) for wage-earning employment, over 16 000 salaried jobs were created in Québec in the fourth quarter of 2011.

Continued economic growth and the creation of 9 700 jobs in January and February 2012 suggests that employment is gradually moving to the positive trend posted by the other economic indicators.

## Québec's labour market in 2011 (continued)

### Jobs in Québec in 2010 and 2011, by sector

After a strong rebound of 66 700 new jobs in 2010, employment continued to grow in most sectors of the Québec economy in 2011, but at a more moderate pace.

- The following sectors performed particularly well in terms of job creation in 2011: forestry and mining, transportation and warehousing, education, agriculture, lodging and food services, and construction.
- The manufacturing sector shed 13 300 jobs in 2011.

U.S. demand for certain Québec exports, as well as domestic demand for manufactured products resulting from natural resource extraction and processing, should stimulate employment in Québec.

### Job creation in Québec in 2010 and 2011, by sector (thousands and per cent)

	Thousands		% change <sup>(1)</sup>	
	2010	2011	2010	2011
Forestry, mining and gas	0.8	3.8	2.7	12.6
Transportation and warehousing	–3.5	12.7	–2.1	7.7
Education	0.8	17.2	0.3	6.7
Agriculture	–3.9	3.4	–6.8	6.3
Lodging and food services	12.4	8.9	5.4	3.7
Construction	20.9	6.8	10.0	2.9
Professional services	22.9	7.4	8.4	2.5
Other services	–9.2	3.6	–5.2	2.2
Health care and social assistance	24.4	5.7	5.1	1.1
Services to businesses	0.2	1.6	0.1	1.1
Trade	7.0	6.3	1.1	1.0
Public administrations	14.5	–3.0	6.5	–1.3
Manufacturing	–32.4	–13.3	–6.1	–2.7
Finance, insurance and real estate	11.1	–10.9	4.9	–4.6
Information, culture and recreation	3.0	–9.8	1.7	–5.6
Public services	–2.0	–1.9	–5.7	–5.7
<b>TOTAL</b>	<b>66.7</b>	<b>38.5</b>	<b>1.7</b>	<b>1.0</b>

(1) From the previous year.  
Source: Statistics Canada.

## 1.2 Domestic demand

### 1.2.1 Household spending

Spurred by income growth and continued improvement in the labour market, household spending rose in 2011 despite the effects of increases in gasoline prices and the Québec sales tax (QST).

Household spending will continue to support economic growth in 2012 and 2013.

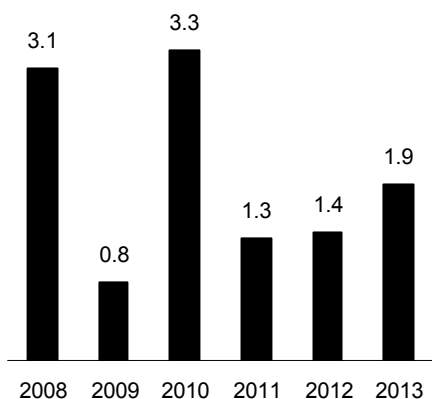
- In 2012, growth in household spending will be similar to that in 2011.
- Growth in household spending will pick up pace in 2013, driven primarily by stabilization of the QST rate and more moderate increases in energy prices.

However, household spending growth will be mitigated by fragile consumer confidence stemming from the global economic uncertainty, particularly the problems in Europe and the high oil prices. This uncertainty should slowly dissipate, gradually restoring confidence and consumption.

Thus, after rising by 1.3% in 2011, household spending will grow at a rate of 1.4% in 2012 and 1.9% in 2013, a similar increase to that in income.

CHART B.4

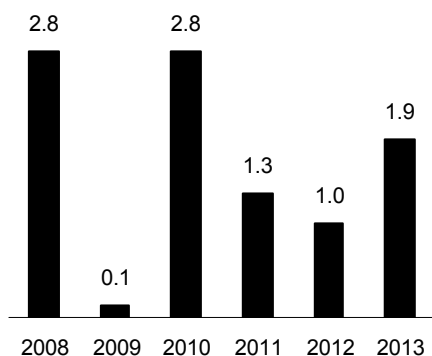
#### Household spending in Québec (percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART B.5

#### Personal income in Québec (percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

# ❑ **Residential investment**

In 2010, exceptionally low interest rates and government renovation tax credits prompted households to move up their residential investment expenditures. This rebound was followed by a stabilization in the market, at a level of activity that matched household formation.

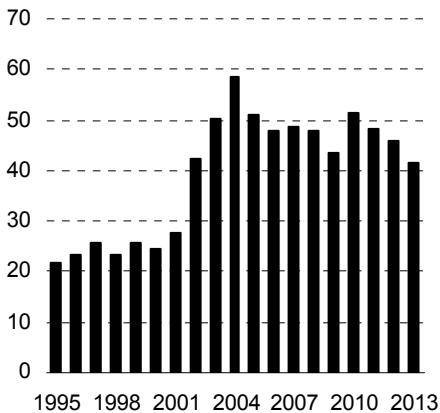
The return to this balance, which began in 2011, should continue in the coming years.

- Consequently, residential investment should contract 3.5% in real terms in 2012 and 4.1% in 2013.
- After decreasing by 5.8% in 2011, the number of housing starts should fall another 5.5% in 2012, to 45 700 units, and then 8.9% in 2013, to 41 600 units.
- After increasing by 3.8% in 2011, spending on renovations should drop by 2.1% in 2012 and then grow by 1.1% in 2013.

Moreover, the currently low interest rates and the good mortgage financing conditions, which are expected to continue for several quarters, will help support the residential sector. This sector will remain at higher levels than those seen in the late 1990s, when housing starts were below 30 000 units.

CHART B.6

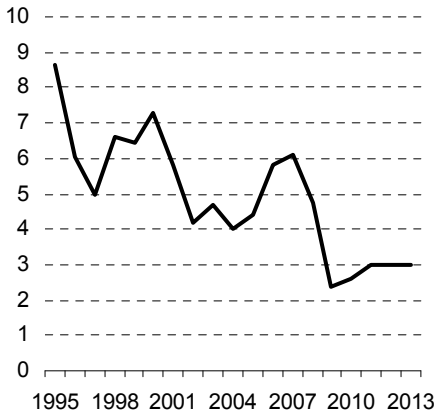
**Québec housing starts**  
(thousands of units)



Sources: Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

CHART B.7

**Prime interest rate**  
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.



## 1.2.2 Non-residential investment

Québec benefited from robust growth in non-residential investment in 2010 and 2011. Rebounding 7.3% in 2011, non-residential investment was fuelled by a sharp 7.7% increase in business investment and a 6.5% increase in public investment.

Non-residential investment should remain vigorous, growing by 3.6% in 2012 and 3.8% in 2013.

- Moreover, investment growth will receive greater support from the private sector, owing in particular to projects involving natural resource extraction in northern Québec.

TABLE B.2

**Non-residential investment in Québec**  
(thousands of dollars, except otherwise indicated)

	2010	2011	2012	2013
Total investment	43.0	46.1	47.8	49.6
<i>% change</i>	5.2	7.3	3.6	3.8
Business investment	27.0	29.1	31.1	33.0
<i>% change</i>	3.5	7.7	7.0	6.0
Public investment	16.0	17.1	16.7	16.6
<i>% change</i>	8.2	6.5	-2.3	-0.3

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

### Business investment

Following a sharp increase of 7.7% in 2011, including 10.0% growth in the machinery and equipment segment, non-residential business investment is expected to expand by 7.0% in 2012 and 6.0% in 2013, reaching \$33 billion in value.

- This expansion, as reflected by high investment intentions, will be supported by the good financial health of businesses, low borrowing costs and a Canadian dollar that will remain high, curbing the cost of imported equipment.
- More specifically, investments in metal processing, mining and wind power will contribute significantly to economic growth in the coming years.

Consequently, non-residential business investment will reach record levels.

- Note that after falling during the recession, the level of investment rose to over \$29 billion in 2011.

## Business investment in Québec reflects high business confidence

### Strong business investment since 2009

Following the period of recession marked by a contraction in global economic activity and cautious investment by Québec businesses, the latter gradually started investing again.

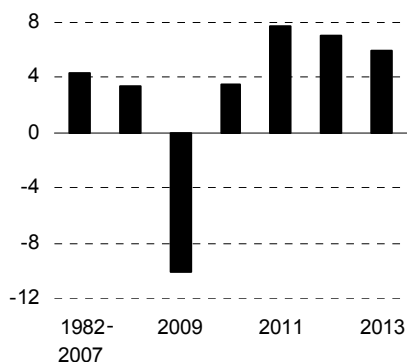
- After growing by 3.5% in 2010, the value of business investment jumped 7.7% in 2011.
- This strong recovery is expected to remain firm in 2012 and 2013, with growth of 7.0% and 6.0%, respectively.

The upturn in investment observed since 2009 occurred faster than after the two previous recessions.

- Following the 2008-2009 recession, it took businesses three years to return to their pre-recession level of investment, compared with four years after the 1981-1982 recession and eight years after the 1990-1992 recession.

### Non-residential business investment

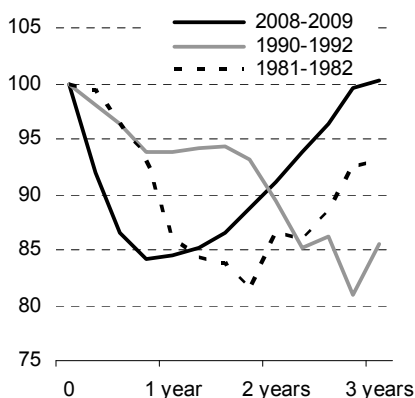
(percentage change)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

### Non-residential business investment index, Québec<sup>(1)</sup>

(real GDP, cyclical peak = 100)



(1) 1981-1982, 1990-1992 and 2008-2009 refers to the last three recessions.

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

### Business investment outlook for 2012 and 2013

The growth in investments since the last recession is favoured by factors specific to the current cycle, namely:

- the financial health of businesses, which is primarily attributable to increased profits and sales;

### Business investment in Québec reflects high business confidence (continued)

- advantageous borrowing conditions due to an accommodating monetary policy;
- a taxation system that is favourable to investment thanks, among other reasons, to the elimination of the tax on capital on January 1, 2011;
- the increasingly good outlook for the U.S. economy.

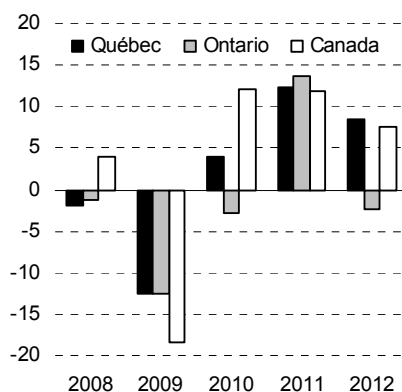
Statistics Canada's annual survey of public and private investment intentions, conducted in February 2012, projects 8.5% growth in private non-residential investment in Québec in 2012, higher than in Canada (+7.6%) and Ontario (–2.3%).

- The investment projections for Québec look especially good for the following sectors: mining, oil and gas (+62.0%), transportation and warehousing (+19.2%) and public services (+18.9%).
- Mining investments will reach a record \$4.4 billion in Québec in 2012.
- In addition, investments in the manufacturing sector will top \$5 billion for the second year in a row.

These data confirm the high level of business confidence in the growth outlook for their Québec operations and show that the Québec economy is well positioned to take advantage from the current growth cycle.

#### Private non-residential investment

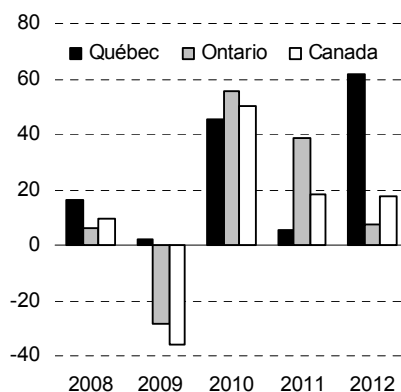
(percentage change in nominal terms)



Source: Statistics Canada.

#### Investments in the mining, oil and gas sector

(percentage change in nominal terms)



Source: Statistics Canada.

**Government investments**

After reaching a record high of over \$17 billion in 2011, the value of investments by government departments and other public institutions is expected to level off in 2012 and 2013, reaching \$16.6 billion in 2013.

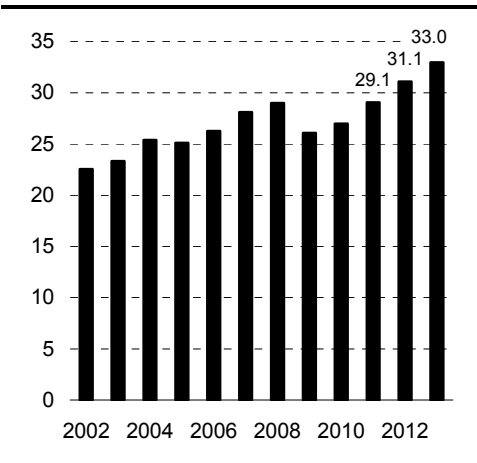
- The gradual phasing out of the investment programs introduced by the federal government to support the economy during the recession, and the stabilization of investment under the Québec Infrastructures Plan will slow growth in public infrastructure spending in 2012 and 2013.

Public investments will nevertheless remain at high levels compared with early-2000 levels and will help create and maintain thousands of jobs in Québec.

- This high level of investment in infrastructure will support the modernization of Québec’s public capital stock.

CHART B.8

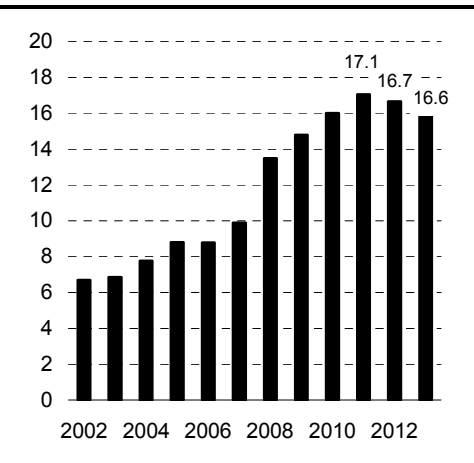
**Business investment<sup>(1)</sup> in Québec**  
(billions of dollars)



(1) Includes private and public enterprises.  
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.9

**Government investments in Québec**  
(billions of dollars)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

## Economic impacts of the Québec Infrastructures Plan

The Québec government has increased its public infrastructure investments substantially since 2003. The pace of growth has been accelerating since the adoption in 2007 of the Québec Infrastructures Plan (QIP)<sup>1</sup>, whose goal is to maintain, upgrade and replace assets so that future generations may benefit from adequate and modern infrastructures.

### Economic impacts of the Québec Infrastructures Plan

The Québec government plans to inject \$8.8 billion a year, on average, into the QIP from 2011-2012 to 2015-2016.

- These investments will contribute an average of 1.5% a year to Québec's real GDP from 2011 to 2015.
- In addition, they will create or support 58 000 jobs, including 33 000 direct jobs.

In Montréal, the QIP will generate investments of \$16.9 billion between now and 2016 and will create or support 22 000 jobs, including 13 000 direct jobs.

### Impacts of the Québec Infrastructures Plan in Québec

	5 years	Per year
Investments in Québec from 2011-2012 to 2015-2016	\$44.2 billion	\$8.8 billion
Investments in Montréal from 2011-2012 to 2015-2016	\$16.9 billion	\$3.4 billion
Number of jobs in Québec		58 000
Number of jobs in Montréal		22 000
<b>Contribution to Québec's real GDP</b>		<b>1.5%</b>

Source: Ministère des Finances du Québec

### Medium- and long-term contribution to economic prosperity

The Québec Infrastructures Plan will contribute to Québec's economic prosperity in the medium and long terms. In particular:

- transportation infrastructure will facilitate trade for businesses;
- municipal infrastructure will be a major factor in deciding business locations;
- health care infrastructure will help improve the well-being of the population and workers;
- education infrastructure will contribute to worker training and to research and innovation, key determinants of productivity.

<sup>1</sup> Gouvernement du Québec, *Foundations for Success, Québec Infrastructures Plan, 2007*.

## 1.3 Foreign trade

After declining 7.4% in 2009 during the recession, exports picked up slowly due to the appreciation of the Canadian dollar, the sluggish recovery of the U.S. economy and the continued uncertainty in Europe. As a result, Québec's total exports rose by 0.8% in 2010 and 1.4% in 2011.

This upturn should accelerate in 2012 and 2013 as Québec's foreign trade benefits in particular from:

- gradual strengthening of the U.S. economy as a result of firmer domestic demand;
- growing demand for Québec's natural resources by emerging economies, which will enable development of Québec's mineral potential;
- progressive easing of the euro area's economic problems starting in the second half of 2012.

Even though it remains near parity, the relatively stable Canadian dollar will enable Québec exporters to adjust to this reality.

## ❑ Trade diversification

Québec is also continuing the efforts to diversify its export destinations, a process initiated in the 2000s.

- Between 2001 and 2011, the share of Québec's international exports of goods destined for Europe rose from 9.2% to 14.6%, while that of exports to Asia and the rest of the world, not including the United States, increased from 6.2% to 17.9%.

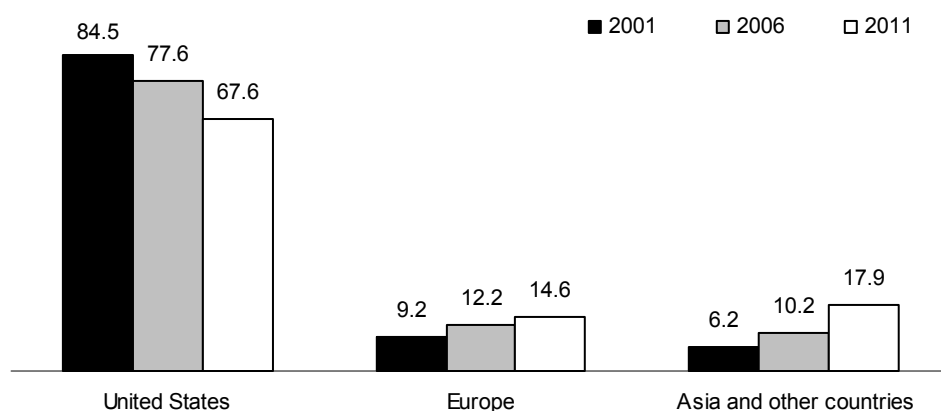
The United States remains Québec's most important trading partner, purchasing nearly 68% of its total exports.

Furthermore, Québec businesses export a range of products. In 2011, the top exports were:

- aircraft and aircraft parts, which accounted for 16.7% of total exports;
- machinery and equipment, which accounted for 16.6% of total exports;
- primary metals, which accounted for 16.0% of total exports.

CHART B.10

### Québec's international exports of goods, by destination (share in total international exports of goods, in per cent)



Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

## ❑ Exports

A key factor in Québec's continued economic recovery, the revival in exports should be supported in 2012 and 2013 by a strengthening of economic growth in the United States and sustained demand for natural resources by emerging economies.

After a slow start in the initial months of 2011, an upswing in exports began in the third quarter of 2011, when total exports, including interprovincial and international shipments, rose by 3.0%.

- This trend should strengthen over the coming quarters, with Québec's total exports expected to grow at an annual rate of 3.4% in 2012 and 2013.
- In addition, the external sector will become more favourable in 2013 as the U.S. economy accelerates and the euro area's economic problems gradually ease.

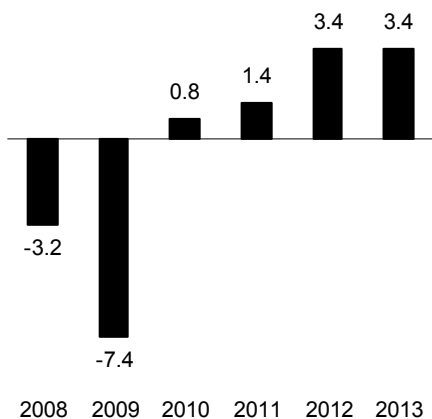
Exports will also gain from a number of recent measures taken by the government to support Québec exporters.

- These measures include the creation of Export Québec, which helps businesses develop, consolidate and diversify their markets outside Québec.

Note that since the early 2000s Québec exports have been affected in particular by the appreciation of the Canadian dollar and the repercussions of the 2009 recession.

CHART B.11

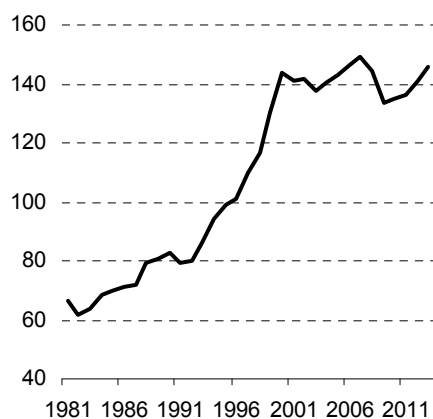
### Québec's total exports (percentage change, in real terms)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.12

### Québec's total exports (billions of dollars, in real terms)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.



## Québec's international exports in 2011

Québec's international exports of goods started picking up in 2011.

- In real terms, international exports of goods were up 3.5% in 2011 from their level in 2010.

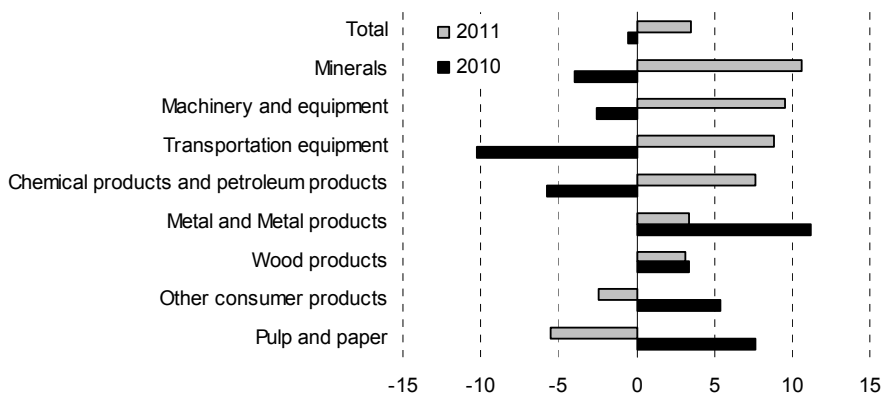
This growth took place despite the nearly 5.0% rise in the Canadian dollar vis-à-vis the U.S. currency, indicating that Québec exporters are successfully adapting to this reality.

The vast majority of sectors contributed to the rebound in exports, especially minerals, machinery and equipment, transportation equipment, and chemical products and petroleum by-products.

This positive trend is expected to intensify in the medium term as a result of:

- a relatively stable Canadian currency, which will enable Québec businesses to increase their productivity and become more competitive;
- more sustained growth in employment and an expected revival in the U.S. residential sector;
- an increase in unfilled orders for aerospace products and parts. In Canada, they jumped 20.5% in 2011, which bodes well for future exports in this sector;
- investments in mining spurred by continually high demand for natural resources by emerging economies.

### Québec's international exports of goods (percentage change, in real terms)



Source: Institut de la statistique du Québec.

## Outlook for U.S. demand for Québec products

### Gradual recovery in U.S. sectors important for Québec exports

While Québec exporters have greatly diversified their export destinations since the early 2000s, Québec's economy remains closely tied to the U.S. economy.

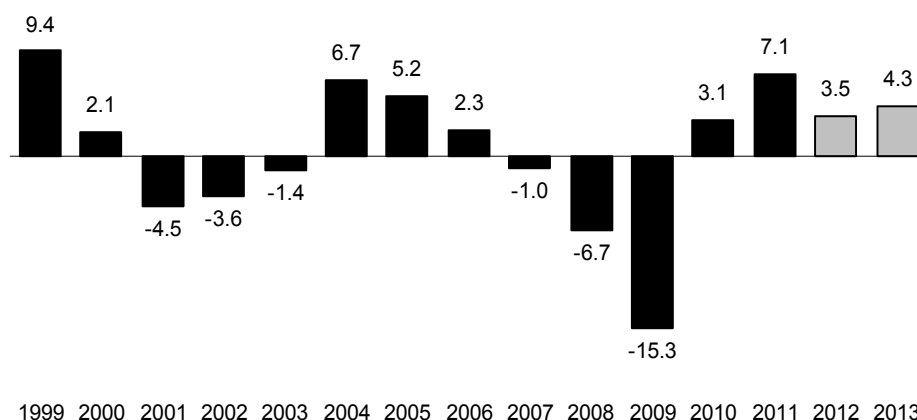
- In 2011, 68% of Québec's international exports of goods went to the United States.

In the second half of 2011, U.S. economic activity, as measured by real GDP, finally got back to its pre-crisis level. On the other hand, output in important sectors for Québec exports has not yet reached the peak achieved in 2006.

- The considerable slide in the index of U.S. demand for Québec products<sup>1</sup> during the recession, i.e. decreases of 6.7% in 2008 and 15.3% in 2009, was only partly offset by the rebound in the following two years.

### Change in the index of U.S. demand for Québec products

(percentage change)



Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances du Québec.

Nevertheless, after increasing by 3.1% in 2010, this index rose by 7.1% in 2011, the biggest annual increase since 1999.

According to Ministère des Finances du Québec forecasts, this index should continue rising in 2012 and 2013, but at a more moderate pace.

- The index of U.S. demand for Québec products is expected to rise by 3.5% in 2012 and then accelerate in 2013, posting an increase of 4.3%.

<sup>1</sup> For more information on the components of this index, see page 30 of the *Update on Québec's Economic and Financial Situation* published in fall 2009.

## Outlook for U.S. demand for Québec products (continued)

### A revival in U.S. industrial activity and an upgrading of transportation infrastructure should benefit Québec exporters

In 2012 and 2013, Québec exporters should benefit from an upturn in the U.S. industrial sector and an upgrading of transportation infrastructure.

- Nearly 44% of Québec goods shipped to the United States consists of intermediate products and production machinery and equipment.

Sustained growth in these two sectors of activity is expected over the next two years, driven by the current upswing in the U.S. manufacturing sector.

- After expanding by 4.2% in 2011, the machinery and equipment sector is expected to grow by 2.6% in 2012 and 2013.
- The intermediate sector is expected to grow by 5.2% in 2012 and 5.4% in 2013, after rising 10.6% in 2011.

The U.S. federal administration's willingness to improve transportation infrastructure, coupled with air carriers' planned investments to upgrade their fleets, should benefit exporters of transportation products in the coming years.

- After expanding by 22.5% in 2011, the U.S. transportation industry is expected to grow by 4.9% in 2012 and 10.5% in 2013.

In addition, the residential real estate sector began picking up after struggling for years, which should enable a stronger increase in housing starts in the coming years. This sector is expected to grow at a rate of 26.7% in 2012 and 12.0% in 2013.

The pulp and paper sector, on the other hand, is expected to continue struggling in the coming years owing to weaker demand, particularly for newsprint.

### Index of U.S. demand for Québec products (percentage change, except where otherwise indicated)

	Part (%)	2011	2012	2013
Machinery and equipment	23.9	4.2	2.6	2.6
Consumer goods	20.5	2.2	1.8	1.7
Intermediate products	19.6	10.6	5.2	5.4
Transportation	19.1	22.5	4.9	10.5
Pulp and paper	10.2	–2.9	–3.5	–2.0
Building material	6.7	4.1	26.7	12.0
	<b>100.0</b>	<b>7.1</b>	<b>3.5</b>	<b>4.3</b>

Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances du Québec.

## ❑ Imports

Imports are expected to increase by 2.1% in 2012 and 2.2% in 2013, after rising by 3.4% in 2011.

- The Canadian dollar will continue to boost machinery and equipment imports, which in turn will be sustained by investment growth. Investments in machinery and equipment should be up 4.2% in 2012 and 6.8% in 2013.
- However, more moderate growth in domestic demand is anticipated, which should slow growth in Québec imports.

## ❑ Net exports

Net exports, which take into account the change in both exports and imports, continued to have a negative impact on growth in 2011.

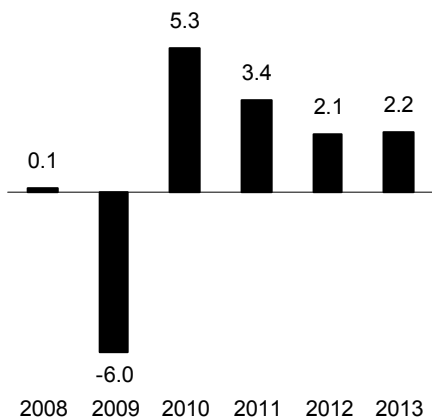
- After slicing 2.8 percentage points off growth in 2010, net exports' negative contribution decreased to 1.4 percentage points in 2011 in response to the upturn in exports and slower growth in imports.

As a result of the anticipated acceleration in export growth, the external sector will start making a positive contribution in 2012, adding 0.3 percentage point to growth in 2012 and 2013, mainly due to a steadier increase in exports than in imports.

CHART B.13

### Québec's total imports

(percentage change, in real terms)

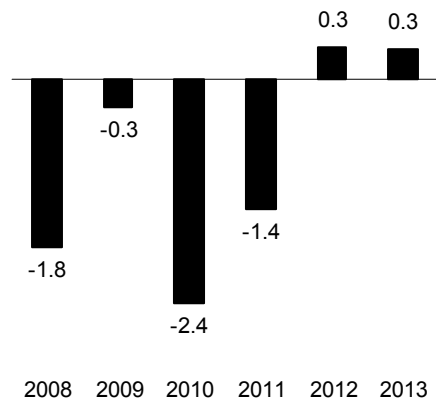


Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.14

### Contribution of net exports to Québec's economic growth

(in percentage points of real GDP)



Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

## 1.4 Change in nominal GDP

Following 4.6% growth in 2011, nominal GDP, which measures the value of output taking the effect of prices into account, is expected to rise by 3.8% in 2012 and 4.1% in 2013.

- Nominal GDP growth will be fuelled by real GDP growth of 1.5% in 2012 and 1.9% in 2013, as well as by an increase in the price of goods and services produced or consumed in Québec of 2.2% in 2012 and 2.1% in 2013.

The rise in nominal GDP will reflect increases in the government's tax bases.

- Personal household income will rise by 3.1% in 2012 and 3.6% in 2013.
- Nominal consumption will increase by 3.4% in 2012 and 3.6% in 2013.
- Corporate profits will grow by 6.9% in 2012 and 4.4% in 2013.

### **□ Consumer price index**

The consumer price index (CPI) will rise by 2.5% in 2012 and 1.8% in 2013, after increasing by 3.0% in 2011.

- The slower increase in the CPI in 2012 and 2013 will be largely attributable to more moderate increases in the price of gasoline and the fact that the increase in the QST on January 1, 2012 will no longer have an effect on price changes in 2013.

TABLE B.3

### **Change in GDP and price indexes** (percentage change)

	2011	2012	2013
Nominal GDP	4.6	3.8	4.1
Real GDP	1.6	1.5	1.9
GDP price index - GDP deflator	2.9	2.2	2.1
Consumer price index	3.0	2.5	1.8

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

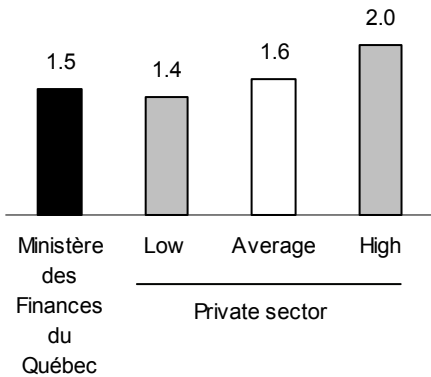
# 1.5 Comparison with private sector forecasts

The economic growth forecast of the Ministère des Finances du Québec for 2012 and 2013 is below the average of private sector forecasts.

- The 1.5% growth in 2012 forecast by the Ministère des Finances du Québec is slightly below the average growth rate of 1.6% forecast by the private sector.
  - Furthermore, the majority of private sector forecasters agree that economic growth in 2012 will be equivalent to that in 2011.
- For 2013, the Ministère des Finances du Québec projects 1.9% growth, compared with 2.0% growth forecast by the private sector.
  - Private sector forecasts for 2013 range from 1.7% to 2.4%. The significant gap reflects different opinions on how the Canadian and U.S. economies will evolve and what it will mean for Québec's economic growth.

CHART B.15

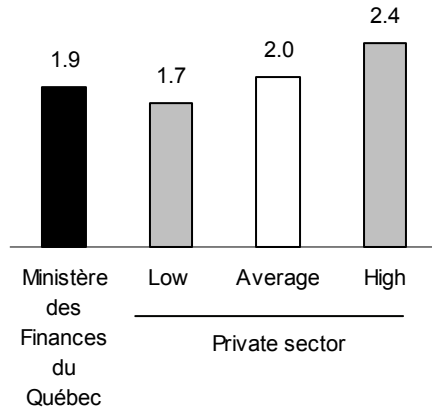
**Economic growth in Québec in 2012**  
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 7, 2012, which includes the most recent forecasts from 10 private sector institutions.

CHART B.16

**Economic growth in Québec in 2013**  
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 7, 2012, which includes the most recent forecasts from 10 private sector institutions.

TABLE B.4

**Québec's economic outlook**  
 (percentage change, unless otherwise indicated)

	2011	2012	2013
<b>Output</b>			
Real gross domestic product	1.6	1.5	1.9
Nominal gross domestic product	4.6	3.8	4.1
Nominal gross domestic product (\$ billion)	333.9	346.7	360.9
<b>Components of GDP (in real terms)</b>			
Consumption	1.3	1.4	1.9
Government expenditures	1.9	0.9	1.2
Residential investment	0.7	-3.5	-4.1
Non-residential business investment	10.1	4.6	4.6
Exports	1.4	3.4	3.4
Imports	3.4	2.1	2.2
<b>Population and labour market</b>			
Population (thousands)	7 980	8 049	8 112
Population aged 15 and over (thousands)	6 573	6 621	6 668
Jobs (thousands)	3 954	3 975	4 011
Job creation (thousands)	38.5	21.3	35.7
Job creation (%)	1.0	0.5	0.9
Unemployment rate (%)	7.8	8.0	7.9
Employment rate (%)	60.1	60.0	60.1
<b>Other economic indicators</b>			
Nominal consumption	3.1	3.4	3.6
Housing starts (thousands of units)	48.4	45.7	41.6
Personal income	3.1	3.1	3.6
Wages and salaries	4.1	3.1	3.6
Corporate benefits	10.2	6.9	4.4
Consumer prices	3.0	2.5	1.8
Nominal GDP per capita (\$)	41 849	43 068	44 490
Per capita personal disposable income (\$)	26 828	27 402	28 125

Sources: Institut de la statistique du Québec, Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

## 1.6 Five-year economic outlook for 2012-2016

The five-year forecast of the Ministère des Finances du Québec is comparable to that of the private sector regarding real GDP growth as well as price levels and nominal GDP growth.

- Regarding real GDP, the projected average growth is 1.9% from 2012 to 2016, the same as the 1.9% private sector forecast.
- Regarding nominal GDP, the expected average growth is 3.9% from 2012 to 2016, compared with the private sector forecast of 3.8%.

TABLE B.5

### Economic outlook for Québec – Comparison with the private sector (percentage change)

	2011	2012	2013	2014	2015	2016	Average 2012-2016
<b>Real GDP</b>							
Ministère des Finances du Québec	1.6	1.5	1.9	2.1	1.9	1.9	1.9
Average private sector forecast	1.8	1.6	2.0	2.1	2.0	1.9	1.9
<b>Price increases</b>							
Ministère des Finances du Québec	2.9	2.2	2.1	2.0	2.0	1.8	2.0
Average private sector forecast	2.7	1.9	1.9	1.9	1.9	1.9	1.9
<b>Nominal GDP</b>							
Ministère des Finances du Québec	4.6	3.8	4.1	4.2	3.9	3.7	3.9
Average private sector forecast	4.5	3.5	3.9	4.0	3.9	3.8	3.8

Source: Ministère des Finances du Québec summary as of March 7, 2012, which includes the most recent forecasts from 10 private sector institutions.



## 2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

Québec is an economy that is open to the world. In 2010, Québec's exports represented 45% of its GDP.

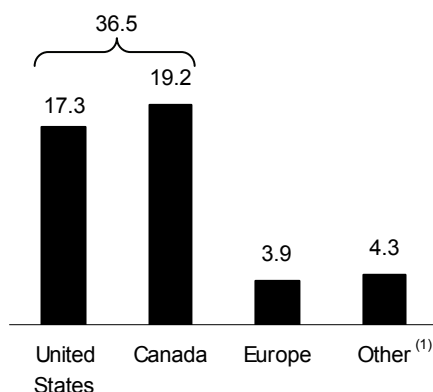
- Furthermore, Québec is shipping a rapidly increasing share of its exports to fast-growing economies, including China, Mexico, South Korea, Brazil and India.

While Québec has diversified trade in recent years, Canada and the United States are still its biggest economic and trading partners. In 2010, exports to these two destinations represented over 36.5% of Québec's GDP.

The following section focuses on the economic outlook for Canada and the United States. Their economic situation has a significant impact on developments in the Québec economy.

CHART B.17

**Share of exports in GDP, by Québec's trading partners**  
(as a percentage of nominal GDP in 2010)

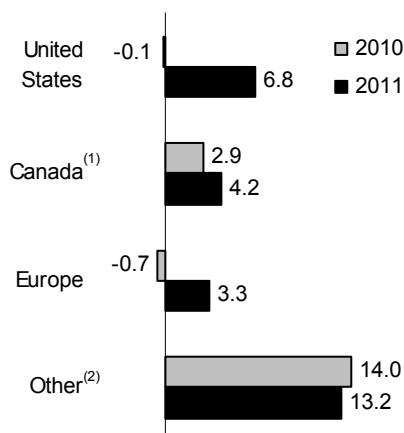


(1) Includes, in particular, China, Japan, Mexico, South Korea, Brazil and India.

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.18

**Exports of goods, by Québec's trading partners**  
(percentage change, in nominal terms)



(1) Cumulative for available quarters in 2011.

(2) Includes, in particular, China, Japan, Mexico, South Korea, Brazil and India.

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

## 2.1 The situation in Canada

Growth in Canada's real GDP is expected to move from 2.5% in 2011 to 1.9% in 2012 and then accelerate to 2.3% in 2013.

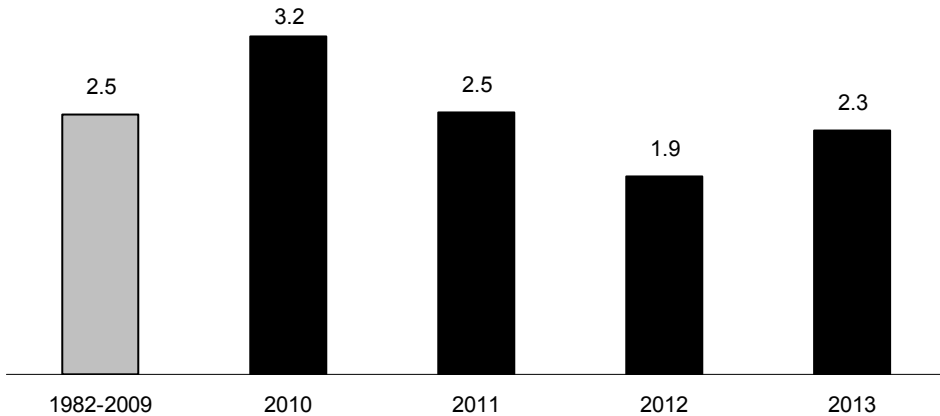
In 2012, real GDP growth will be sustained in particular by growth in exports and in investments in the energy sector.

- Demand for commodities by emerging economies and gradual strengthening of the U.S. economy will spur a 3.9% increase in exports in 2012.
- This contribution from the external sector will partly offset the anticipated moderation in domestic demand, from 3.0% growth in 2011 to 1.7% growth in 2012.

In 2013, Canada's economic activity, like Québec's, will benefit more greatly from stronger economic growth in the United States and the anticipated gradual recovery of euro-area economies.

CHART B.19

### Economic growth in Canada (real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

## ❑ Household consumption and employment

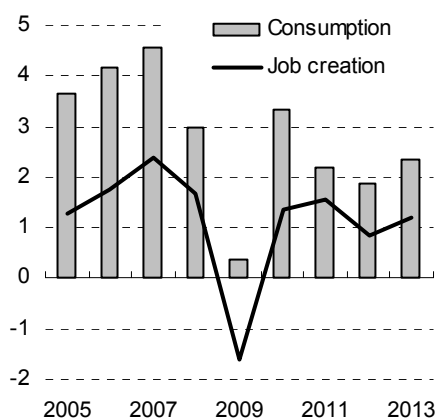
Household consumption will slow in 2012 and then pick up pace in 2013. In real terms, consumer spending will rise by 1.9% in 2012 and 2.3% in 2013, after growing by 2.2% in 2011.

Reduced household confidence will lead to weaker consumption than before the recession. However, low interest rates and employment growth will sustain consumer spending.

- Following the creation of 265 200 jobs in 2011, another 149 800 jobs should be created in 2012 and 208 100 in 2013.
- The unemployment rate was 7.4% in 2011 and will stabilize at 7.6% in 2012 and 7.5% in 2013.

CHART B.20

### Employment and real consumer spending in Canada (percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.21

### Canadian consumer confidence

(index, 2002 = 100)



Source: Conference Board of Canada.

## ❑ Non-residential business investment

After jumping 13.7% in 2011, non-residential business investment is expected to continue growing, but at a more moderate pace. Growth rates of 3.4% in 2012 and 3.5% in 2013 are forecast.

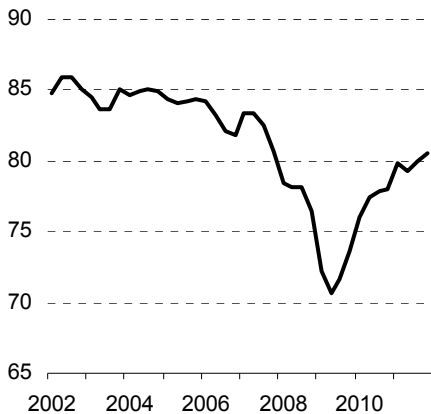
— This growth far outstrips that of real GDP.

A number of factors should foster business investment in 2012 and 2013, namely:

- major energy and natural resource projects.
- the rapid upturn in the industrial capacity utilization rate following the recession, due in particular to strong demand for Canadian products;
- the sound financial position of businesses;
- a Canadian dollar near parity, encouraging businesses to import machinery and equipment.

CHART B.22

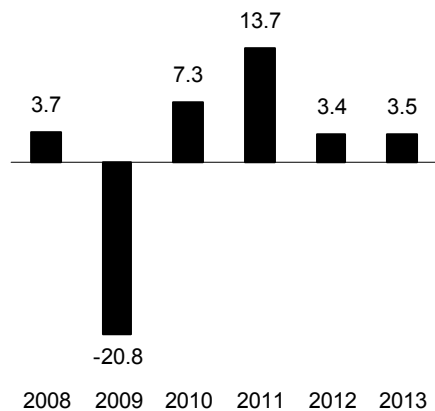
### Industrial capacity utilization rate in Canada (per cent)



Source: Statistics Canada.

CHART B.23

### Non-residential business investment in Canada (percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

## ❑ Exports

Gradual acceleration of economic growth in the U.S. over the coming years, along with the expected improvement in the euro area in 2013 and sustained demand for natural resources by emerging economies, will drive Canada's exports.

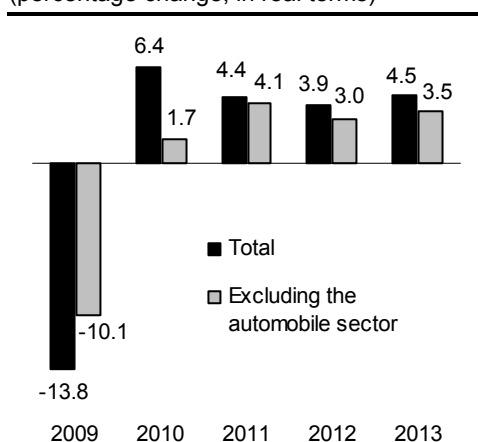
Canadian exports are thus expected to post sustained growth over the coming years, gaining 3.9% in 2012 and 4.5% in 2013.

— Canadian automobile exports should expand by 8.5% in 2012 and 9.4% in 2013, primarily due to increased sales in the United States.

Moreover, a relatively stable Canadian dollar should make it easier for businesses to adjust and strengthen their foreign market positions.

CHART B.24

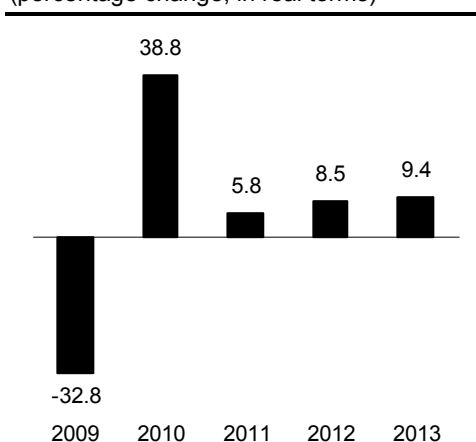
### Canadian exports (percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.25

### Canadian automobile exports (percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

## ❑ Imports

After increasing by 6.5% in 2011, imports are expected to rise by 2.6% in 2012 and 2.7% in 2013.

- The anticipated moderation in growth of domestic demand is expected to limit the pace of import growth.

## ❑ Net exports

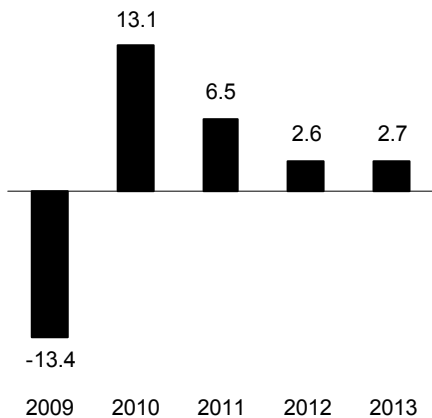
The contribution to economic growth by net exports, which take into account the change in exports and imports, should become positive in 2012 and then continue to grow in 2013.

- The external sector is expected to contribute 0.2 percentage point to economic growth in 2012, compared with a negative contribution of 0.7 percentage point in 2011.
- Sustained export growth will accelerate the contribution of net exports to economic growth in 2013, which should stand at 0.4 percentage point.

CHART B.26

### Canadian imports

(percentage change, in real terms)

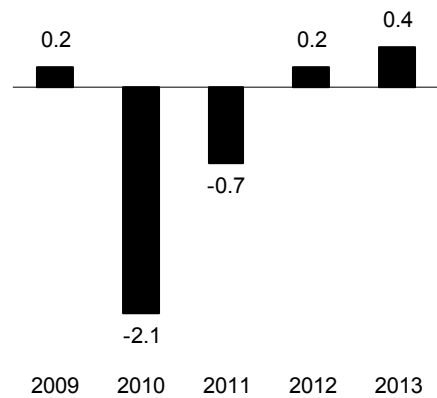


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.27

### Contribution of net exports to Canada's economic growth

(percentage points of real GDP)



Sources: Statistics Canada and Ministère des Finances du Québec.

## ❑ Geopolitical risks will continue to influence oil prices

Oil prices rose sharply in 2010 and 2011, fuelled by demand from emerging economies and the increased geopolitical risks in the Middle East. The price of Brent oil rose to US\$80 per barrel in 2010 and to US\$111 per barrel in 2011. The price of West Texas Intermediate (WTI) oil was US\$95 per barrel in 2011.

- The Arab Spring had a big impact on the price of Brent oil, the benchmark for oil imported by Québec.
- At the same time, the price of WTI oil, which is tied to western Canada's oil production, rose less as a result of increased production from oil sands.

These factors widened the gap between the prices of Brent and WTI.

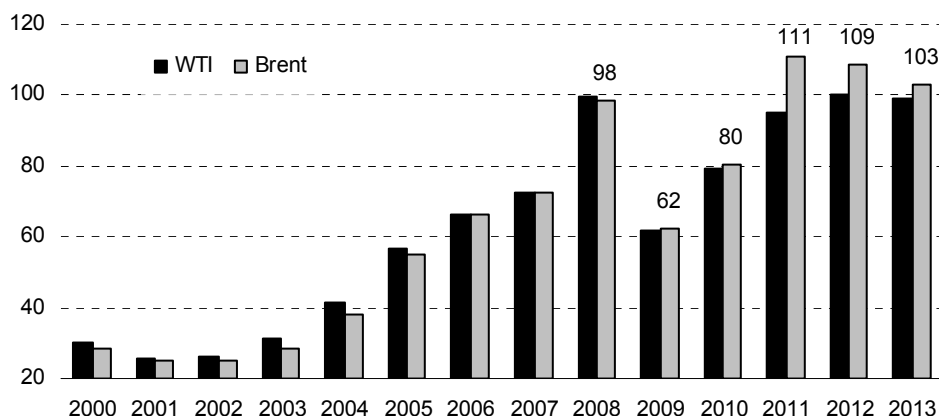
Despite projections of a high world oil supply, oil prices will be supported by demand from emerging economies and the United States, as well as by continued geopolitical risks in the Middle East.

- In 2012, the prices of Brent and WTI oil will average US\$109 and US\$100 per barrel, respectively. The gap between the prices of these two types of oil should gradually narrow.

The oil market should nevertheless remain volatile in response to changing economic conditions and geopolitical risks.

CHART B.28

### Change in oil prices (in U.S. dollars per barrel)



Sources: Bloomberg and Ministère des Finances du Québec.

**❑ The Canadian dollar should depreciate slightly, while remaining strong**

In 2011, the Canadian dollar averaged 101.3 cents U.S., up nearly 5% from the previous-year average.

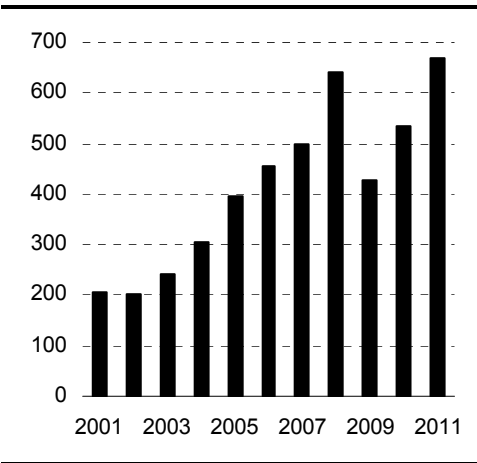
- This increase is primarily attributable to higher commodity prices, as well as to Canada’s good fiscal position compared with that of other G7 countries.

In 2012, the Canadian dollar will continue to be supported by commodity prices, which will remain above their historical levels. While remaining strong, the dollar is expected to depreciate slightly vis-à-vis its U.S. counterpart, settling at 98.9 cents U.S.

- In 2012, the U.S. dollar will gradually strengthen against other currencies, including the Canadian dollar, as the U.S. economy rebounds.
- In 2013 and beyond, the Canadian dollar should stabilize at around 97 cents U.S., a level more in line with Canada’s economic competitiveness vis-à-vis the United States.

CHART B.29

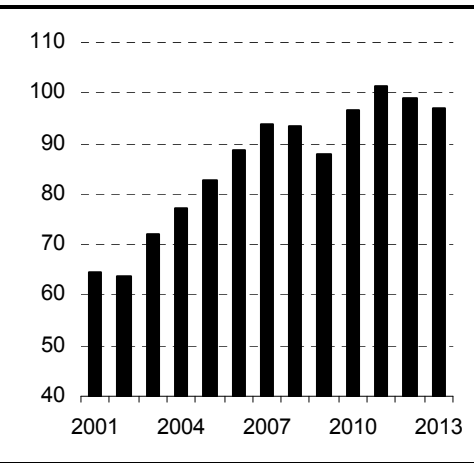
**Commodity prices**  
(S&P GSCI index, January 2, 1970 = 100)



Source: Bloomberg.

CHART B.30

**Canadian dollar exchange rate**  
(U.S. cents)



Sources: Bloomberg and Ministère des Finances du Québec.



## ❑ Low interest rates for an extended period

With the U.S. Federal Reserve's announcement that it intends to maintain its target rate at an exceptionally low level until the end of 2014, the Bank of Canada (BoC) is not expected to raise its key interest rate before the beginning of 2014.

- Moreover, the BoC plans on tightening its monetary policy very gradually to prevent appreciation of the Canadian currency.

Consequently, the rates on Canadian 3-month Treasury bills should remain relatively stable until the end of 2013. They will gradually increase starting in 2014, in pace with monetary policy tightening.

## ■ Bond rates

In times of financial turbulence, investors have a marked interest in less-risky securities. In 2011, investors preferred liquid bond markets or debt securities of governments in a sound fiscal position.

- As a result, the yield on 10-year Canadian bonds was down in 2011, exhibiting a similar trend to that experienced in the United States, Germany and Switzerland. among others.

While this downward trend in rates is expected to turn around in 2012, Canadian bond rates should increase very gradually due to:

- the late and gradual tightening of Canadian monetary policy and the continuing low U.S. bond rates;
- ongoing concerns about the economic and fiscal situation in Europe.

The rates on 10-year Canadian bonds should average 2.3% in 2012, 3.0% in 2013 and 3.7% in 2014.

TABLE B.6

### Canadian financial markets (per cent)

	2011	2012	2013	2014
Target for the overnight rate	1.0	1.0	1.0	1.4
Treasury bills - 3-month	0.9	0.9	1.0	1.4
Bonds - 10-year	2.8	2.3	3.0	3.7
Canadian dollar (in U.S. cents)	101.3	98.9	97.1	97.2

Sources: Bloomberg, Statistics Canada and Ministère des Finances du Québec.

## 2.2 The situation in the United States

### ❑ Continued economic recovery

The U.S. economy is still recovering from the severe recession in 2008-2009. After growing by 1.7% in 2011, U.S. real GDP is expected to increase by 1.9% in 2012 and 2.3% in 2013.

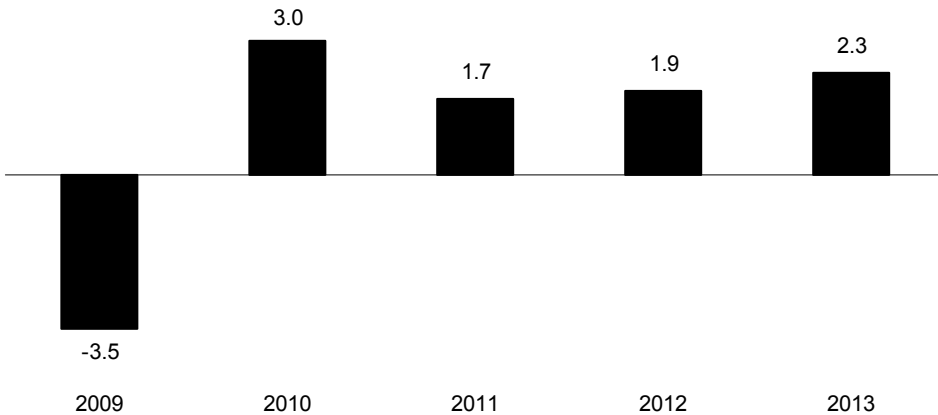
In the next two years, economic growth in the United States will essentially depend on internal factors. Greater consumer spending and business investment, along with an upswing in the residential construction sector, will be the main drivers of real GDP growth.

- Economic growth in the United States should nonetheless be restrained by efforts to reduce government deficits.
- However, the U.S. Federal Reserve will maintain its highly accommodating monetary policy in order to support economic growth and mitigate the negative impact of government belt-tightening.

Furthermore, while exports should remain robust given the demand for American products, their positive contribution to growth will be offset by an increase in imports.

CHART B.31

### Economic growth in the United States (real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances du Québec.

## ❑ Higher domestic demand fostered by the better financial situation of households

The financial situation of households has improved considerably since the end of the last recession. U.S. households have reduced their debt load even though their income has risen only modestly.

- After reaching 18.9% in 2007, the ratio of household financial obligations to disposable personal income<sup>1</sup> was 16.2% in the third quarter of 2011, its lowest level in nearly 20 years.

Low rates as a result of the U.S. Federal Reserve's highly accommodating monetary policy reduced the amount of interest paid by households. In addition, many people had to get rid of their homes because they were costing too much, and so were relieved of their mortgage loans.

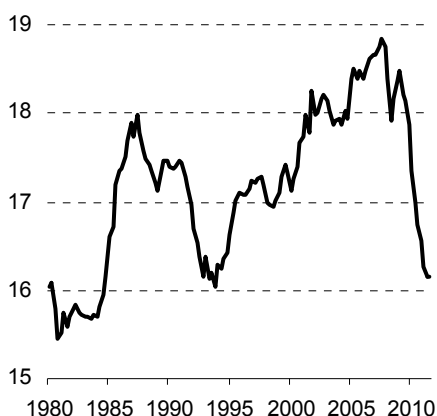
The improvement in household balance sheets fuelled a steadier increase in consumption starting in 2010, encouraging businesses to gradually hire more people. This trend is expected to continue. In addition, the maintenance of low interest rates for a long time will support growth in consumer spending over the coming years.

- After expanding by 2.2% in 2011, consumption should continue to grow at a similar pace for the next two years, although growth will be curbed by tighter budgetary policies.

CHART B.32

### Household financial obligations ratio

(as a percentage of disposable personal income)

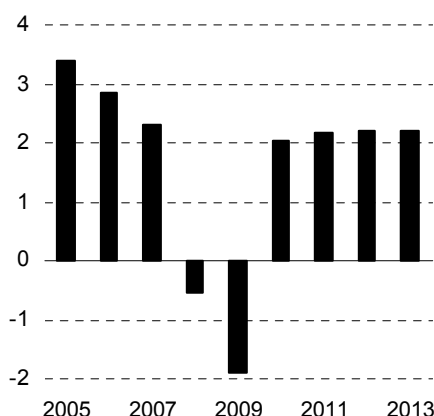


Source: IHS Global Insight.

CHART B.33

### Consumer spending in the United States

(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

<sup>1</sup> Including the required payments on outstanding mortgage, consumer debt, automobile leases, rent on tenant-occupied property and on homeowners' insurance and property tax.

# □ Acceleration of the labour market recovery

Since it started recovering, the U.S. economy has benefited from a gradual upturn in domestic demand as a result of the better financial situation of households, as well as from increased foreign demand for American products stemming from, among other things, a weak U.S. currency.

— This upturn led U.S. firms to gradually increase their investments and hiring.

Following the creation of 1.5 million jobs in 2011, the number of new jobs is expected to reach 1.7 million in 2012 and then pick up to 2.4 million in 2013. This substantial improvement in the labour market should gradually bring the unemployment rate down.

— The unemployment rate is expected to drop by 0.3 percentage point to 8.7% in 2012 and then to 8.0% in 2013.

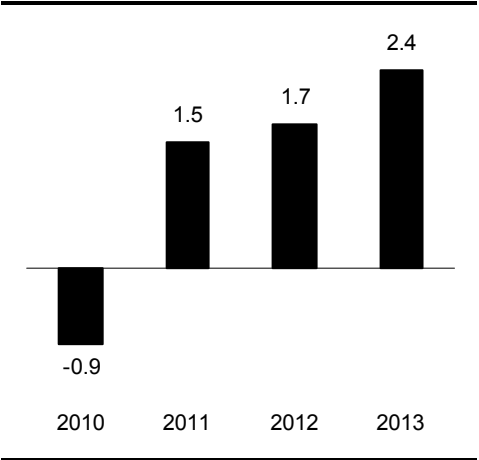
The improved labour market should result in faster growth in household income.

— This growth will strengthen the positive linkage between increased consumption and labour market improvement.

CHART B.34

## Job creation in the United States

(change in millions)

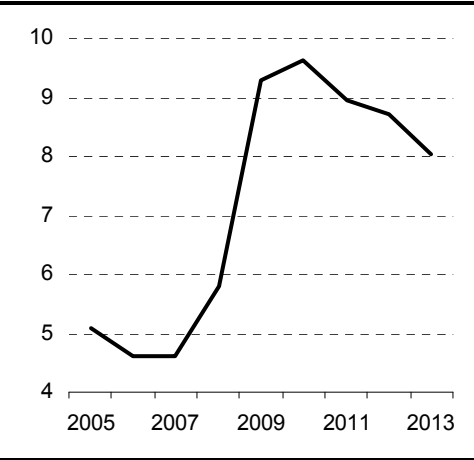


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.35

## Unemployment rate in the United States

(per cent)



Sources: IHS Global Insight and Ministère des Finances du Québec.

## ❑ Robust growth in investments to continue

Since the end of the last recession, American businesses have taken advantage of low financing costs and various government incentives to increase their investments while postponing the hiring of more people. As a result, they substantially increased their productivity. Manufacturing productivity, in particular, is up 11.6% since the end of the recession.

- These productivity gains enabled American businesses to benefit from the upturn in world trade in 2010 and 2011.

The growth in business investment is expected to continue at a steady pace as businesses continue to enjoy substantial liquidity and low financing costs. After increasing by 8.7% in 2011, business investment should rise by 5.4% in 2012 and 6.4% in 2013.

Furthermore, the real estate sector is expected to start expanding again in 2012, following six consecutive years of contraction. At the end of 2011, the inventory of homes for sale was at its lowest level since 2006, encouraging builders to increase housing starts.

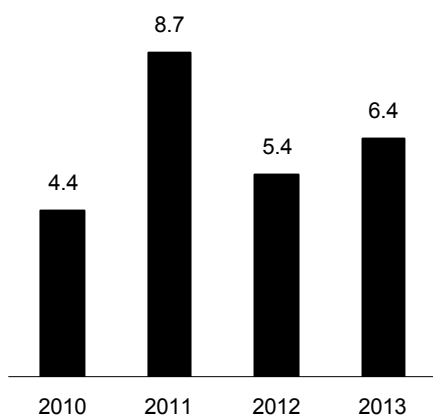
This trend is expected to continue in the coming years in response to increases in population and household formation, which will fuel demand for properties.

- After falling another 1.4% in 2011, residential investment is expected to jump 10.0% in 2012 and 12.4% in 2013.

CHART B.36

### Business investment

(percentage change, in real terms)

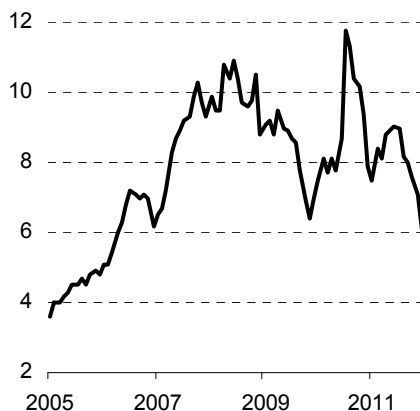


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.37

### Existing single-family homes for sale<sup>(1)</sup>

(number of months)



(1) Inventory of existing single-family homes for sale, expressed in number of months it would take to sell a new listing at the current sales rate.

Source: IHS Global Insight.

## Rebound in the U.S. manufacturing sector

After shrinking during the last recession, the U.S. manufacturing sector started picking up in 2010, benefiting from a favourable international economic climate and substantial productivity gains.

Increased demand for goods produced in the United States encouraged American businesses to invest, increasing their production capacity. This trend should continue in 2012 and 2013, fostering job creation.

### The 2008-2009 recession led to restructuring in the manufacturing sector

The United States experienced a sharp contraction in manufacturing employment during the global recession of 2008-2009.

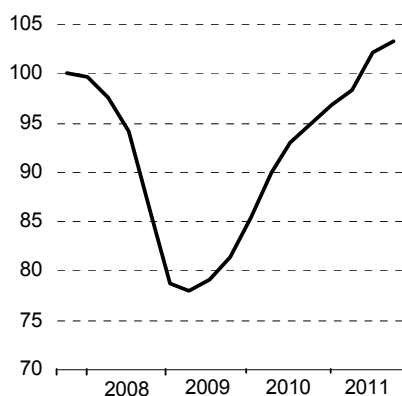
- Manufacturing employment plummeted 16.5% between January 2008 and January 2010, a much bigger decrease than in total employment, which dropped by 6.3% over the same period.

At the same time, manufacturing companies restructured their work methods, resulting in better productivity.

- Investment in equipment and software began trending upward in 2009. This type of investment declined significantly during the recession, but has since rebounded. In the third quarter of 2011, it surpassed, in real terms, the previous peak reached in the fourth quarter of 2007.
- Unit labour costs in manufacturing fell by 7.4% in the United States between the second quarter of 2009 and the fourth quarter of 2011.

### Investment in equipment and software

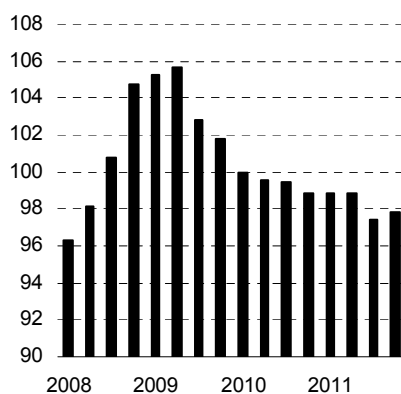
(index, 2007 Q4 = 100, in real terms)



Source: IHS Global Insight.

### Unit labour costs

(quarterly data, index, 2008 = 100)



Source: IHS Global Insight.

## Rebound in the U.S. manufacturing sector (continued)

### American manufacturing companies benefited from the recovery in world trade

By increasing their productivity, American manufacturing companies took advantage of the recovery in world trade in 2010 and 2011.

- The decline in unit labour costs, as well as the revival in world trade and depreciation of the U.S. dollar, strengthened demand for American-made products, pushing exports of goods up 14.4% in 2010 and 7.5% in 2011 in real terms.

### The increase in manufacturing production boosted job creation

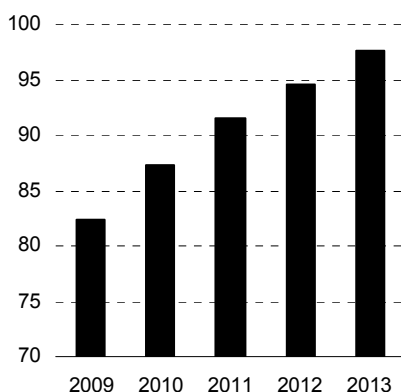
Increased demand for U.S. manufactured goods led to an increase in manufacturing production in 2010 and 2011 as well as an increase in American manufacturing companies' capacity utilization rate. As a result, these companies had to invest and create more jobs.

- The number of manufacturing jobs rose by 209 000 in 2011, the first annual increase since 1998.

The competitiveness of American-made products should continue to foster expansion of the U.S. manufacturing sector and gradually bring production back to the United States.

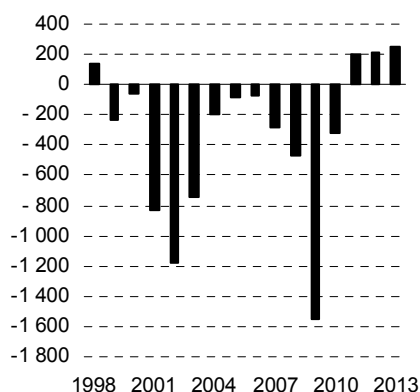
- Currently, unit labour costs in the U.S. manufacturing sector are lower than in the other G7 countries. With the increase in wages in China as well as in shipping costs, there are fewer advantages to having goods destined for the U.S. market made in China.

### Industrial production – U.S. manufacturing sector (index, 2007 = 100)



Sources: IHS Global Insight and Ministère des Finances du Québec.

### Job creation – U.S. manufacturing sector (annual difference, thousands)



Sources: IHS Global Insight and Ministère des Finances du Québec.

## ❑ A necessary reduction in the budgetary deficit

After supporting the economy during the last recession, the various levels of government in the United States stepped up their overall deficit reduction efforts in 2011.

- Substantial efforts were made in this regard, on the part of both the federal government, which cut its spending by 1.9%, and state and local governments, which reduced their real spending by 2.3% in 2011.

The spending control efforts should enable stabilization of the federal deficit in 2011 and 2012. Thereafter, deficit reduction should accelerate as investment and job creation pick up.

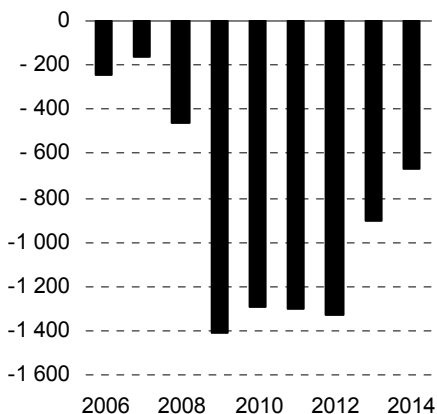
- According to the Office of Management and Budget, spending control and increased revenues should make it possible to reduce the deficit to US\$668 billion, or 3.9% of GDP, during the 2014 fiscal year. The pace and concrete terms of this consolidation will be better known after the presidential election in November 2012.

Furthermore, the U.S. Federal Reserve is expected to maintain its exceptionally accommodating monetary policy for an extended period in order to support economic activity while the government gets its finances in order.

- It should maintain the current level of monetary easing until the second half of 2014, leading to low rates on the bond market.

CHART B.38

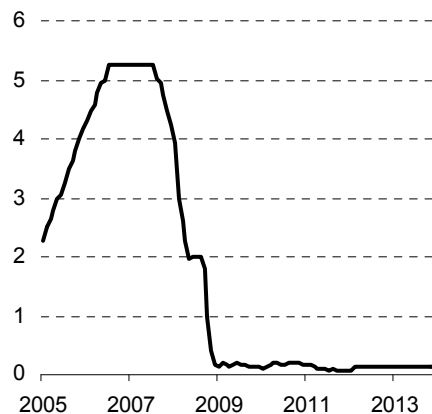
### Federal government's fiscal balance (fiscal years, billions of U.S. dollars)



Source: Office of Management and Budget.

CHART B.39

### Monetary policy (federal funds rate, per cent)



Sources: Bloomberg and Ministère des Finances du Québec.



## ❑ External sector's contribution will be curtailed by the international context

After increasing by 6.8% in 2011, growth in real exports should slow to 3.8% in 2012 and accelerate to 5.5% in 2013.

- This moderation is mainly attributable to the economic problems in Europe, as well as to the slower pace of growth in emerging economies, factors that are expected to moderate demand for U.S. products.

Exports will nevertheless benefit from a historically weak U.S. currency compared with the currencies of the United States' trading partners. Exports will also benefit from more competitive American products on foreign markets.

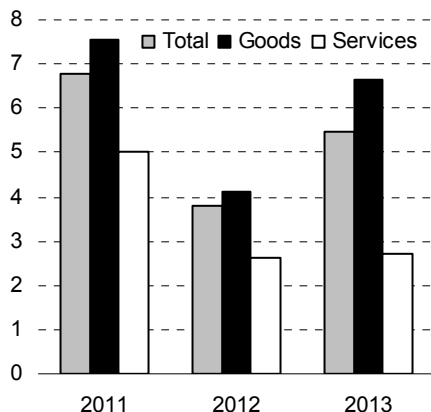
- Growth in the export of goods should be 4.1% in 2012 and 6.6% in 2013, despite more moderate global economic growth.

In addition, more robust domestic demand, buoyed in particular by consumption, should also push up imports.

- Consequently, the U.S. trade deficit in real terms should remain relatively stable in the coming years, at around US\$400 billion in 2012 and 2013.

CHART B.40

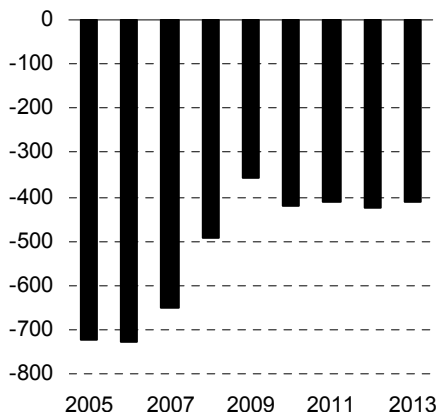
### Change in exports (per cent, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.41

### Trade balance (billions of U.S. dollars, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.



### 3. THE INTERNATIONAL CONTEXT

This section describes the international economic climate. The global economy posted 3.7% growth in 2011, which is equal to the average growth rate for the last 10 years, in spite of high oil prices and the sovereign debt crisis in the euro area.

- Despite a slight slowdown, the robust growth in emerging economies continued to support global growth.

#### 3.1 Continued expansion of the global economy

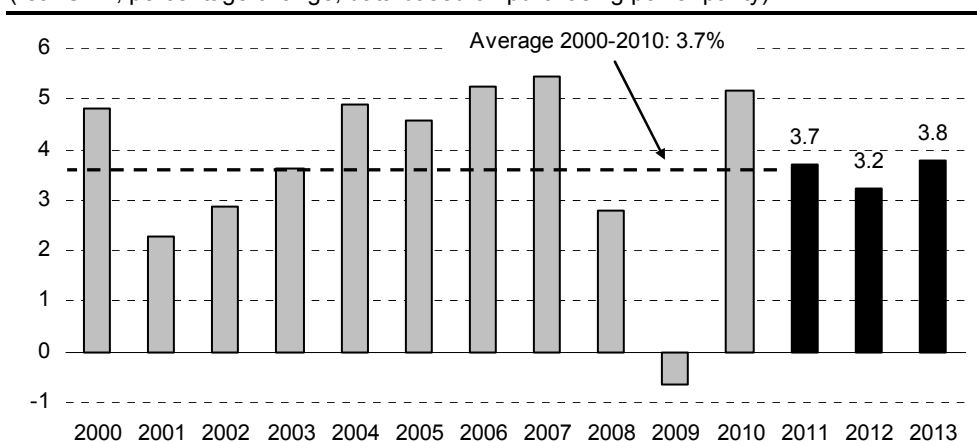
The global economy will continue to expand in 2012 and 2013, with expected growth of 3.2% in 2012 and an acceleration to 3.8% in 2013.

- The major emerging economies will continue to witness robust growth, but at a slightly lower rate than in previous years.
- The U.S. economy will gradually strengthen, with an increase in domestic demand being driven by an upturn in employment.
- The sovereign debt crisis in the euro area is expected to drag the region into a temporary recession in 2012, with a recovery expected in 2013.

CHART B.42

#### Global economic growth

(real GDP, percentage change, data based on purchasing power parity)



Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

# ❑ **An uneven contribution of economies to global growth**

The contribution of the world’s economies to global growth in 2012 and 2013 will vary considerably.

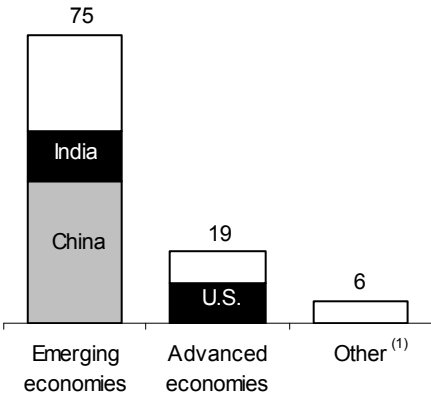
- Emerging economies will remain the major engine of global economic growth, contributing 75% in 2012. China and India, in particular, will together contribute 50% of world growth, with China at 37% and India at 13%.
- The contribution of advanced economies to global economic growth in 2012 will be limited by the economic problems in the euro area. These economies will contribute 19% of the growth, 11% of which will be from the United States.
- Developing economies will contribute 6%.

These varying contributions to world growth are attributable to the following factors:

- **emerging economies** are playing catch-up in terms of standard of living and industrial infrastructure. This catch-up is far from over and will continue to support global economic growth as well as commodity prices;
  - following their export boom spurred by low production costs, emerging economies are currently benefiting from increased domestic demand fostered by greater consumer purchasing power and from infrastructure investment;

CHART B.43

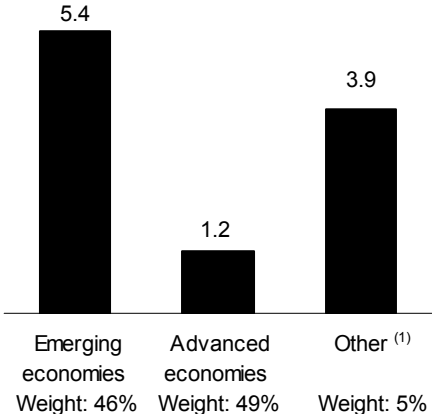
**Contribution to world growth in 2012**  
(per cent)



(1) Includes developing economies.  
Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

CHART B.44

**Economic growth and weight in global GDP in 2012**  
(per cent)



(1) Includes developing economies.  
Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

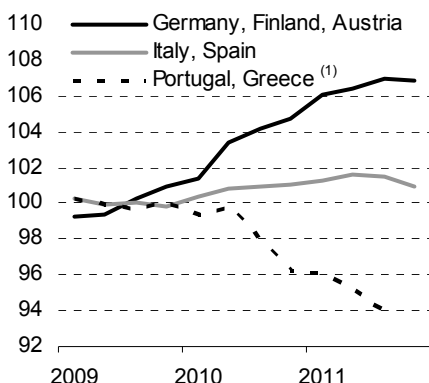
- the **United States** is seeing a gradual economic recovery. Significant progress has been made since the severe recession of 2008-2009, which led to a sharp downturn in employment;
- gradual improvement of the labour market and lower household debt will give the U.S. economy a more solid foundation for growth.
- in the **euro area**, the 2008-2009 recession had considerable after-effects and the economic and fiscal situation differs in each member country;
  - more-competitive countries, such as Germany and some Nordic countries, have been recovering more steadily since the recession ended, making it easier to reduce their deficits;
  - the recovery has been weak in Italy and Spain, two sizeable euro-area economies, and substantial budgetary restriction measures have been introduced in order to put their public finances in order;
  - Greece and Portugal are struggling. They have high budget deficits and their economies are performing poorly.

Budgetary restrictions will have adverse effects on the euro-area economy in the short term, resulting in a high unemployment rate compared with the United States in 2012 and 2013.

CHART B.45

**Euro area real GDP**

(index 2009 = 100)



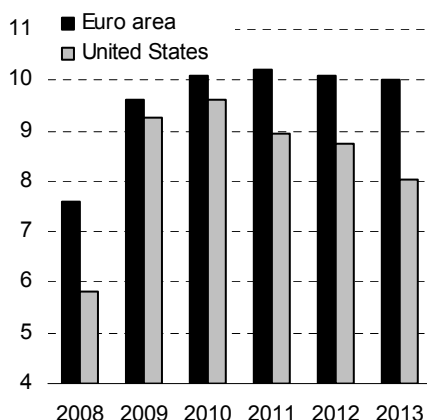
(1) For Greece, forecast growth as of the second quarter of 2011.

Sources: Eurostat and IHS Global Insight.

CHART B.46

**Euro area and U.S. unemployment rates**

(per cent)



Sources: European Commission, Bureau of Labor Statistics and Ministère des Finances du Québec.

## ❑ Moderate growth in advanced economies

After expanding by 1.6% in 2011, advanced economies' growth should be limited to 1.2% in 2012, followed by an increase of 1.8% in 2013.

- Despite the positive impact of the U.S. economy's gradual recovery, the advanced economies' growth will be hampered by the austerity measures adopted by several governments, especially in Europe, with the euro area expected to witness a recession in 2012.

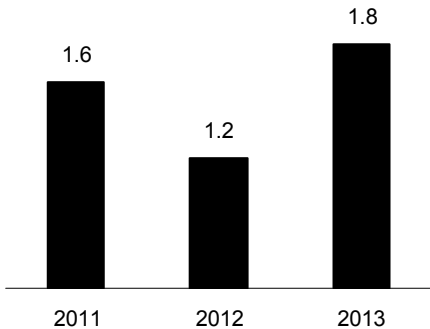
Growth in 2012 and 2013 will be supported by:

- the actions taken by the large central banks, which will continue to supply liquidity to support consumption and investments through expansionary monetary policies and quantitative easing measures;
- demand from emerging economies, benefiting advanced economies;
- expansion of industrial production in the United States, supported in particular by the turnaround in the automobile and machinery sectors and growth in the high-tech sector.

CHART B.47

### Growth of advanced economies

(real GDP, percentage change, data based on purchasing power parity)

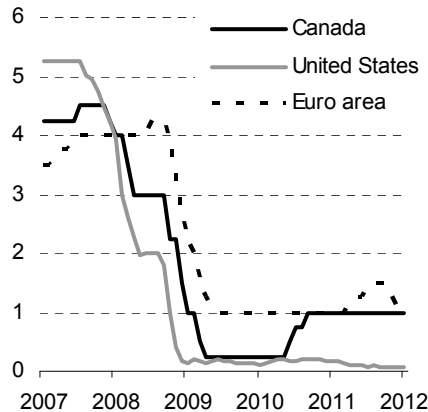


Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

CHART B.48

### Central banks' key interest rates

(per cent)



Sources: Bloomberg and Statistics Canada.

## Sovereign debt problems in the euro area

After beginning the year strongly, the euro-area economy slowed considerably starting in the second quarter of 2011 and is expected to have entered a recession in the fourth quarter. The under-performance of the euro-area economy is tied to the sovereign debt crisis, which worsened during the summer of 2011.

- After a dramatic rise in rates in Greece, Portugal and Ireland, risk aversion also caused a rise in yields on government debt securities in Italy and Spain.
- In an effort to restore investor confidence, a number of European governments were forced to introduce major measures to reduce their deficits faster.
- In some cases, the economic slowdown caused by these measures threatens the achievement of budgetary reduction targets, which is making investors nervous.

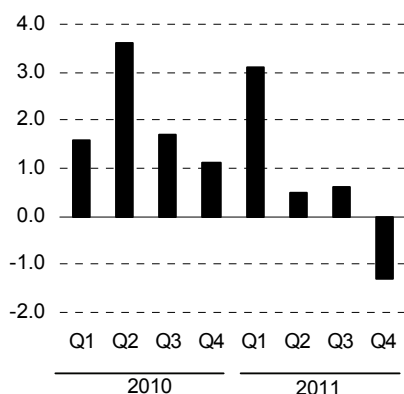
### Effects on the real economy

In addition to shaking the confidence of economic agents, the sovereign debt crisis affected the euro area's real economy through two main channels:

- investors' withdrawal from the bond markets of countries in difficulty as well as from the banking sector is making European banks vulnerable, causing them to curb their lending activities;
- the adoption of measures to reduce governments' budgetary deficits faster is putting a greater drag on economic activity. The governments of two of the euro area's large economies, Italy and Spain, adopted tight budgetary restrictions for 2012, equalling 2.1% and 1.9% of their respective GDPs.

### Economic growth in the euro area

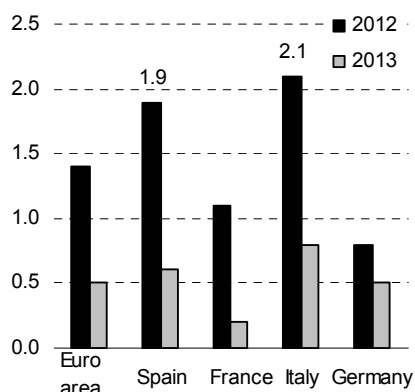
(annualized quarterly percentage change)



Source: Eurostat.

### Extent of fiscal consolidation measures<sup>(1)</sup>

(percentage point change)



(1) Change in the deficit adjusted for cyclical variations, as a percentage of potential GDP.

Source: International Monetary Fund.

## Sovereign debt problems in the euro area (continued)

### Action taken by the ECB calms financial tensions

In response to heightened financial tensions and the decline in economic activity, the European Central Bank (ECB) took measures that enabled European banks to access liquidity, while supporting demand for debt securities of financially frail European governments.

- The ECB's balance sheet rose sharply following these measures, to over 3 trillion euros at the beginning of 2012.
- These measures lowered government bond rates in Italy and Spain, which should make it easier to stabilize their debt load.
  - Between November 2011 and February 2012, the rates on 10-year bonds fell from close to 7.3% to 5.2% in Italy and from close to 6.7% to 4.9% in Spain.

### Renewed stability and growth in the euro area

With financial tensions having eased in response to the action taken by the ECB, households and businesses should have better access to credit.

However, economic activity will remain weak in the euro area in 2012 and 2013 owing to weaker domestic demand as a result of the austerity measures.

These measures are nonetheless necessary in order to restore some European governments' credibility on financial markets. The financial stability afforded by the reduction of fiscal deficits, as well as the economic reforms adopted in the context of fiscal consolidation plans, should enable the European economy to grow at a more sustained pace in the medium term.

#### European Central Bank's balance sheet

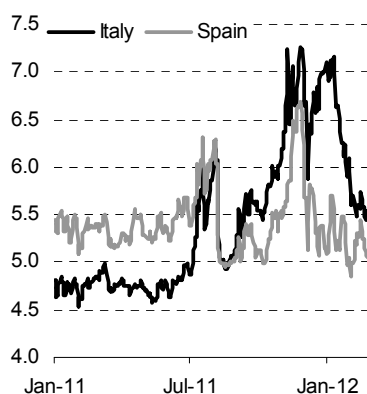
(billions of euros)



Source: European Central Bank.

#### 10-year sovereign bond rates

(per cent)



Source: Bloomberg.



## ❑ Growth in emerging economies remains robust

Emerging economies continued to post strong growth in 2011, with their real GDP expanding by 6.1%.

- Some of the big emerging economies with high growth rates, such as China and India, which are expected to have respectively posted 9.2% and 7.2% increases in real GDP in 2011, adopted monetary tightening measures to counter mounting inflationary pressures. These measures moderated their economic growth.

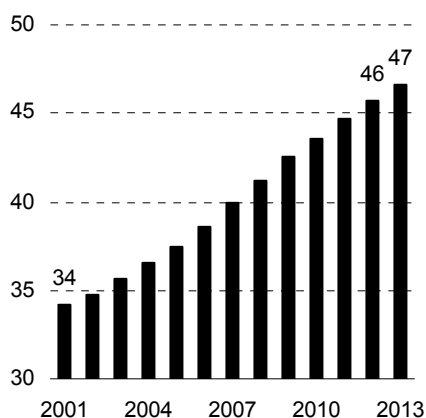
The projected growth in emerging economies will remain relatively high, at 5.4% in 2012 and 5.8% in 2013. These economies, whose share of global output is expected to reach 47% in 2013, should remain the main engine of global economic activity.

- They will benefit from stronger domestic demand as consumers' purchasing power increases with higher wages.
- Trade between emerging and developing economies, which has been expanding in the last few years, will help support their exports.
- However, the recession in the euro area will limit exports of some large emerging economies.

CHART B.49

### Emerging economies' share of global GDP

(per cent, data based on purchasing power parity)

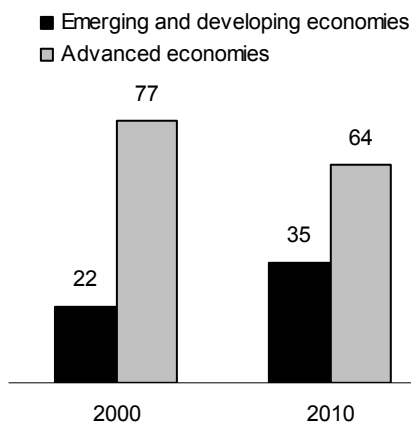


Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

CHART B.50

### Destination of exports by Brazil, China and India

(as a percentage of their total exports)



Source: International Monetary Fund.

## 3.2 Outlook by country

### ❑ Canada

Canada's economy will grow 1.9% in 2012, with support from the external sector being partly offset by the anticipated slowdown in domestic demand. Growth will then accelerate to 2.3% in 2013.

### ❑ United States

In the United States, a rise in consumption and investment will be partly offset by the impact of measures aimed at reducing deficits at the various levels of government. The U.S. economy is expected to grow by 1.9% in 2012 and 2.3% in 2013.

### ❑ Euro area

The simultaneous adoption of austerity measures by many countries and high unemployment rates will weigh on economic activity in the euro area. Real GDP will contract 0.7% in 2012 and then recover to 0.7% in 2013.

### ❑ United Kingdom

The United Kingdom should see economic growth of 0.5% in 2012 and 1.4% in 2013. Despite major austerity measures, economic activity will expand due in particular to the Olympic Games being held there.

TABLE B.7

#### Economic outlook around the world

(real GDP, percentage change, except otherwise indicated)

	Weight in global GDP <sup>(1)</sup>	2011	2012	2013
<b>World</b>	<b>100</b>	<b>3.7</b>	<b>3.2</b>	<b>3.8</b>
<b>Advanced economies</b>	<b>51.6</b>	<b>1.6</b>	<b>1.2</b>	<b>1.8</b>
– Canada	1.8	2.5	1.9	2.3
– United States	19.5	1.7	1.9	2.3
– Euro area	14.4	1.4	–0.7	0.7
– United Kingdom	2.9	0.8	0.5	1.4
– Japan	5.8	–0.7	1.9	1.4
<b>Emerging economies</b>	<b>43.6</b>	<b>6.1</b>	<b>5.4</b>	<b>5.8</b>
– China	13.6	9.2	8.0	8.3
– India <sup>(2)</sup>	5.5	7.2	7.1	7.1

(1) In 2011, based on purchasing power parity.

(2) India's real GDP is shown on a fiscal year basis, at market prices.

Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

## ❑ Japan

Following a recession in 2011 caused by the earthquake and tsunami, Japan's economy is expected to show a modest rebound in 2012, powered by spending on reconstruction. Economic growth will be 1.9% in 2012 and 1.4% in 2013.

## ❑ China

After expanding 9.2% in 2011, the Chinese economy should grow by 8.0% in 2012 and 8.3% in 2013. Economic growth will still be strong, but slightly moderated by monetary and credit tightening as well as a slowdown in exports to Europe. Growth of the Chinese and other emerging economies will support global demand for commodities.

## ❑ India

India's economy should expand by 7.1% in 2012 and 2013. The service sector will continue to support India's economic growth, but at a moderate level due to monetary policy that is expected to remain restrictive in spite of the recent easing trend. In the longer term, real GDP growth will pick up pace in response to the fast-growing information technology industry and an expected sharp increase in infrastructure investments.



## 4. RISKS RELATED TO FORECASTS

Even though most of the growth forecasts made in fall 2011 proved true, the international context is changing rapidly. The current economic scenario is subject to several risks that could influence Québec's economic growth.

### ☐ **High oil prices due to increased tensions in the Middle East**

New sanctions against Iran, one of the world's leading oil producers, could be adopted to pressure the country into abandoning its controversial nuclear program. These tensions could result in particular in:

- a lower oil supply from Iran;
- problems getting through the Strait of Hormuz, a key shipping lane for a large volume of oil from the Gulf states.

Consequently, there is still a significant risk that the price of oil will increase far more than expected. A surge in oil prices would affect Québec's economy:

- directly, by imports, given that Québec is a net importer of oil. Higher oil prices would have a negative effect on the trade balance and would raise the cost of this major input in the economy;
- indirectly, by its negative impact on the global economy as a whole.

### ☐ **Worsening of the situation in the euro area**

The worsening of the sovereign debt crisis in Europe in the second half of 2011 led European authorities to adopt measures that partly eased financial tensions. However, they face major challenges, and the unstable situation in Europe is still a threat to global growth.

If the situation in the euro area were to continue getting worse, Québec could be affected in several ways:

- directly, by slower growth in its exports;
- indirectly, by a slowdown in world trade and growth in Québec's other trading partners, in particular the United States, which conducts significant trade with Europe;
- by the escalation of financial tensions created by the risk that future problems in Europe's banking sector would spread worldwide.

## ❑ **Faster-than-expected expansion in the U.S. economy**

Furthermore, a number of factors could result in stronger-than-expected economic growth in the United States. Recent statistics suggest that the U.S. economy is becoming more dynamic, particularly in terms of employment, manufacturing output and consumption.

Consumption could rise more than expected as a result of job creation, leading businesses to invest and hire more in order to expand their production capacity to meet the increased demand.

- The resulting increase in U.S. domestic demand could lead to stronger growth in 2012 and 2013.
- This situation could be more beneficial for Québec's exports considering that the United States is still its largest foreign market.

## **5. UPDATE ON PRODUCTIVITY IN QUÉBEC**

Quebecers' standard of living rose markedly from 2003 to 2010. With this improvement, Québec compares well with the major economies of the Organisation for Economic Co-operation and Development (OECD).

The rise in standard of living in Québec was mainly the result of:

- the good performance of the labour market, in particular a steady rise in the employment rate during this period;
- increased labour productivity, i.e. higher production per hour worked.

The productivity gains made in Québec from 2003 to 2010 were driven by investment in physical capital and innovation. The manufacturing sector contributed the greatest share to productivity gains.

Despite these strong performances, gaps in standard of living and productivity still exist between Québec and its major economic partners. The catch-up efforts in this regard should continue and build on the investment and innovation efforts already made.

# 5.1 Changes in standard of living and productivity in Québec

## □ Productivity and employment: main factors in the standard of living increase in Québec

The gains in Québec's standard of living made from 2003 to 2010, as measured by the rise in real GDP per capita, amounted to \$2 584<sup>2</sup>. The four main elements that explain this evolution are productivity, hours worked, employment and demography.

- **Hourly productivity** contributed 110.2%, or \$2 848, to the standard of living increase.
- However, the **number of hours worked** per job made a negative contribution to gains in the standard of living from 2003 to 2010. This situation is attributable to the fact that the number of hours worked rose by 5.8% whereas the number of jobs rose by 8.4%.
- The **employment rate** contributed 51.7%, or \$1 336, primarily as a result of greater participation of women in the labour market and a decline in the unemployment rate.
- The **demographic ratio**, i.e. the ratio of the population aged 15-64 to the total population, sliced \$170 off standard of living gains owing in particular to population aging, which put a drag on growth in the number of potential workers.

TABLE B.8

### Sources of standard of living gains in Québec, 2003-2010

	In dollars per capita	As a percentage of standard of living gains
<b>Standard of living gains</b>	<b>2 584</b>	<b>100.0</b>
Productivity per job	1 418	54.9
<i>Hourly productivity</i>	<i>2 848</i>	<i>110.2</i>
<i>Hours worked per job</i>	<i>-1 430</i>	<i>-55.3</i>
Employment rate	1 336	51.7
Demographic ratio	-170	-6.6

Sources: Statistics Canada and Ministère des Finances du Québec.

<sup>2</sup> Unless otherwise indicated, in this section, dollar figures refer to constant 2010 Canadian dollars. International comparisons are based on the Organisation for Economic Co-operation and Development's purchasing power parity (PPP) rates for 2010.



## ❑ Standard of living and productivity gains compare well with those made by the major OECD economies

The standard of living gains achieved from 2003 to 2010 were higher in Québec (\$2 584) than in Canada (\$2 545), Ontario (\$411) and several major OECD economies.

— However, they were lower than those made in the United States, the United Kingdom and Germany over the same period.

Québec also performed well from 2003 to 2010 in terms of productivity gains, which represent the main source for standard of living improvements in the developed countries.

— Productivity gains in Québec (\$2 848) surpassed those made in Canada (\$2 336), Ontario (\$1 768), Germany and France.

— Furthermore, a number of large economies, such as the United States, Japan and the United Kingdom, saw bigger gains in productivity than Québec over the same period.

TABLE B.9

### Standard of living and productivity gains: Québec, Ontario and the 10 largest OECD economies, 2003-2010

Gain in standard of living (dollars per capita <sup>(1)</sup> )		Contribution of hourly productivity <sup>(2)</sup>	
South Korea	7 413	South Korea	9 973
Germany	3 447	United States	6 709
United Kingdom	3 042	Japan	4 711
United States	2 923	United Kingdom	4 046
<b>Québec</b>	<b>2 584</b>	Spain	3 563
Canada	2 545	<b>Québec</b>	<b>2 848</b>
Japan	2 481	Germany	2 510
Mexico	1 633	Canada	2 336
France	1 372	Ontario	1 768
Spain	1 160	France	1 728
Ontario	411	Mexico	1 228
Italy	-1 523	Italy	-184

(1) Standard of living and productivity gains are shown in Canadian dollars based on the 2010 purchasing power parity (PPP) estimates of the Organisation for Economic Co-operation and Development (OECD).

(2) Contribution of hourly productivity to standard of living gains, in dollars per capita.

Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, OECD and Ministère des Finances du Québec.

## ❑ Sources of productivity gains

Québec's performance in terms of productivity gains can be examined according to their sources, namely:

- investment in physical capital, which enables businesses to provide their employees with more physical capital and thereby increase their productivity;
- innovation, which allows businesses to make more efficient use of employees and existing capital stock;
  - for example, enhancing employees' skills or improving organizational structure are two means of increasing productivity through innovation.

From 2003 to 2010, investment was the main source of productivity gains in Québec, contributing 86%. Innovation contributed 14%.

- In Ontario and Canada as a whole, gains in productivity were achieved exclusively through investment, whereas less efficient use was made of capital and labour. This is attributable in particular to growth in capital-intensive sectors during this period, including oil, gas and mining, as well as to the effects of the 2008-2009 recession.
- Innovation contributed a greater share to gains in productivity in the United States (43%), which suggests more efficient use of capital and labour.

TABLE B.10

### Gains in productivity, by source of growth, 2003-2010

(in 2010 constant Canadian dollars per capita, except where otherwise indicated)

	Productivity <sup>(1)</sup>	Investment		Innovation	
		dollars	% of total	dollars	% of total
Québec	2 848	2 455	86.2	393	13.8
Ontario	1 768	2 236	126.5	-468	-26.5
Canada	2 336	3 493	149.5	-1 157	-49.5
United States	6 709	3 839	57.2	2 870	42.8

(1) Contribution of hourly productivity to gains in standard of living, in dollars per capita.

Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics and Ministère des Finances du Québec.

## ❑ Productivity gains, by economic sector in Québec

From 2003 to 2010, most of the productivity gains in Québec were generated by four industries:

- manufacturing, which contributed 42.9% to productivity gains. As in Ontario, Canada and the United States, innovation was the main generator of productivity gains in this sector;
- wholesale trade, which contributed 23.2% to the gains. Investment in physical capital was the main source of productivity gains in this sector;
- retail trade and transportation and warehousing, which accounted for 20.6% and 12.5%, respectively, of the gains made in productivity. Innovation and investment in physical capital contributed almost equally to the gains made in these sectors.

TABLE B.11

### **Main industries and sources of productivity gains in Québec, 2003-2010** (in 2010 constant Canadian dollars per capita, except where otherwise indicated)

	Investment	Innovation	Total gains per sector	% of total
Manufacturing sector	47	1 176	1 223	42.9
Wholesale trade	677	-16	661	23.2
Retail trade	318	267	586	20.6
Transportation and warehousing	244	110	355	12.5
Other industries	1 169	-1 145	24	0.8
<b>TOTAL</b>	<b>2 455</b>	<b>393</b>	<b>2 848</b>	<b>100.0</b>

Sources: Statistics Canada and Ministère des Finances du Québec.

## 5.2 Differences in productivity and standard of living between Québec and the major OECD economies

Thanks to the substantial gains made from 2003 to 2010, the standard of living in Québec surpassed that of several major OECD economies.

- Nevertheless, the standard of living in the United States, Canada and Ontario were 37%, 18% and 15% higher, respectively, than the standard of living in Québec.

In terms of productivity per job, Québec still lags behind its main economic partners.

- Productivity levels in the United States, Canada and Ontario were 48%, 15% and 10% higher, respectively, than that in Québec.

TABLE B.12

### Standard of living and productivity in Québec, Ontario and the 10 largest OECD economies, 2010

Standard of living (dollars per capita <sup>(1)</sup> )		Productivity (dollars per job <sup>(2)</sup> )	
United States	55 432	United States	122 051
Canada	47 630	France	95 226
Ontario	46 377	Canada	94 979
United Kingdom	42 928	Italy	94 470
Germany	41 605	United Kingdom	90 914
<b>Québec</b>	<b>40 449</b>	Ontario	90 804
France	39 527	Spain	89 639
Japan	38 055	Germany	87 763
Italy	35 982	<b>Québec</b>	<b>82 438</b>
Spain	35 912	Japan	77 487
South Korea	34 920	South Korea	74 028
Mexico	17 751	Mexico	43 356

(1) Standard of living and productivity gains are shown in Canadian dollars based on the 2010 purchasing power parity (PPP) estimates of the Organisation for Economic Co-operation and Development (OECD).

(2) For international comparisons, productivity is calculated in real GDP per job.

Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, OECD and Ministère des Finances du Québec.

## 5.3 Conclusions

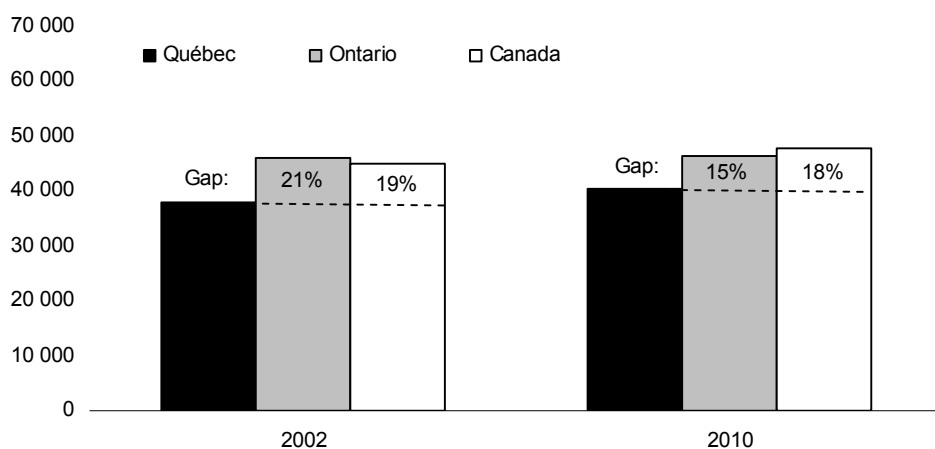
Québec is well on its way to catching up to the standards of living elsewhere in Canada.

- In 2002, the standard of living in Ontario was 21% higher than in Québec. In 2010, the gap had narrowed to 15%.
- Similarly, the gap between Québec's and Canada's standard of living narrowed from 19% to 18%.

GRAPHIQUE B.51

### Changes in standard of living

(real GDP per capita in 2012 constant dollars, difference in percentage)



Sources: Statistics Canada and Ministère des Finances du Québec.

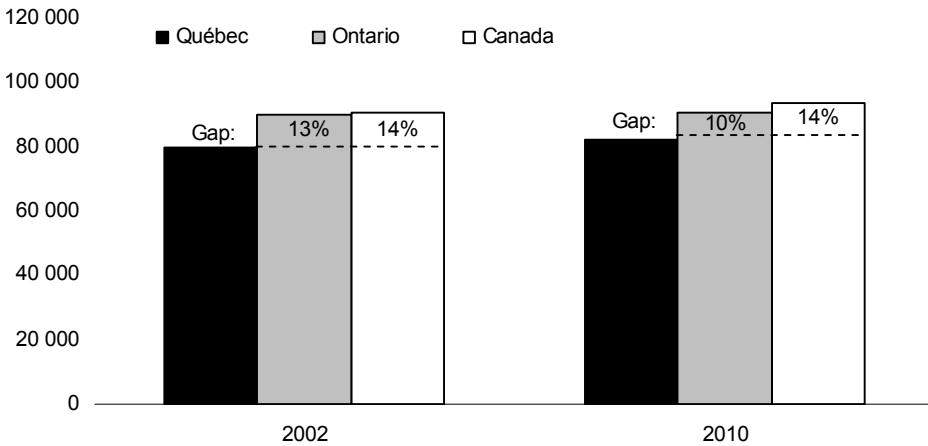
Québec also caught up in the area of productivity per job.

- In 2002, the level of productivity per job in Ontario was 13% higher than in Québec. In 2010, this gap had narrowed to 10%.
- The gap between Québec and Canada in terms of productivity per job held steady at 14%, in spite of the strong investment growth in the petroleum industry in Canada.

CHART B.52

**Changes in productivity**

(real GDP per job in 2010 constant dollars, percentage differences)



Sources : Statistics Canada and Ministère des Finances du Québec.

The progress made by Québec with regard to the standard of living is primarily the result of increases in productivity per hour worked and the employment rate. To continue improving the well-being of its population and narrowing the gaps in standard of living, particularly with Canada and the United States, Québec must keep improving its employment rate and its productivity.

- The substantial private investments planned in the coming years, as well as the public investments to upgrade infrastructure suggest that Québec should continue catching up.

## Standard of living and productivity

### Standard of living

On a world scale, Quebecers enjoy a high standard of living. The standard of living is generally measured by real GDP per capita.<sup>1</sup> The higher this indicator, the higher the number and the wider the range of products and services available to the population.

However, this measure has its limits, as a population's well-being does not depend solely on goods and services consumption, but also on such things as a safe and healthy environment, time spent with family, a fulfilling job, etc.

### Main components of standard of living

A society can increase its standard of living by improving the four main factors of growth, namely:

- productivity per hour worked, i.e. real GDP per hour worked,  $\frac{R - GDP}{HW}$ ;
- the average time worked per job, i.e. the average number of hours worked per job,  $\frac{HW}{Jobs}$ ;
- the employment rate, i.e. the ratio of the number of workers to the working-age population (ages 15-64),  $\frac{Jobs}{Pop(15-64)}$ ;
- the demographic ratio, i.e. the ratio of working-age population to total population,  $\frac{Pop(15-64)}{Pop}$ .

Each of these factors contributes to increases in a society's standard of living:

$$\frac{R - GDP}{Pop} = \frac{R - GDP}{HW} * \frac{HW}{Jobs} * \frac{Jobs}{Pop(15-64)} * \frac{Pop(15-64)}{Pop}.$$

<sup>1</sup> This definition is used by several international bodies, including the OECD, the World Bank, the International Monetary Fund and the United Nations





# Section C

## THE GOVERNMENT'S FINANCIAL FRAMEWORK

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# INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2011-2012 and the government's budgetary and financial stance for 2012-2013 and 2013-2014.<sup>1</sup>

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2011-2012 to 2013-2014, including the impact of the various measures announced in the present budget;
- the change in budgetary revenue and expenditure, as well as adjustments made since last year's budget;
- consolidated expenditure;
- the results of consolidated entities, including special funds,<sup>2</sup> non-budget-funded bodies and the health and social services and education networks;
- government investments;
- the government's non-budgetary transactions and net financial requirements.

Lastly, the five-year financial framework of Budget 2012-2013, or the financial projections up to 2016-2017, is presented in Section A.

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<sup>1</sup> Throughout this section, the budgetary data for 2011-2012 are preliminary and those for 2012-2013 and subsequent years are forecasts.

<sup>2</sup> Following the adoption of Bill 10 by the National Assembly in June 2011, the Consolidated Revenue Fund now consists of a general fund and all of the special funds.

# Changes to the Consolidated Revenue Fund and the special funds

Adopted by the National Assembly in June 2011, Bill 10 stipulates that the Consolidated Revenue Fund will henceforth consist of the general fund and the special funds.<sup>1</sup> The general fund groups all of the transactions that used to be considered transactions of the Consolidated Revenue Fund prior to the adoption of the bill.

For the purposes of this section, the special funds will nonetheless be presented with the consolidated entities in order to reflect separately all of their revenue and expenditure allocated to the funding of specific missions.

Before the adoption of Bill 10		Bill 10	
		Consolidated Revenue Fund	
Consolidated Revenue Fund	Special funds	General fund	Special funds

Bill 10 also stipulates that the expenditure and investment budgets of the special funds will be subject to the approval of Parliament as of April 1, 2012.<sup>2</sup> In this regard, the Chair of the Conseil du trésor tables Volume 3 when the Expenditure Budget is tabled.

It is stipulated as well that any overruns noted will require a new authorization of Parliament.

1 According to the provisions of Bill 10, the Generations Fund is considered a special fund.  
2 A special fund's expenditures are financed, in whole or in part, by appropriations voted by the National Assembly for the purposes of the expenditures presented in the Expenditure Budget under the supercategory "Allocation to a Special Fund" or by other government entities. Consolidation adjustments aimed at eliminating these inter-entity transactions are made to determine the consolidated expenditure.

# 1. ACHIVEMENT OF DEFICIT REDUCTION TARGETS AND RETURN TO FISCAL BALANCE IN 2013-2014

## 1.1 Change in the budgetary balance

The government's budgetary objectives are being met over the time horizon for restoring fiscal balance. For 2011-2012, the deficit is estimated at \$3.3 billion, an improvement of \$500 million compared with the forecast in last year's budget.

— For 2012-2013, the budgetary deficit objective of \$1.5 billion is being maintained, as stipulated in the *Balanced Budget Act*.<sup>3</sup> Fiscal balance is still expected to be restored as of 2013-2014.

In addition, the deficits include contingency reserves totalling \$800 million for these three years.

TABLE C.1

### Summary of budgetary transactions (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>Budgetary revenue<sup>(1)</sup></b>	<b>65 539</b>	<b>69 395</b>	<b>72 524</b>
% change	4.6	5.9	4.5
Program spending	-61 384	-62 642	-63 751
% change	2.0	2.0	1.8
Debt service	-7 452	-8 237	-8 827
<b>Budgetary expenditure<sup>(1)</sup></b>	<b>-68 836</b>	<b>-70 879</b>	<b>-72 578</b>
% change	2.5	3.0	2.4
<b>Consolidated entities</b>			
Non-budget-funded bodies and special funds <sup>(2)</sup>	342	384	254
Health and social services and education networks	-45	-100	—
Generations Fund	848	911	1 041
<b>Total consolidated entities</b>	<b>1 145</b>	<b>1 195</b>	<b>1 295</b>
Contingency reserve	-300	-300	-200
<b>SURPLUS (DEFICIT)</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>

### **BALANCED BUDGET ACT**

<b>SURPLUS (DEFICIT)</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>
Deposit of dedicated revenues in the Generations Fund	-848	-911	-1 041
<b>BUDGETARY BALANCE<sup>(3)</sup></b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>
As a % of GDP	1.0	0.4	—

(1) Corresponds to the revenue and expenditure of the general fund.

(2) Including consolidation adjustments.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

<sup>3</sup> R.S.Q., c. E-12.00001.

## ❑ Spending control

Several measures to tighten spending have been announced and put in place over the past two years, making it possible to reduce spending growth by 2013-2014.

### ■ Program spending

After reaching 5.3% in 2009-2010, program spending growth was gradually rolled back to 3.0% in 2010-2011 and 2.0% in 2011-2012.

The government is continuing its rigorous management of program spending by limiting the growth in such spending to 2.0% in 2012-2013. For 2013-2014, program spending growth will amount to 1.8%.

### ■ Consolidated expenditure

Consolidated expenditure, which takes into account the expenditures of all the special funds and public bodies included in the government's reporting entity, have grown at a more moderate pace since 2009-2010.

- Growth in consolidated expenditure, excluding debt service, thus went from 5.6% in 2009-2010 to 3.6% in 2010-2011 and 3.5% in 2011-2012. Growth will be limited to 2.0% in 2012-2013.

## ❑ Contingency reserves

As a precaution, in Budget 2011-2012, the government's financial framework incorporated a contingency reserve of \$300 million in 2011-2012 and a reserve of \$200 million in 2012-2013.

Budget 2012-2013 maintains the reserve of \$300 million for 2011-2012, increases the reserve to \$300 million for 2012-2013 and includes a new reserve of \$200 million for 2013-2014. These reserves total \$800 million over three years.

TABLE C.2

### Contingency reserves (millions of dollars)

	2011-2012	2012-2013	2013-2014
Budget 2011-2012	300	200	—
Increase in the reserves	—	100	200
<b>BUDGET 2012-2013</b>	<b>300</b>	<b>300</b>	<b>200</b>

## 1.2 Adjustments to the financial framework

In 2011-2012, the government is forecasting a \$500-million improvement in the budgetary balance, which reduces the budgetary deficit from \$3.8 billion to \$3.3 billion.

For subsequent years, the government still intends to meet the objectives set in March 2011.

TABLE C.3

### Adjustments to the budgetary balance since Budget 2011-2012<sup>(1)</sup> (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>BUDGETARY BALANCE IN BUDGET 2011-2012</b>	<b>-3 800</b>	<b>-1 500</b>	<b>—</b>
<b>Adjustments to expenditure</b>			
Wage adjustments related to GDP	—	-142	-142
Increases in education	-100	-100	-100
Budget 2012-2013 measures			
Maintenance of existing programs	—	-65	-67
New spending initiatives	—	-86	-117
Other items	—	-136	—
Debt service	342	409	507
<b>Total adjustments to expenditure</b>	<b>242</b>	<b>-120</b>	<b>81</b>
<b>Adjustments to revenue</b>			
Own-source revenue	-81	-360	-334
Mining duties and forest royalties	109	131	108
Federal transfers excluding compensation for the harmonization of the QST with the GST	136	-140	-259
Budget 2012-2013 measures	—	-56	-115
<b>Total adjustments to revenue</b>	<b>164</b>	<b>-425</b>	<b>-600</b>
<b>Adjustments to consolidated entities</b>	<b>94</b>	<b>212</b>	<b>277</b>
Compensation for the harmonization of the QST with the GST	—	733	1 467
Deferral to 2014-2015 of measures to be identified	—	-300	-1 025
Increase in contingency reserves	—	-100	-200
<b>TOTAL ADJUSTMENTS</b>	<b>500</b>	<b>—</b>	<b>—</b>
<b>BUDGETARY BALANCE IN BUDGET 2012-2013</b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

## ■ Maintenance of the objectives for 2012-2013 and 2013-2014

Overall, the additional program spending planned for 2012-2013 and 2013-2014 in the financial framework is being offset by the downward revisions to debt service.

Accordingly, the downward adjustment of \$409 million in 2012-2013 and \$507 million in 2013-2014 in debt service offsets:

- a reserve of \$142 million as of 2012-2013 for wage adjustments related to GDP. This revision comes from the reserve in respect of the anticipated enhancement of the pay parameters for public and parapublic sector employees linked to better economic performance in 2010. This reserve will be reviewed in the light of economic data for 2010 and 2011, which will be published in fall 2012;
- annual revisions of \$100 million in education, including, in particular, the upward adjustment to clienteles, as well as the cost of the collective agreements;
- other items totalling \$136 million in 2012-2013, including the impacts of the Justice Access Plan,<sup>4</sup> the production of seedlings and the additional costs related to the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry;
- budget measures that include, for 2012-2013, the maintenance of existing programs totalling \$65 million, as well as \$86 million in new initiatives.

Moreover, the additional revenue from mining duties and forest royalties and the agreement on the harmonization of the Québec sales tax (QST) with the goods and services tax (GST) are enabling the government to stay the course towards the objectives set in the last budget and to:

- offset the other revenue adjustments stemming mainly from the less favourable world economic outlook;
- defer until 2014-2015 the identification of new measures to maintain fiscal balance so as to ensure continued economic growth;
- increase the contingency reserve by \$100 million in 2012-2013 and \$200 million in 2013-2014.

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<sup>4</sup> The Justice Access Plan is a series of measures that will be implemented gradually to help simplify the judicial process and reduce delays while increasing the ability of the courts to hear cases and render judgments.



## □ Adjustments to the budgetary balance in 2011-2012

The budgetary balance within the meaning of the *Balanced Budget Act* for 2011-2012 is in deficit by \$3.3 billion, an improvement of \$500 million compared with the forecasts in the March 2011 budget.

- This result reflects the upward adjustments to budgetary revenue, primarily federal transfers, and the downward revisions to debt service arising from lower-than-anticipated interest rates.

In addition, the \$300-million contingency reserve is being maintained to deal with any additional shortfalls that could result from the change in revenue and expenditure at the end of the year.

TABLE C.4

### Summary of budgetary transactions in 2011-2012 (millions of dollars)

	Budget 2011-2012	Adjustments	Budget 2012-2013
Own-source revenue	45 546	54	45 600
Government enterprises	4 790	-26	4 764
Federal transfers	15 039	136	15 175
<b>Total budgetary revenue</b>	<b>65 375</b>	<b>164</b>	<b>65 539</b>
Program spending	-61 284	-100	-61 384
Debt service	-7 794	342	-7 452
<b>Total budgetary expenditure</b>	<b>-69 078</b>	<b>242</b>	<b>-68 836</b>
<b>Consolidated entities</b>	<b>1 143</b>	<b>2</b>	<b>1 145</b>
Contingency reserve	-300	—	-300
<b>SURPLUS (DEFICIT)</b>	<b>-2 860</b>	<b>408</b>	<b>-2 452</b>
<b>BALANCED BUDGET ACT</b>			
<b>SURPLUS (DEFICIT)</b>	<b>-2 860</b>	<b>408</b>	<b>-2 452</b>
Deposits of dedicated revenues in the Generations Fund	-940	92	-848
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>-3 800</b>	<b>500</b>	<b>-3 300</b>
<i>As a % of GDP</i>	<i>1.2</i>		<i>1.0</i>

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

## ■ **Adjustment to budgetary revenue**

The government's budgetary revenue for 2011-2012 has been revised upward \$164 million. These results are due to:

- an upward adjustment of \$54 million in own-source revenue excluding government enterprises;
- a decrease of \$26 million in revenue from government enterprises;
- an increase of \$136 million in federal transfers stemming essentially from the renewal of the Canada-Québec Agreement Regarding the Participation of Handicapped Persons in the Labour Market and the upward revision of revenue related to the special tax on dividends from preferred shares.<sup>5</sup>

## ■ **Adjustment to budgetary expenditure**

The government's budgetary expenditure is being revised downward by \$242 million in 2011-2012. These results can be explained by:

- a \$100-million rise in the program spending objective due to the adjustment to education clientele;
- a \$342-million improvement in debt service reflecting lower-than-expected interest rates.

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<sup>5</sup> This is a special tax collected from corporations by the federal government, of which 35% of the revenues are paid to the provinces, including Québec.

## ❑ 2012-2013: deficit maintained at \$1.5 billion

Overall, for 2012-2013, the \$409-million downward adjustment in debt service offsets almost completely the \$529-million increase in program spending arising from:

- a reserve of \$142 million as of 2012-2013 for wage adjustments related to GDP. This revision comes from the reserve in respect of the anticipated enhancement of the pay parameters for public and parapublic sector employees linked to better economic performance in 2010. This reserve will be reviewed in the light of economic data for 2010 and 2011, which will be published in fall 2012;
- a revision of \$100 million in education;
- other items totalling \$136 million in 2012-2013, including the impacts of the Justice Access Plan,<sup>6</sup> the production of seedlings and the additional costs related to the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry;
- the 2012-2013 budget measures which include the maintenance of existing programs totalling \$65 million, as well as \$86 million in new initiatives.

Moreover, the additional revenue from mining duties and forest royalties and the agreement on the harmonization of the Québec sales tax (QST) with the goods and services tax (GST) will make it possible to:

- offset the other negative adjustments of \$593 million to revenue stemming from two elements, namely, lower-than-forecast economic growth in 2012 compared with last year's budget and lower-than-anticipated equalization revenue because of Québec's relatively better economic performance in 2009 and 2010;
- increase the contingency reserve by \$100 million;
- defer the \$300 million in measures to be identified in order to ensure continued economic growth.

## ❑ 2013-2014: return to fiscal balance

The government is still planning to restore fiscal balance in 2013-2014. Essentially, the downward adjustments to debt service, additional revenue from mining duties and forest royalties and revenue from the agreement on the harmonization of the QST with the GST will make it possible to offset all of the other adjustments to the financial framework and to include a contingency reserve of \$200 million.

Therefore, the government can defer to 2014-2015 the establishment of new measures to maintain fiscal balance in order to ensure continued economic growth.

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<sup>6</sup> See Note 4, page C.8.



## 2. UPDATING OF THE FINANCIAL FRAMEWORK

This section presents the updated budgetary revenue and expenditure for 2011-2012 to 2013-2014 and the principal adjustments made since the last budget.

### 2.1 Budgetary revenue

The government's budgetary revenue is expected to total \$65.5 billion in 2011-2012, i.e. \$50.4 billion in own-source revenue and \$15.2 billion in federal transfers.

Budgetary revenue should grow by 5.9% in 2012-2013 and 4.5% in 2013-2014, or at a rate higher than that of the economy, owing essentially to the implementation of the revenue measures provided for in the plan to restore fiscal balance.

TABLE C.5

**General fund<sup>(1)</sup>**  
**Change in budgetary revenue**  
(millions of dollars)

	Budget 2011-2012		Budget 2012-2013		
	2011-2012	Adjustments	2011-2012	2012-2013	2013-2014
<b>Own-source revenue</b>					
Own-source revenue excluding government enterprises	45 546	54	45 600	48 703	50 992
<i>% change</i>	7.9		7.6	6.8	4.7
Government enterprises	4 790	-26	4 764	4 895	5 018
<i>% change</i>	1.6		-1.5	2.7	2.5
<b>Total</b>	<b>50 336</b>	<b>28</b>	<b>50 364</b>	<b>53 598</b>	<b>56 010</b>
<b>% change</b>	<b>7.3</b>		<b>6.6</b>	<b>6.4</b>	<b>4.5</b>
Federal transfers	15 039	136	15 175	15 797	16 514
<i>% change</i>	-2.7		-1.6	4.1	4.5
<b>BUDGETARY REVENUE</b>	<b>65 375</b>	<b>164</b>	<b>65 539</b>	<b>69 395</b>	<b>72 524</b>
<b>% change</b>	<b>4.8</b>		<b>4.6</b>	<b>5.9</b>	<b>4.5</b>

(1) Following the adoption of Bill 10 by the National Assembly in June 2011, the Consolidated Revenue Fund is now made up of a general fund and all of the special funds. The general fund includes all of the transactions that used to be considered transactions of the Consolidated Revenue Fund prior to the adoption of the bill.

## **2.1.1 Own-source revenue excluding government enterprises**

### **□ Upward adjustments in 2011-2012**

Preliminary results for fiscal 2011-2012 show that own-source revenue, excluding government enterprises, is adjusted upward by \$54 million compared with the forecast in the March 2011 budget. It posts an increase of 7.6% compared with the previous year.

### **■ Adjustments to own-source revenue by source**

Reflecting tax receipts observed since the beginning of the fiscal year, revenue from personal income tax shows an improvement of \$111 million compared with the level forecast in Budget 2011-2012.

— Consequently, the anticipated downward revision in employment did not result in a downward adjustment in revenue from personal income tax.

Contributions to the health services fund are adjusted upward by \$115 million, reflecting the robust tax receipts observed in 2011, supported by the upward adjustment in salaries and wages for fiscal 2011-2012.

As for revenue from corporate taxes, it is revised upward by \$193 million compared with the forecast in Budget 2011-2012. This adjustment is due essentially to higher-than-expected growth in corporate profits.

Consumption tax revenue is adjusted downward by \$349 million in 2011-2012. This adjustment is due in particular to sales tax revenue, which is adjusted downward by \$410 million, notably because household consumption was lower than forecast in Budget 2011-2012.

— Furthermore, this adjustment is partly offset by revenue from the specific tax on tobacco products, which is revised upward by \$45 million.

Revenue in respect of natural resources is revised upward by \$109 million, essentially because of the faster-than-anticipated progression of mining revenue, which can be attributed notably to:

- the impact of the mining regime reform;
- the increase in the output of certain mining corporations, which has led to an increase in tax instalments paid;
- the increase in the price of mineral substances, including metals.

Other revenue is adjusted downward by \$125 million. This difference stems essentially from the fact that interest income is lower than forecast in Budget 2011-2012, particularly with regard to tax assessments.

TABLE C.6

**General fund**  
**Change in own-source revenue excluding government enterprises**  
(millions of dollars)

	Budget 2011-2012		Budget 2012-2013		
	2011-2012	Adjustments	2011-2012	2012-2013	2013-2014
Personal income tax	18 786	111	18 897	19 547	20 504
<i>% change</i>	4.3		5.5	3.4	4.9
Health services fund	6 047	115	6 162	6 386	6 612
<i>% change</i>	3.1		3.1	3.6	3.5
Corporate taxes	3 885	193	4 078	4 324	4 462
<i>% change</i>	6.9		12.1	6.0	3.2
Consumption taxes	14 897	-349	14 548	16 450	17 285
<i>% change</i>	15.9		14.8	13.1	5.1
Natural resources	257	109	366	357	407
<i>% change</i>	242.7		18.1	-2.5	14.0
Other revenue	1 674	-125	1 549	1 639	1 722
<i>% change</i>	-5.6		-17.7	5.8	5.1
<b>TOTAL</b>	<b>45 546</b>	<b>54</b>	<b>45 600</b>	<b>48 703</b>	<b>50 992</b>
<i>% change</i>	7.9		7.6	6.8	4.7

## ❑ **Change in revenue by source in 2012-2013 and 2013-2014**

In 2012-2013, own-source revenue, excluding government enterprises, will increase by 6.8%. This growth, which is above that of the economy, stems in particular from the implementation of the revenue measures provided for in the plan to restore fiscal balance.

- The main revenue measures are the increase in the QST on January 1, 2012 and the additional tax recovery efforts made by Revenu Québec.

For 2013-2014, revenue growth amounts to 4.7%.

More specifically, personal income tax, the main source of government revenue, is expected to grow by 3.4% in 2012-2013 and 4.9% in 2013-2014, to \$19.5 billion and \$20.5 billion respectively. This change is slightly higher than the growth in personal income given the progressive nature of the tax system. It also reflects the additional tax recovery efforts.

Contributions to the health services fund will rise by 3.6% in 2012-2013 and 3.5% in 2013-2014 in keeping with the anticipated growth in salaries and wages.

Revenue from corporate taxes should increase by 6.0% in 2012-2013 and 3.2% in 2013-2014, to \$4.3 billion and \$4.5 billion respectively.

- This change is due essentially to growth in corporate profits of 6.9% in 2012 and 4.4% in 2013, which will translate into an increase in the taxable income and tax payable of corporations. Tax recovery efforts will also contribute to the growth in corporate taxes over the next two fiscal years.
- In addition, the elimination of the compensation tax for financial institutions as of January 1, 2013, a measure announced as part of the agreement on the harmonization of the QST with the GST, will mitigate the progression of corporate taxes, primarily in 2013-2014.



In 2012-2013 and 2013-2014, revenue from consumption taxes will increase by 13.1% and 5.1% respectively. This increase is explained, on the one hand, by anticipated growth of 3.4% in 2012 and 3.6% in 2013 in nominal consumption and, on the other, by the positive impact on revenue growth of the following two main factors:

- the increase of one percentage point in the QST, effective January 1, 2012, which has an upward impact on the growth in revenue from this tax in 2012-2013;
- the impact of the elimination of input tax refunds (ITRs) on the supply of financial services as of January 1, 2013, a measure stemming from the agreement on the harmonization of the QST with the GST.

After rising by 18.1% in 2011-2012, revenue from natural resources will stand at \$357 million in 2012-2013 and climb by 14.0% in 2013-2014.

- The growth in 2013-2014 comes from the increase in mining duties and the rise in forest royalties, the latter of which is attributable to the increase in the volumes of timber harvested and the auctioning of part of the timber available on public lands.

#### **□ Change in revenue compatible with that of the economy**

Overall, anticipated growth in own-source revenue, excluding government enterprises, is compatible with nominal economic growth for the next two years, leaving aside the financial impact of fiscal measures and the plan to restore fiscal balance.

## Allocation of revenue from the specific taxes on fuel and tobacco products

The specific taxes on fuel are an integral part of consumption taxes. Revenue from these taxes is allocated in part to various funds dedicated to financing specific activities, such as the funding of the road network, public transit, culture or certain services aimed at the population (physical activity and healthy lifestyle incentives).

### Fuel tax

For 2011-2012, the government's own-source revenue from specific taxes on fuel totals \$2.1 billion. This amount includes revenue from:

- the specific tax of 3¢ per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives paid into the general fund to finance the government's missions (\$33 million);
- the specific tax of 17.2¢ and 18.2¢ per litre on gasoline and diesel fuel (non-coloured fuel oil) respectively, paid into the Land Transportation Network Fund (FORT) to finance the road network and public transit infrastructures (\$1 972 million);
- the specific tax of 3¢ per litre of gasoline sold in the territory of the Agence métropolitaine de transport (AMT) for public transportation services in the metropolitan Montréal region (\$95 million).

### Allocation of revenue from the specific taxes on fuel (millions of dollars)

	2011-2012	2012-2013	2013-2014
General fund	33	18	19
FORT <sup>(1)</sup>	1 972	2 126	2 285
AMT	95	97	98
<b>TOTAL REVENUE</b>	<b>2 100</b>	<b>2 241</b>	<b>2 402</b>

(1) As announced in Budget 2010-2011, the rate of the specific taxes on gasoline and diesel fuel will increase by 1¢ per litre on April 1, 2012 and April 1, 2013 to ensure the funding of FORT. On April 1, 2012, the rate of the specific tax on gasoline will be raised to 18.2¢ per litre, while that on diesel fuel (non-coloured fuel oil) will be increased to 19.2¢ per litre.

### Allocation of revenue from the specific taxes on fuel and tobacco products (cont.)

#### Tax on tobacco products

Tax revenue from the sale of tobacco products amounts to \$864 million in 2011-2012, including:

- \$752 million paid into the general fund;
- \$112 million allocated to various special funds.

#### Allocation of revenue from the specific tax on tobacco products (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>General fund</b>	<b>752</b>	<b>746</b>	<b>722</b>
<b>Special funds<sup>(1)</sup></b>			
– Sports and Physical Activity Development Fund	52	55	55
– Québec Cultural Heritage Fund	10	16	16
– Fund for the Promotion of a Healthy Lifestyle	20	20	20
– Early Childhood Development Fund	15	15	15
– Caregiver Support Fund	15	15	15
<b>Subtotal</b>	<b>112</b>	<b>121</b>	<b>121</b>
<b>TOTAL REVENUE</b>	<b>864</b>	<b>867</b>	<b>843</b>

(1) Including the fiscal measures in the present budget for 2012-2013 and 2013-2014.

## Revenue from natural resources

The government uses various means to enable Quebecers to benefit fully from our natural resources. For example, it collects royalties on resource development, as well as revenue from the attribution of licences.

- An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned, on certain conditions.
- A lease (or right) to develop enables the holder to develop the resource in exchange for the payment of an annual rent, on certain conditions.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of our resources, the government has decided to devote a portion of the revenue derived from natural resources to:

- reducing the debt so that present and future generations may benefit from the development of natural resources (Generations Fund);
- funding geoscientific work and data acquisition, as well as research and the development of techniques for the exploration, development, redevelopment and rehabilitation of mining sites (Natural Resources Fund (NRF));
- for forest management work to ensure the sustainability of Québec's forest (sylvicultural work).

The natural resource revenue of the general fund is estimated at \$366 million in 2011-2012, \$357 million in 2012-2013 and \$407 million in 2013-2014.

### Revenue from natural resources (millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
<b>Gross royalties</b>					
– Mining	99	305	365	355	375
– Forest	103	120	111	170	223
– Water-power	663	653	699	721	732
– Oil and natural gas	—	—	—	—	—
<b>Total gross royalties</b>	<b>865</b>	<b>1 078</b>	<b>1 175</b>	<b>1 246</b>	<b>1 330</b>
<b>Duties and licences</b>	<b>17</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>43</b>
<b>Deposit in the Generations Fund</b>	<b>-658</b>	<b>-650</b>	<b>-696</b>	<b>-718</b>	<b>-729</b>
<b>Other</b>					
NRF – Mines	-20	-20	-20	-20	-20
Silvicultural work	-154	-158	-113	-170	-200
Other	55	41	3	3	-17
<b>Total – Other</b>	<b>-119</b>	<b>-137</b>	<b>-130</b>	<b>-187</b>	<b>-237</b>
<b>REVENUE FROM NATURAL RESOURCES PAID INTO THE GENERAL FUND</b>	<b>105</b>	<b>310</b>	<b>366</b>	<b>357</b>	<b>407</b>

## 2.1.2 Revenue from government enterprises

### □ Results for 2011-2012

Revenue from government enterprises is adjusted downward by \$26 million for 2011-2012. This is explained mainly by the downward revision of Loto-Québec's forecast, which is partly offset by the increase in revenue from all of the other government enterprises.

Revenue from Loto-Québec is adjusted downward by \$79 million. The major share of this adjustment, i.e. \$54.5 million, can be attributed to the impact of the deterioration of the economic situation in Europe, which affected the value of Loto-Québec's investment in JOAGROUPE, a French company that operates casinos.

Revenue from all of the other government enterprises is adjusted positively by \$53 million and is explained by the upward revision of the results of the Société des alcools du Québec, Hydro-Québec and other government enterprises.

TABLE C.7

### General fund Change in revenue from government enterprises (millions of dollars)

	Budget 2011-2012		Budget 2012-2013		
	2011-2012	Adjustments	2011-2012	2012-2013	2013-2014
Hydro-Québec	2 575	11	2 586	2 625	2 725
Loto-Québec	1 246	-79	1 167	1 221	1 220
Société des alcools du Québec	940	22	962	990	1 040
Other	29	20	49	59	33
<b>REVENUE FROM GOVERNMENT ENTERPRISES</b>	<b>4 790</b>	<b>-26</b>	<b>4 764</b>	<b>4 895</b>	<b>5 018</b>
<b>% change</b>	<b>1.6</b>		<b>-1.5</b>	<b>2.7</b>	<b>2.5</b>

### □ Outlook for 2012-2013 and 2013-2014

Revenue from government enterprises for 2012-2013 and 2013-2014 will amount to \$4.9 billion and \$5.0 billion respectively. Anticipated revenue will thus grow by 2.7% in 2012-2013 and 2.5% in 2013-2014 and will be sustained by efforts to reduce the spending and improve the productivity of government enterprises.

## 2.1.3 Revenues from federal transfers

In 2011-2012, federal transfer revenues should reach \$15.2 billion, or \$136 million more than forecast in the March 2011 budget. This upward adjustment can be explained essentially by the following factors:

- the renewal for two years of the Canada-Québec Agreement Regarding the Participation of Handicapped Persons in the Labour Market, which entails a \$46-million increase in revenue in 2011-2012;
- the \$25-million upward revision in revenue in respect of the special tax on dividends from preferred shares;
- an upward adjustment of \$15 million in respect of the reduction of the reimbursement to be made to the federal government under the discontinued Youth Allowance Program.

TABLE C.8

### Change in the federal transfer revenues of the general fund (millions of dollars)

	Budget 2011-2012		Budget 2012-2013		
	2011-2012	Adjustments	2011-2012	2012-2013	2013-2014
Equalization	7 639	176 <sup>(1)</sup>	7 815	7 391	7 905
% change	-10.7		-8.6	-5.4	7.0
Protection payment	545	-176 <sup>(1)</sup>	369	362	—
Health transfers	4 516	-5	4 511	4 821	5 133
% change	4.8		4.7	6.9	6.5
Transfers for post-secondary education and other social programs	1 475	13	1 488	1 515	1 545
% change	1.4		2.3	1.8	2.0
Other programs	864	128	992	975	894
% change	-23.9		-10.6	-1.7	-8.3
Harmonization of the QST with the GST – Compensation	—	—	—	733	1 467
<b>Subtotal</b>	<b>15 039</b>	<b>136</b>	<b>15 175</b>	<b>15 797</b>	<b>16 944</b>
% change	-2.7		-1.6	4.1	7.3
Allocation to FINESSE of a portion of the compensation for harmonization of the QST with the GST	—	—	—	—	-430
<b>FEDERAL TRANSFERS</b>	<b>15 039</b>	<b>136</b>	<b>15 175</b>	<b>15 797</b>	<b>16 514</b>
% change	-2.7	—	-1.6	4.1	4.5

(1) In the March 17, 2011 budget, Québec entered amounts of \$7 639 million in equalization and \$545 million designated as a protection payment for 2011-2012, in keeping with what the federal government had announced to the provinces in December 2010. On March 21, 2011, the federal government informed Québec that it was correcting a Statistics Canada error for 2011-2012: as a result, Québec's equalization payment was increased by \$176 million, to \$7 815 million, while the protection payment was reduced by the same amount, to \$369 million.

Federal transfers are expected to increase by 4.1% in 2012-2013 and 4.5% in 2013-2014, essentially because of the payments in respect of federal compensation for sales tax harmonization.

The first payment of compensation will counterbalance a reduction of 5.4% in equalization in 2012-2013, which stems mainly from Québec's comparatively good economic performance in 2009 and 2010. This delay results from the smoothing mechanism used by the federal government to determine equalization payments (three-year moving average delayed by two years).

TABLE C.9

**Smoothing mechanism used by the federal government to determine equalization payments**

2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
25%      25%      50%			→	Payments		
	25%      25%      50%			→	Payments	
		25%      25%      50%			→	Payments

This reduction in the equalization payment is partly offset by a protection payment of \$362 million in 2012-2013. This payment corresponds to the decrease, between 2011-2012 and 2012-2013, of total main federal transfers, i.e. the Canada Health Transfer (CHT), the Canada Social Transfer (CST) and equalization. Three other provinces also obtained a protection payment.

It should be noted that Québec has requested that such protection payments be granted to the provinces systematically to prevent their federal transfer revenues from declining from one year to the next, until the equalization program is once again based on a solid formula and principles.

## **□ Federal compensation for the harmonization of the QST with the GST**

On September 29, 2011, the Québec government and the Government of Canada concluded an agreement in principle that stipulates that the federal government will pay Québec \$2.2 billion in compensation in respect of the harmonization of the QST with the GST.

The compensation will be used as follows:

- in 2012-2013, the amount of \$733 million will be allocated in full to the debt service expenditure;
- in 2013-2014, the amount of \$1 467 million will be used as follows:
  - an amount of \$1 037 million will be allocated to the debt service expenditure;
  - an amount of \$430 million will be paid into the Fund to Finance Health and Social Services Institutions (FINESSS), for which an equivalent shortfall subsisted, and will be used to finance health services.

As a result, the government can defer to 2014-2015 the establishment of new measures to maintain fiscal balance in order to ensure continued economic growth.

TABLE C.10

### **Use of federal compensation in 2012-2013 and 2013-2014** (millions of dollars)

	2012-2013	2013-2014	TOTAL
<b>Federal compensation</b>	<b>733</b>	<b>1 467</b>	<b>2 200</b>
<b>Use by the Québec government</b>			
Debt service	-733	-1 037	-1 770
FINESSS	—	-430	-430
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>



## 2.2 Budgetary expenditure

The government's budgetary expenditure, which includes program spending and debt service, is expected to reach \$68.8 billion in 2011-2012, i.e. \$61.4 billion for program spending and \$7.5 billion for debt service.

Program spending should increase by 2.0% in 2012-2013 and 1.8% in 2013-2014.

TABLE C.11

**General fund**  
**Change in budgetary expenditure**  
(millions of dollars)

	Budget 2011-2012	Adjustments	Budget 2012-2013		
	2011-2012		2011-2012	2012-2013	2013-2014
Program spending	61 284	100	61 384	62 642	63 751
% change	2.4		2.0	2.0	1.8
Debt service	7 794	-342	7 452	8 237	8 827
% change	12.4		6.7	10.5	7.2
<b>BUDGETARY EXPENDITURE</b>	<b>69 078</b>	<b>-242</b>	<b>68 836</b>	<b>70 879</b>	<b>72 578</b>
% change	3.5		2.5	3.0	2.4

## 2.2.1 Program spending

### □ 2011-2012

Program spending in 2011-2012 stands at \$61.4 billion, up 2.0% over 2010-2011. The increase of \$100 million can be attributed to the adjustment to education clienteles.

TABLE C.12

### Change in program spending (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>PROGRAM SPENDING OBJECTIVE IN BUDGET 2011-2012</b>	<b>61 284</b>	<b>62 113</b>	<b>63 325</b>
<i>% change</i>	<i>2.4</i>	<i>1.4</i>	<i>2.0</i>
<b>Adjustments to expenditure</b>			
– Wage adjustments related to GDP	—	142	142
– Increases in education	100	100	100
– Other items	—	136	—
Subtotal	<b>100</b>	<b>378</b>	<b>242</b>
<b>Budget 2012-2013 measures</b>			
– Maintenance of existing programs	—	65	67
– New initiatives	—	86	117
Subtotal	<b>—</b>	<b>151</b>	<b>184</b>
<b>ADJUSTMENTS</b>	<b>100</b>	<b>529</b>	<b>426</b>
<b>PROGRAM SPENDING OBJECTIVE IN BUDGET 2012-2013</b>	<b>61 384</b>	<b>62 642</b>	<b>63 751</b>
<i>% change</i>	<i>2.0</i>	<i>2.0</i>	<i>1.8</i>

### □ 2012-2013 and 2013-2014

In 2012-2013, program spending growth will stand at 2.0%. Compared with the March 2011 budget, the program spending objective is revised upward by \$529 million, particularly on account of the following:

- a reserve of \$142 million as of 2012-2013 for wage adjustments related to GDP. This revision comes from the reserve in respect of the anticipated enhancement of the pay parameters for public and parapublic sector employees linked to better economic performance in 2010. This reserve will be reviewed in the light of economic data for 2010 and 2011, which will be published in fall 2012;
- an upward adjustment of \$100 million per year in education;

- a \$136-million increase, making it possible, in particular, to finance the impact of the Justice Access Plan,<sup>7</sup> the production of seedlings and the additional costs related to the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry;
- the Budget 2012-2013 measures that include the maintenance of existing programs totalling \$65 million, as well as \$86 million in new initiatives.

In 2013-2014, program spending growth will amount to 1.8%.

### **❑ Efforts on the part of all government departments**

Program spending will climb from \$61.4 billion in 2011-2012 to \$62.6 billion in 2012-2013, an increase of \$1 258 million, or 2.0%.

TABLE C.13

#### **Growth in program spending in 2012-2013** (millions of dollars)

	2011-2012	2012-2013	Change	
			\$ million	%
Santé et Services sociaux	29 121	30 121	1 000	3.4
Éducation, Loisir et Sport	15 634	15 976	342	2.2
Famille et Aînés	2 411	2 451	40	1.6
Other departments	14 218	14 095	-123	-0.9
<b>TOTAL</b>	<b>61 384</b>	<b>62 642</b>	<b>1 258</b>	<b>2.0</b>

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.  
Source: Secrétariat du Conseil du trésor.

<sup>7</sup> See Note 4, page C.8.

## ■ Health: 3.4% increase in 2012-2013

Program spending by the Ministère de la Santé et des Services sociaux is being raised by \$1 000 million, or 3.4%, in 2012-2013. With the contribution from FINESSS,<sup>8</sup> the department will be able to finance the volume and cost of services and new initiatives that respond to Quebecers' needs.

## ■ Education: 2.2% budget increase

The increase of \$342 million, or 2.2%, allocated to the Ministère de l'Éducation, du Loisir et du Sport, will make it possible to maintain and improve the quality of services offered in the education networks and pursue actions undertaken in recent years.

## ■ Families and seniors: 1.6% budget increase

The budget of the Ministère de la Famille et des Aînés is being raised by 1.6%, or \$40 million.

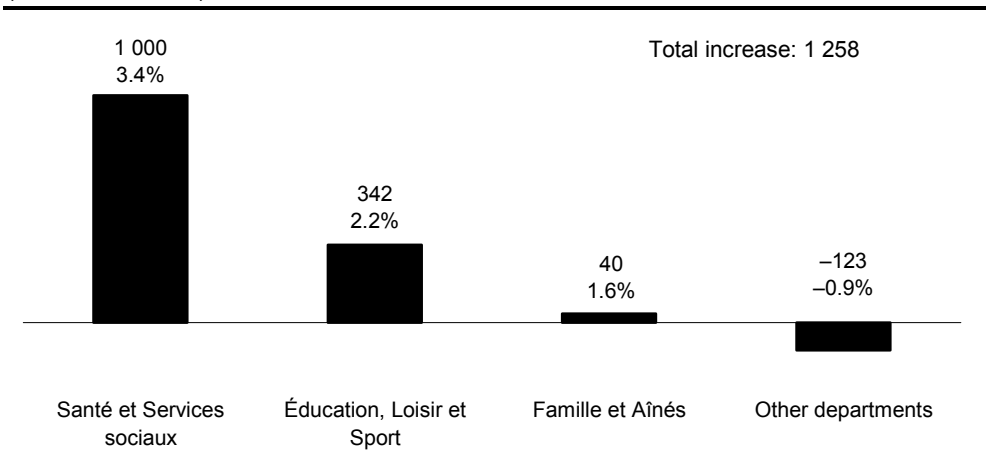
## ■ Other departments: 0.9% budget decrease

The budget of the other departments is being reduced by 0.9%, or \$123 million, in 2012-2013.

CHART C.1

### Increase in program spending in 2012-2013

(millions of dollars)



Source: Secrétariat du Conseil du trésor.

<sup>8</sup> For additional information on government funding for health, see Section A.

## ❑ Increase in program spending for government priorities since 2003-2004

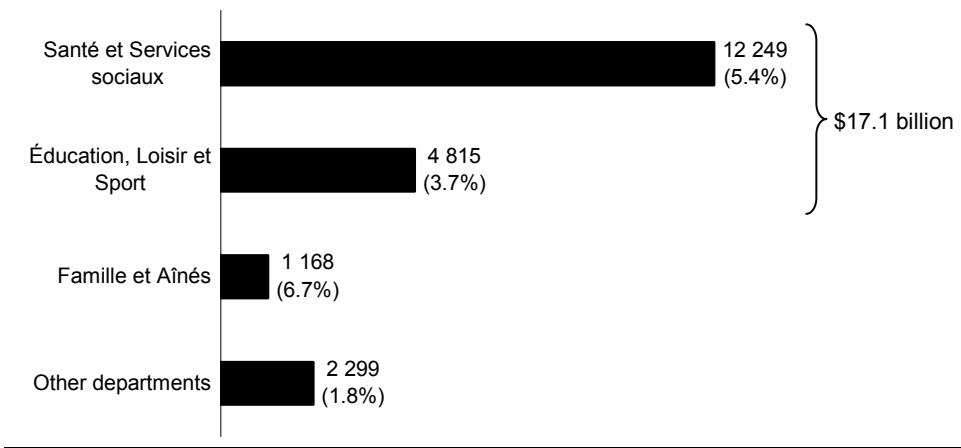
The government is continuing to invest in its priority missions, including health and education. From 2003-2004 to 2011-2012, average annual spending in health and education have risen by 5.4% and 3.7% respectively, excluding the contribution of FINESSS to the growth in health spending.

In all, since 2003, the government has added \$17.1 billion to the health and education budgets, i.e. \$12.2 billion and \$4.8 billion respectively.

CHART C.2

### Increase in program spending from 2003-2004 to 2012-2013

(millions of dollars)



# ❑ Weight of government spending in the economy

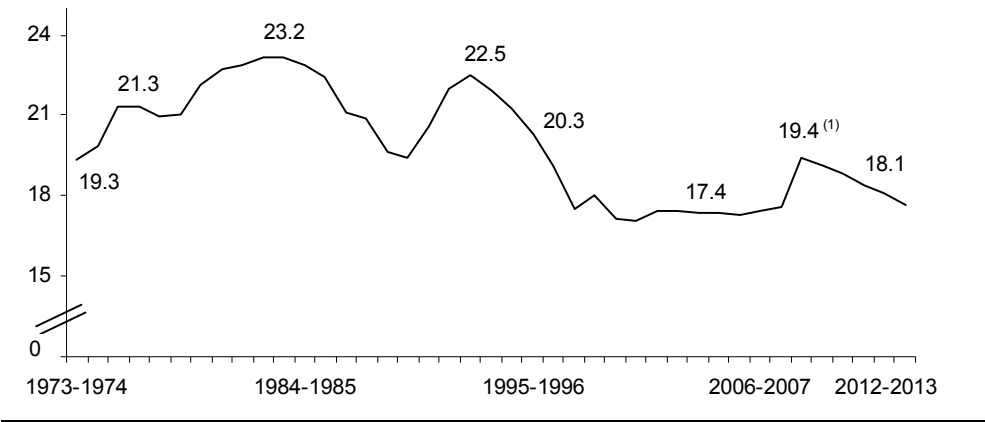
The forecast for program spending in 2012-2013 is in line with the government's overall objective to restore fiscal balance by 2013-2014.

— The weight of spending in the economy should be 18.1% in 2012-2013.

Thereafter, the government plans to stay the course of disciplined program spending management and gradually bring the weight of spending in the economy down to a proportion equal to that observed prior to the recession.

CHART C.3

## Program spending (as a percentage of GDP)



(1) Plan to support employment and prepare for economic recovery after the recession.

## 2.2.2 Debt service

In 2011-2012, the debt service of the general fund should stand at \$7.5 billion, i.e. \$4.7 billion for direct debt service and \$2.8 billion for interest ascribed to the retirement plans.

Overall, debt service is revised downward by \$342 million compared with the forecast in the March 2011 budget, essentially because of lower-than-anticipated interest rates.

In 2011-2012 and 2012-2013, debt service is expected to climb by 6.7% and 10.5% respectively. This increase can be explained mainly by growth in the debt and by the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund (which is applied against the interest ascribed to the retirement plans).

In addition, in 2012-2013, since it is expected that interest rates will not continue to fall, the sinking fund for government borrowings will not realize as many gains on the disposal of securities as in 2011-2012, such that the income of this fund, which is applied against direct debt service, will be lower than the previous year.

The increase of 7.2% in 2013-2014 is due to the anticipated increase in interest rates, the growth of the debt and the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund.

TABLE C.14

### General fund Change in debt service (millions of dollars)

	Budget 2011-2012		Budget 2012-2013		
	2011-2012	Adjustments	2011-2012	2012-2013	2013-2014
Direct debt service	5 007	-312	4 695	5 217	5 555
Interest ascribed to the retirement plans	2 804	-38	2 766	3 032	3 293
Interest ascribed to employee future benefits <sup>(1)</sup>	-17	8	-9	-12	-21
<b>DEBT SERVICE</b>	<b>7 794</b>	<b>-342</b>	<b>7 452</b>	<b>8 237</b>	<b>8 827</b>
<b>% change</b>	<b>12.4</b>		<b>6.7</b>	<b>10.5</b>	<b>7.2</b>

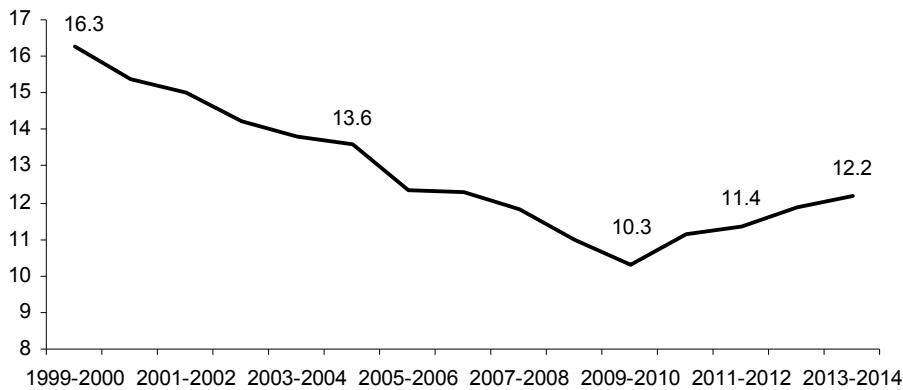
(1) Including the interest on the obligation relating to the survivor's pension plan minus the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave minus the investment income of the Accumulated Sick Leave Fund.

❑ **Proportion of revenue devoted to the debt service of the general fund**

The share of budgetary revenue devoted to the debt service of the general fund should stand at 12.2% in 2013-2014, compared with 16.3% in the late 1990s.

CHART C.4

**Debt service of the general fund**  
(as a percentage of revenue)





## 2.3 Consolidated expenditure

In addition to the program spending of the departments and budget-funded bodies presented earlier, the following table presents the expenditures of the special funds, non-budget-funded bodies, organizations in the health and social services and education networks and specified purpose accounts, as well as expenditures related to the tax system.

This presentation reflects the level and growth of the government's total spending, i.e. consolidated expenditure.

This table makes it possible to compare this expenditure with the data in Québec's public accounts and the data of the other Canadian provinces.

TABLE C.15

### Change in consolidated expenditure (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>Program spending</b>	61 384	62 642	63 751
<i>% change</i>	2.0	2.0	1.8
<b>Special funds</b>	6 503	7 350	8 265
<i>% change</i>	15.9	13.0	12.4
<b>Non-budget-funded bodies</b>	16 567	17 364	18 334
<i>% change</i>	4.6	4.8	5.6
<b>Health and social services and education networks</b>	35 066	36 659	37 989
<i>% change</i>	4.4	4.5	3.6
<b>Specified purpose accounts</b>	2 143	1 368	1 201
<i>% change</i>	21.9	-36.2	-12.2
<b>Expenditures related to the tax system</b>	5 202	5 286	5 318
Consolidation adjustments <sup>(1)</sup>	-47 847	-50 036	-52 461
<b>Consolidated expenditure excluding debt service</b>	<b>79 018</b>	<b>80 633</b>	<b>82 397</b>
<i>% change</i>	3.5	2.0	2.2
<b>Debt service</b>			
General fund	7 452	8 237	8 827
<i>% change</i>	6.7	10.5	7.2
Consolidated entities <sup>(2)</sup>	2 039	2 147	2 316
<i>% change</i>	4.5	5.3	7.9
<b>Consolidated debt service</b>	<b>9 491</b>	<b>10 384</b>	<b>11 143</b>
<i>% change</i>	6.2	9.4	7.3
<b>CONSOLIDATED EXPENDITURE</b>	<b>88 509</b>	<b>91 017</b>	<b>93 540</b>
<i>% change</i>	3.8	2.8	2.8

(1) Elimination of inter-entity transactions and reclassifications.

(2) Including consolidation adjustments.

## ■ Consolidated expenditure excluding debt service

Consolidated expenditure excluding debt service includes program spending and spending by the special funds, non-budget-funded bodies, organizations in the health and social services and education networks and specified purpose accounts, as well as expenditures related to the tax system.

Growth in consolidated expenditure is expected to amount to 3.5%, 2.0% and 2.2% for 2011-2012, 2012-2013 and 2013-2014 respectively. Although these growth rates are slightly higher than that of program spending, growth in consolidated expenditure will also show a marked slowdown compared with the average of 5.7% observed from 2006-2007 to 2009-2010.

## ■ Special funds

Growth in spending by special funds in 2011-2012, 2012-2013 and 2013-2014 will amount to 15.9%, 13.0% and 12.4% respectively. These rates reflect the high growth of certain special funds such as:

- FINESSES, for financing health-care institutions;
- FORT, for financing road network and public transit infrastructures;
- the Green Fund, for financing initiatives to combat climate change.

If growth in spending by these three funds is not included in the growth of total special fund spending, the change in spending by the other special funds amounts to 6.7% in 2011-2012, 2.9% in 2012-2013 and 3.9% in 2013-2014.

TABLE C.16

### Special funds – Spending excluding debt service (millions of dollars)

	2011-2012	2012-2013	2013-2014
FINESSES	615	1 005	1 445
FORT	1 783	2 052	2 361
Green Fund	411	491	507
<b>Subtotal</b>	<b>2 809</b>	<b>3 548</b>	<b>4 313</b>
<i>% change</i>	30.6	26.3	21.6
<b>Other special funds</b>	<b>3 694</b>	<b>3 802</b>	<b>3 952</b>
<i>% change</i>	6.7	2.9	3.9
<b>SPECIAL FUNDS</b>	<b>6 503</b>	<b>7 350</b>	<b>8 265</b>
<i>% change</i>	15.9	13.0	12.4

## ■ **Non-budget-funded bodies**

Non-budget-funded bodies show annual spending growth of 4.6%, 4.8% and 5.6% for 2011-2012, 2012-2013 and 2013-2014 respectively.

As with the special funds, the mission of certain non-budget-funded bodies explains the higher growth in their spending. This is the case, for example, of the Société de financement des infrastructures locales du Québec, which finances municipal infrastructure.

## ■ **Health and social services and education networks**

Organizations in the health and social services and education networks show spending growth of 4.4%, 4.5% and 3.6% respectively 2011-2012, 2012-2013 and 2013-2014.

## ■ **Specified purpose accounts**

Spending by the specified purpose accounts will increase by 21.9% in 2011-2012 and decline by 36.2% in 2012-2013 and 12.2% in 2013-2014. The decrease observed for the last two years is due, for the most part, to the end of federal infrastructure stimulus programs.

## □ **Consolidated expenditure**

The growth of consolidated expenditure comprises total government spending, including consolidated debt service, i.e. the debt service of the general fund and of consolidated entities as a whole.

Annual growth in consolidated expenditure will amount to 3.8% in 2011-2012 and 2.8% in the two following years.



### 3. CONSOLIDATED REVENUE AND EXPENDITURE

The consolidated financial forecasts include the budgetary revenue and expenditure of the general fund as well as the budgetary revenue and expenditure of all the entities in the government's reporting entity.

They provide more detailed information on the revenue and expenditure included in the government's financial projections. In addition, these financial projections enable reconciliation with the actual results presented in the public accounts.

#### 3.1 Change in consolidated revenue and expenditure from 2011-2012 to 2013-2014

Table C.17 presents the government's consolidated financial framework for fiscal 2011-2012 to 2013-2014.

More specifically, tables C.18, C.19 and C.20 present the consolidated results by sector for 2011-2012 to 2013-2014.

This sector-based information shows separately the transactions carried out by the general fund, special funds, non-budget-funded bodies, health and social services and education networks and specified purpose accounts.

In addition, as of April 1, 2012, a new public sector accounting standard in Canada will require that refundable tax credits for individuals and corporations, which are similar to tax system expenditures, be classified in spending rather than in revenue reductions.

- This change in the presentation of financial information has no impact on the government's budgetary balance. The total for these tax credits, which stands at \$5.2 billion in 2011-2012, is presented under the heading "Expenditures related to the tax system".<sup>9</sup>

<sup>9</sup> Following the coming into effect of the new accounting standard on tax revenue on April 1, 2012, most refundable tax credits, which were previously applied against revenue, will be charged to expenditure. This change has no impact on the budgetary balance. For more information, see *Dépenses fiscales, 2011 edition*, page A.65.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government's reporting entity are eliminated.

The financial framework of Budget 2012-2013 for consolidated revenue and expenditure from 2010-2011 to 2016-2017 is presented in Section A.

TABLE C.17

**Financial framework for consolidated revenue and expenditure**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>Revenue</b>			
General fund	65 539	69 395	72 524
Special funds	8 168	8 882	10 018
Generations Fund	848	911	1 041
Non-budget-funded bodies	17 621	18 749	19 768
Health and social services and education networks	35 786	37 303	38 746
Specified purpose accounts	2 143	1 368	1 201
Transfers related to the tax system	5 202	5 286	5 318
Consolidation adjustments <sup>(1)</sup>	-48 950	-51 166	-53 835
<b>Consolidated revenue</b>	<b>86 357</b>	<b>90 728</b>	<b>94 781</b>
<b>Expenditure</b>			
General fund	-61 384	-62 642	-63 751
Special funds	-6 503	-7 350	-8 265
Non-budget-funded bodies	-16 567	-17 364	-18 334
Health and social services and education networks	-35 066	-36 659	-37 989
Specified purpose accounts	-2 143	-1 368	-1 201
Expenditures related to the tax system	-5 202	-5 286	-5 318
Consolidation adjustments <sup>(1)</sup>	47 847	50 036	52 461
<b>Consolidated expenditure excluding debt service</b>	<b>-79 018</b>	<b>-80 633</b>	<b>-82 397</b>
<b>Debt service</b>			
General fund	-7 452	-8 237	-8 827
Consolidated entities <sup>(2)</sup>	-2 039	-2 147	-2 316
<b>Consolidated debt service</b>	<b>-9 491</b>	<b>-10 384</b>	<b>-11 143</b>
<b>Consolidated expenditure</b>	<b>-88 509</b>	<b>-91 017</b>	<b>-93 540</b>
Contingency reserve	-300	-300	-200
<b>SURPLUS (DEFICIT)</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-848	-911	-1 041
<b>BUDGETARY BALANCE<sup>(3)</sup></b>	<b>-3 300</b>	<b>-1 500</b>	<b>—</b>

(1) Elimination of inter-entity transactions and reclassifications.

(2) Including consolidation adjustments.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE C.18

**Detailed consolidated financial framework**  
(millions of dollars)

	2011-2012			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Income and property taxes	29 137	1 421		
Consumption taxes	14 548	2 152		
Duties and permits	643	1 205		
Miscellaneous	1 272	1 259		206
Government enterprises	4 764			
Other revenue sources			848	
<b>Own-source revenue</b>	<b>50 364</b>	<b>6 037</b>	<b>848</b>	<b>206</b>
Québec government transfers		2 049		
Federal transfers	15 175	82		1 937
<b>Total revenue</b>	<b>65 539</b>	<b>8 168</b>	<b>848</b>	<b>2 143</b>
<b>Expenditure</b>				
Expenditure	-61 384	-6 503		-2 143
Debt service	-7 452	-1 110		
<b>Total expenditure</b>	<b>-68 836</b>	<b>-7 613</b>	<b>—</b>	<b>-2 143</b>
Contingency reserve	-300			
<b>SURPLUS (DEFICIT)</b>	<b>-3 597</b>	<b>555</b>	<b>848</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-848	
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>-3 597</b>	<b>555</b>	<b>—</b>	<b>—</b>

Note: The public accounts will present the results according to the non-restated 2011-2012 structure.

(1) Elimination of transactions between entities and reclassifications of the allowance for doubtful accounts and of abatements.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*.



2011-2012				
Transfers (expenditures) related to the tax system	Non- budget- funded bodies	Health and social services and education networks	Consolidation adjustments <sup>(1)</sup>	Consolidated results
5 202	846	1 515	-207	37 914
	95		-1 354	15 441
	406		-75	2 179
	4 455	3 550	-3 327	7 415
				4 764
				848
<b>5 202</b>	<b>5 802</b>	<b>5 065</b>	<b>-4 963</b>	<b>68 561</b>
	10 907	30 419	-43 375	—
	912	302	-612	17 796
<b>5 202</b>	<b>17 621</b>	<b>35 786</b>	<b>-48 950</b>	<b>86 357</b>
-5 202	-16 567	-35 066	47 847	-79 018
	-1 181	-765	1 017	-9 491
<b>-5 202</b>	<b>-17 748</b>	<b>-35 831</b>	<b>48 864</b>	<b>-88 509</b>
				-300
—	-127	-45	-86	-2 452
				-848
—	-127	-45	-86	-3 300

TABLE C.19

**Detailed consolidated financial framework**  
(millions of dollars)

	2012-2013			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Income and property taxes	30 257	1 789		
Consumption taxes	16 450	2 315		
Duties and permits	644	1 270		
Miscellaneous	1 352	1 344		211
Government enterprises	4 895			
Other revenue sources			911	
<b>Own-source revenue</b>	<b>53 598</b>	<b>6 718</b>	<b>911</b>	<b>211</b>
Québec government transfers		2 075		
Federal transfers	15 797	89		1 157
<b>Total revenue</b>	<b>69 395</b>	<b>8 882</b>	<b>911</b>	<b>1 368</b>
<b>Expenditure</b>				
Expenditure	-62 642	-7 350		-1 368
Debt service	-8 237	-1 302		
<b>Total expenditure</b>	<b>-70 879</b>	<b>-8 652</b>	<b>—</b>	<b>-1 368</b>
Contingency reserve	-300			
<b>SURPLUS (DEFICIT)</b>	<b>-1 784</b>	<b>230</b>	<b>911</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-911	
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>-1 784</b>	<b>230</b>	<b>—</b>	<b>—</b>

(1) Elimination of transactions between entities and reclassifications of the allowance for doubtful accounts and of abatements.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

2012-2013				
Transfers (expenditures) related to the tax system	Non- budget- funded bodies	Health and social services and education networks	Consolidation adjustments <sup>(1)</sup>	Consolidated results
5 286	869	1 538	43	39 782
	97		-1 694	17 168
	409		-78	2 245
	4 845	3 594	-3 250	8 096
				4 895
				911
<b>5 286</b>	<b>6 220</b>	<b>5 132</b>	<b>-4 979</b>	<b>73 097</b>
	11 437	31 861	-45 373	—
	1 092	310	-814	17 631
<b>5 286</b>	<b>18 749</b>	<b>37 303</b>	<b>-51 166</b>	<b>90 728</b>
-5 286	-17 364	-36 659	50 036	-80 633
	-1 140	-744	1 039	-10 384
<b>-5 286</b>	<b>-18 504</b>	<b>-37 403</b>	<b>51 075</b>	<b>-91 017</b>
				-300
—	<b>245</b>	<b>-100</b>	<b>-91</b>	<b>-589</b>
				-911
—	<b>245</b>	<b>-100</b>	<b>-91</b>	<b>-1 500</b>

TABLE C.20

**Detailed consolidated financial framework**  
(millions of dollars)

	2013-2014			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Income and property taxes	31 578	1 872		
Consumption taxes	17 285	2 475		
Duties and permits	692	1 338		
Miscellaneous	1 437	1 516		205
Government enterprises	5 018			
Other revenue sources			1 041	
<b>Own-source revenue</b>	<b>56 010</b>	<b>7 201</b>	<b>1 041</b>	<b>205</b>
Québec government transfers		2 249		
Federal transfers	16 514	568		996
<b>Total revenue</b>	<b>72 524</b>	<b>10 018</b>	<b>1 041</b>	<b>1 201</b>
<b>Expenditure</b>				
Expenditure	-63 751	-8 265		-1 201
Debt service	-8 827	-1 614		
<b>Total expenditure</b>	<b>-72 578</b>	<b>-9 879</b>	<b>—</b>	<b>-1 201</b>
Contingency reserve	-200			
<b>SURPLUS (DEFICIT)</b>	<b>-254</b>	<b>139</b>	<b>1 041</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-1 041	
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>-254</b>	<b>139</b>	<b>—</b>	<b>—</b>

(1) Elimination of transactions between entities and reclassifications of the allowance for doubtful accounts and of abatements.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

2013-2014				
Transfers (expenditures) related to the tax system	Non- budget- funded bodies	Health and social services and education networks	Consolidation adjustments <sup>(1)</sup>	Consolidated results
5 318	927	1 560	-14	41 241
	98		-1 750	18 108
	392		-67	2 355
	5 041	3 544	-3 447	8 296
				5 018
				1 041
<b>5 318</b>	<b>6 458</b>	<b>5 104</b>	<b>-5 278</b>	<b>76 059</b>
	12 167	33 319	-47 735	—
	1 143	323	-822	18 722
<b>5 318</b>	<b>19 768</b>	<b>38 746</b>	<b>-53 835</b>	<b>94 781</b>
-5 318	-18 334	-37 989	52 461	-82 397
	-1 225	-757	1 280	-11 143
<b>-5 318</b>	<b>-19 559</b>	<b>-38 746</b>	<b>53 741</b>	<b>-93 540</b>
				-200
—	<b>209</b>	—	<b>-94</b>	<b>1 041</b>
				-1 041
—	<b>209</b>	—	<b>-94</b>	<b>—</b>

### 3.2 Consolidated entities

In addition to the financial transactions of the general fund, the government's budgetary forecasts take into account all of the consolidated entities<sup>10</sup> in the government's reporting entity, namely:

- special funds;
- Generations Fund;
- non-budget-funded bodies;
- health and social services and education networks.

The following table shows the net results of the consolidated entities.

TABLE C.21

**Consolidated entities**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
Special funds <sup>(1)</sup>	555	230	139
Generations Fund (dedicated revenues)	848	911	1 041
Non-budget-funded bodies	-127	245	209
Health and social services and education networks	-45	-100	—
Consolidation adjustments	-86	-91	-94
<b>SURPLUS (DEFICIT)</b>	<b>1 145</b>	<b>1 195</b>	<b>1 295</b>

(1) Excluding the Generations Fund.

<sup>10</sup> The results of the consolidated entities also include those of the special funds and the Generations Fund, which became entities of the Consolidated Revenue Fund following the adoption of Bill 10. The results of the consolidated entities also include the impact of consolidation adjustments.

### 3.2.1 Special funds

The special funds consist of 34 entities set up in government departments or organizations. Their mission is to deliver services and sell goods or to fund government programs.

Special fund activities can be financed through fees, tax revenues or budgetary appropriations allocated annually by Parliament.

The table below presents the net results of the special funds for 2011-2012 to 2013-2014. The special funds show surpluses of \$555 million, \$230 million and \$139 million respectively for these three years.

TABLE C.22

**Special funds<sup>(1)</sup>**  
**Statements of results**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>Revenue</b>			
Income and property taxes	1 421	1 789	1 872
Consumption taxes	2 152	2 315	2 475
Duties and permits	1 205	1 270	1 338
Miscellaneous	1 259	1 344	1 516
<b>Own-source revenue</b>	<b>6 037</b>	<b>6 718</b>	<b>7 201</b>
Québec government transfers	2 049	2 075	2 249
Federal transfers	82	89	568
<b>Total revenue</b>	<b>8 168</b>	<b>8 882</b>	<b>10 018</b>
<b>Expenditure</b>			
Expenditure	-6 503	-7 350	-8 265
Debt service	-1 110	-1 302	-1 614
<b>Total expenditure</b>	<b>-7 613</b>	<b>-8 652</b>	<b>-9 879</b>
<b>SURPLUS (DEFICIT)</b>	<b>555</b>	<b>230</b>	<b>139</b>

(1) Excluding the Generations Fund presented in the next section.

## List of special funds

Assistance Fund for Independent Community Action	Natural Resources Fund
Fonds d'aide aux victimes d'actes criminels	Police Services Fund
Territorial Information Fund	Fonds des technologies de l'information du ministère de l'Emploi et de la Solidarité sociale
Labour Market Development Fund	Fonds du Bureau de décision et de révision <sup>1</sup>
Regional Development Fund	Fonds du centre financier de Montréal
Financing Fund	Economic Development Fund
Fund to Finance Health and Social Services Institutions (FINESSS)	Québec Cultural Heritage Fund
Fonds de fourniture de biens ou de services du ministère de l'Emploi et de la Solidarité sociale	Northern Plan Fund
Rolling Stock Management Fund	Fund of the Administrative Tribunal of Québec <sup>1</sup>
Fonds de la Commission des lésions professionnelles <sup>1</sup>	Fund for the Promotion of a Healthy Lifestyle
Fund of the Commission des relations du travail <sup>1</sup>	Early Childhood Development Fund
Highway Safety Fund	Sports and Physical Activity Development Fund
Tourism Partnership Fund	University Excellence and Performance Fund
Caregiver Support Fund	Fonds québécois d'initiatives sociales
Generations Fund	Fonds relatif à certains sinistres
Register Fund of the Ministère de la Justice	Tax Administration Fund (FRAF)
Land Transportation Network Fund	Green Fund

<sup>1</sup> Includes the operations of the body performing an adjudicative role.



### 3.2.2 Generations Fund

Revenues dedicated to the Generations Fund are expected to reach \$848 million in 2011-2012.

In 2012-2013 and 2013-2014, revenues dedicated to the Generations Fund are expected to be \$911 million and \$1 041 million respectively. As a result, the book value of the Generations Fund will reach \$6.5 billion as at March 31, 2014. Section I presents the results of and change in the Generations Fund in greater detail.

TABLE C.23

#### Revenues dedicated to the Generations Fund

(millions of dollars)

	2011-2012	2012-2013 <sup>(1)</sup>	2013-2014
<b>Dedicated revenues</b>			
Water-power royalties	696	718	729
Unclaimed property	10	10	10
Investment income	142	183	302
<b>TOTAL</b>	<b>848</b>	<b>911</b>	<b>1 041</b>

(1) Excluding the deposit of \$300 million from the Territorial Information Fund. For more information, see Section I.

### 3.2.3 Non-budget-funded bodies

Non-budget-funded bodies were created to provide specific public services; for example:

- La Financière agricole du Québec in the agricultural sector;
- the Agence métropolitaine de transport and Société des traversiers du Québec in the transportation sector;
- museums and the Société de développement des entreprises culturelles in the cultural sector.

The 62 non-budget-funded bodies show a deficit of \$127 million in 2011-2012 and surpluses of \$245 million in 2012-2013 and \$209 million in 2013-2014.

TABLE C.24

#### Non-budget-funded bodies Statements of results (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>Revenue</b>			
Income and property taxes	846	869	927
Consumption taxes	95	97	98
Duties and permits	406	409	392
Miscellaneous	4 455	4 845	5 041
<b>Own-source revenue</b>	<b>5 802</b>	<b>6 220</b>	<b>6 458</b>
Québec government transfers	10 907	11 437	12 167
Federal transfers	912	1 092	1 143
<b>Total revenue</b>	<b>17 621</b>	<b>18 749</b>	<b>19 768</b>
<b>Expenditure</b>			
Expenditure	-16 567	-17 364	-18 334
Debt service	-1 181	-1 140	-1 225
<b>Total expenditure</b>	<b>-17 748</b>	<b>-18 504</b>	<b>-19 559</b>
<b>SURPLUS (DEFICIT)</b>	<b>-127</b>	<b>245</b>	<b>209</b>

### List of non-budget-funded bodies

Agence du revenu du Québec	Musée de la Civilisation
Agence métropolitaine de transport	Musée national des beaux-arts du Québec
Autorité des marchés financiers	Office de la sécurité du revenu des chasseurs et piégeurs cris
Bibliothèque et Archives nationales du Québec	Office des professions du Québec
Centre de la francophonie des Amériques	Office Québec-Amériques pour la jeunesse
Centre de recherche industrielle du Québec	Office Québec-Monde pour la jeunesse
Centre de services partagés du Québec	Régie de l'assurance maladie du Québec
Commission de la capitale nationale du Québec	Régie de l'énergie
Commission des normes du travail	Régie des installations olympiques
Commission des services juridiques	Régie du bâtiment du Québec
Conseil des arts et des lettres du Québec	Régie du cinéma
Conservatoire de musique et d'art dramatique du Québec	Services Québec
Corporation d'urgences-santé	Société d'habitation du Québec
École nationale de police du Québec	Société de développement de la Baie-James
École nationale des pompiers du Québec	Société de développement des entreprises culturelles
Financement-Québec	Société de financement des infrastructures locales du Québec
Fondation de la faune du Québec	Société de l'assurance automobile du Québec
Fonds d'aide aux recours collectifs	Société de la Place des Arts de Montréal
Fonds de l'assurance médicaments	Société de télédiffusion du Québec
Fonds de recherche du Québec – Nature et technologies	Société des établissements de plein air du Québec
Fonds de recherche du Québec – Santé	Société des parcs de sciences naturelles du Québec
Fonds de recherche du Québec – Société et culture	Société des traversiers du Québec
Héma-Québec	Société du Centre des congrès de Québec
Infrastructure Québec	Société du Grand Théâtre de Québec
Institut de la statistique du Québec	Société du Palais des congrès de Montréal
Institut de tourisme et d'hôtellerie du Québec	Société du parc industriel et portuaire de Bécancour
Institut national d'excellence en santé et services sociaux	Société immobilière du Québec
Institut national de la santé publique du Québec	Société nationale de l'amiante
Institut national des mines	Société québécoise d'assainissement des eaux
La Financière agricole du Québec	Société québécoise d'information juridique
Musée d'Art contemporain de Montréal	Société québécoise de récupération et de recyclage

### 3.2.4 Health and social services and education networks

The health and social services network is made up of 198 entities. These entities comprise 15 agencies and three regional authorities in health and social services, as well as 180 public health and social services institutions.

The education network is made up of 132 entities, including 73 school boards, 48 CEGEPs and the Université du Québec and its 10 constituent universities.

The health and social services and education networks show deficits of \$45 million for 2011-2012 and \$100 million for 2012-2013. These networks will show balanced budgets as of 2013-2014.

TABLE C.25

#### Health and social services and education networks Statements of results (millions de dollars)

	2011-2012	2012-2013	2013-2014
<b>Revenue</b>			
Income and property taxes	1 515	1 538	1 560
Miscellaneous	3 550	3 594	3 544
<b>Own-source revenue</b>	<b>5 065</b>	<b>5 132</b>	<b>5 104</b>
Québec government transfers	30 419	31 861	33 319
Federal transfers	302	310	323
<b>Total revenue</b>	<b>35 786</b>	<b>37 303</b>	<b>38 746</b>
<b>Expenditure</b>			
Expenditure	-35 066	-36 659	-37 989
Debt service	-765	-744	-757
<b>Total expenditure</b>	<b>-35 831</b>	<b>-37 403</b>	<b>-38 746</b>
<b>SURPLUS (DEFICIT)</b>	<b>-45</b>	<b>-100</b>	<b>—</b>

## 4. GOVERNMENT INVESTMENTS

### 4.1 The Québec Infrastructures Plan

After growing for several years in a row, the annual investment targets set under the Québec Infrastructures Plan (QIP) total \$44.2 billion for 2011 to 2016, which represents a slight decrease (−0.8%) compared with the 2010-2015 five-year plan.

In accordance with the *Act to promote the maintenance and renewal of public infrastructures*,<sup>11</sup> a substantial portion of these investments is being allocated to maintaining the quality of existing infrastructure and eliminating the maintenance deficit by 2022-2023.

Coupled with the contribution of the Québec government's various partners in the projects included in the five-year plan, investments under the 2011-2016 Québec Infrastructures Plan will reach \$55.1 billion over five years.

TABLE C.26

#### Infrastructure investments in 2011-2016

(millions of dollars)

<b>2010-2015 Québec Infrastructures Plan</b>	<b>44 556</b>
Change in the five-year budget: −0.8%	−375
<b>2011-2016 Québec Infrastructures Plan</b>	<b>44 181</b>
Contribution from partners <sup>(1)</sup>	10 891
<b>TOTAL INFRASTRUCTURE INVESTMENTS IN 2011-2016</b>	<b>55 072</b>

(1) Federal government, municipalities and other partners.

<sup>11</sup> R.S.Q., c. M-1.2.

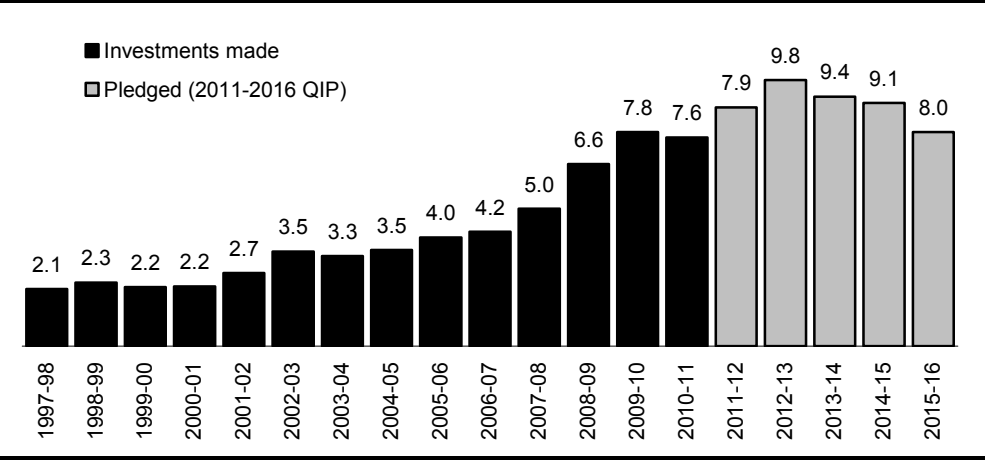
**Investment targets under the QIP for the coming years**

In recent years, the government has substantially increased investments in public infrastructures. To consolidate the economic recovery, the level of investment allocated to the Québec Infrastructures Plan will reach \$9.8 billion in 2012-2013.

Thereafter, annual investment levels will be reduced gradually while ensuring and improving the quality of infrastructures and eliminating the maintenance deficit by 2022-2023.

CHART C.5

**Change in infrastructure investments**  
(billions of dollars)



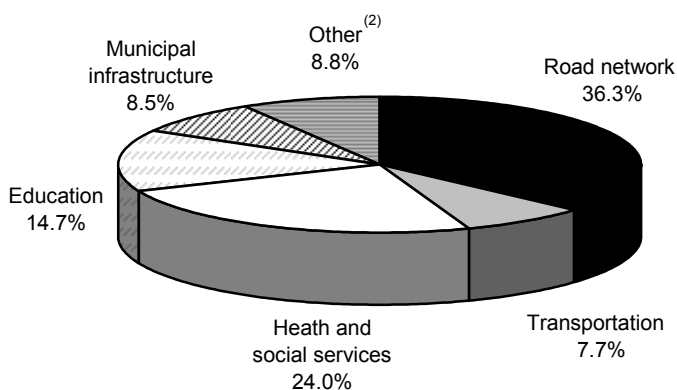
## ❑ Breakdown by sector

More than one third (36.3%) of the investments of \$44.2 billion under the 2011-2016 Québec Infrastructures Plan is devoted to the road network, while nearly one quarter (24.0%) is devoted to the health and social services network.

The rest of the total budget is devoted to various other sectors, including education, municipal infrastructures and transportation.

CHART C.6

### Breakdown of amounts allocated under the 2011-2016 Québec Infrastructures Plan, by sector<sup>(1)</sup>



(1) Breakdown before realization adjustments.

(2) Culture, social housing, research, justice and public security, agriculture, public dams and forest roads.

TABLE C.27

**Annual investment levels under the 2011-2016 Québec Infrastructures Plan,  
by sector**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Road network	3 263.9	3 397.1	3 193.8	3 406.8	3 264.5	16 526.1
Public transit	628.6	868.3	716.5	387.0	375.8	2 976.2
Maritime infrastructure	43.6	140.9	215.9	141.3	10.0	551.7
Health and social services	1 861.1	2 202.6	2 291.9	2 440.6	2 147.0	10 943.2
Education	1 516.8	1 554.5	1 308.4	1 197.6	1 100.6	6 677.9
Culture	432.8	247.3	174.5	148.6	150.0	1 153.2
Municipal infrastructure	721.1	886.8	855.3	873.6	516.2	3 853.0
Social housing	165.5	269.5	259.1	256.9	201.4	1 152.4
Research	110.9	180.3	140.5	86.1	37.2	555.0
Justice and public security	132.4	275.8	249.4	122.0	154.6	934.2
Other <sup>(1)</sup>	52.3	38.9	42.7	48.9	24.8	207.6
Subtotal – Budgets allocated	8 929.0	10 062.0	9 448.0	9 109.4	7 982.1	45 530.5
2011-2016 realization adjustment <sup>(2)</sup>	-1 050.0	-300.0	—	—	—	-1 350.0
<b>2011-2016 QIP</b>	<b>7 879.0</b>	<b>9 762.0</b>	<b>9 448.0</b>	<b>9 109.4</b>	<b>7 982.1</b>	<b>44 180.5</b>

(1) Agriculture, public dams and forest roads.

(2) The adjustment of -\$1.35 billion represents the estimate, based on the experience of the past few years, of the allocated amounts that will not be disbursed. Accordingly, the annual investment levels under the 2011-2016 QIP reflect investments that will be realized.



## ❑ Breakdown by type of investment

Public investments are allocated to:

- asset maintenance and the elimination of the maintenance deficit;
- improvements and replacements;
- project completion.

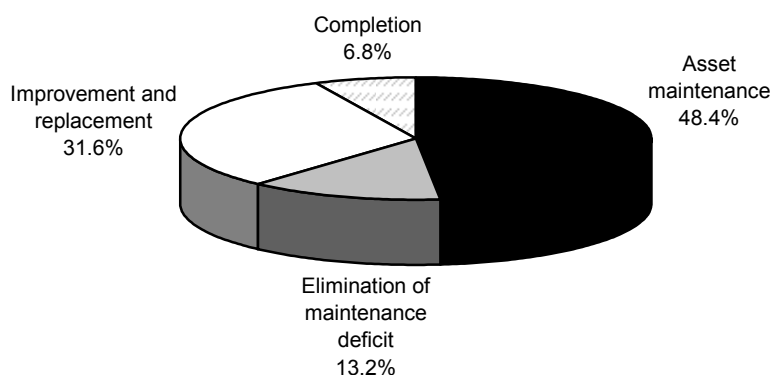
Under the 2011-2016 Québec Infrastructures Plan, over 60% of the funding is allocated first and foremost to regular investments in asset maintenance (48.4%) and to those needed to eliminate the maintenance deficit (13.2%).

To help support the improvement of public services, nearly one third (31.6%) of investments under the Québec Infrastructures Plan will be used to improve and replace existing assets.

Lastly, 6.8% of the funding will be allocated to finance the completion of projects started before the first five-year plan came into effect.

CHART C.7

### Breakdown of amounts allocated under the 2011-2016 Québec Infrastructures Plan, by type of investment<sup>(1)</sup>



(1) Breakdown before realization adjustments.

## ❑ **Review of the fixed-asset management process**

To meet future challenges in infrastructure needs, the government is introducing a long-term fixed asset management process.

The first step was taken in 2011-2012, when it set long-term annual investment targets up to 2025-2026, thus helping to achieve the debt reduction objectives.

In addition, the government initiated work aimed at updating the estimates of the amounts required to eliminate the maintenance deficit and of asset maintenance needs, particularly by updating the asset stock inventory and doing a physical assessment of their condition.

The government will continue to review the fixed-asset management process and thus foster an overview that will make it possible to prioritize needs in regard to new initiatives and ensure that public infrastructures remain in good condition.

## ❑ **Integration of the project management activities of the Société immobilière du Québec in Infrastructure Québec**

### ■ **Role of these bodies**

Infrastructure Québec was created in 2010 to contribute, through its advice and know-how, to the planning and implementation of the infrastructure projects of public bodies. It supports public bodies that plan to carry out major projects worth \$40 million or more, in accordance with the Framework Policy for the Governance of Major Public Infrastructure Projects (framework policy), regardless of the project delivery approach.

At the same time, the Société immobilière du Québec (SIQ) manages the immovable property stock of the Québec government, which comprises nearly 3 million square metres in the more than 1 000 buildings it owns or rents throughout Québec. Moreover, in the case of certain construction projects (administrative buildings, court houses, prisons, certain health-care buildings), the SIQ also acts as the principal contractor for certain sectoral departments and institutions. In such situations, the departments and institutions have to deal with two central project management bodies, SIQ and Infrastructure Québec.

SIQ offers project management consulting services to the health network, as does Infrastructure Québec. In addition, SIQ prepares, on behalf of its clients, the functional and technical programs (FTP) that are a key component of the business cases required under the framework policy. An FTP provides the basic data needed to do various evaluations, including value analysis and the choice of delivery approach. It can thus have a major impact on the results. Even though Infrastructure Québec is responsible for coordinating the business case preparation process, in accordance with the framework policy, it is SIQ that determines the content in preparing the FTP.

## ■ Grouping of common activities

Since Infrastructure Québec must offer its expertise to public bodies that plan to carry out a major project in accordance with the framework policy, it is proposed that the activities related to the management and control of new constructions and major projects, currently carried out by SIQ, be grouped in Infrastructure Québec.

Such integration will facilitate access by offering a single gateway to public bodies that plan to erect a new construction or carry out a major project. This will make it possible to better coordinate the management of projects in keeping with the principles of the framework policy.

SIQ would continue to be responsible for the operation, upkeep and asset maintenance of its immovable property. However, activities related to the realization of major projects and new constructions will be transferred to Infrastructure Québec so as to consolidate project management within that body.

In the short term, an advisory committee will be set up to rapidly identify the mission and support activities that will be transferred from SIQ to Infrastructure Québec.

This measure demonstrates the government's determination to streamline structures and boost government efficiency.

## 4.2 Investments by government departments, organizations and special funds

In addition to investments of \$9.8 billion under the Québec Infrastructures Plan in 2012-2013, the Québec government will invest \$2.0 billion through its departments, organizations and special funds. These investments include capital expenditures required for government functions and for maintaining the quality of public services.

TABLE C.28

### Investments by government departments, organizations and special funds (millions of dollars)

	2012-2013
Departments and budget-funded bodies	375.8
Non-budget-funded bodies	883.3
Special funds	748.9
<b>TOTAL</b>	<b>2 008.0</b>

Note: These investments exclude those made under the Québec Infrastructures Plan.

## 4.3 Investments by government enterprises

Government enterprises will make major investments in the coming years. In 2012-2013, investments by Hydro-Québec, Loto-Québec and the Société des alcools du Québec will reach over \$5.0 billion. Over the period from 2011-2012 to 2013-2014, investments by these corporations will total \$14.4 billion.

TABLE C.29

### Investments by government enterprises (millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Hydro-Québec	3 814.0	4 729.0	5 009.0	13 552.0
Loto-Québec	156.2	244.2	304.4	704.8
Société des alcools du Québec	48.4	45.0	45.0	138.4
<b>TOTAL</b>	<b>4 018.6</b>	<b>5 018.2</b>	<b>5 358.4</b>	<b>14 395.2</b>

## 5. NON-BUDGETARY TRANSACTIONS

Non-budgetary transactions consist of the transactions of the general fund and those of consolidated entities. They are presented by activity, namely:

- investments, loans and advances;
- capital expenditures;
- retirement plans and employee future benefits;
- other accounts.

For 2011-2012, non-budgetary transactions stand at \$4.8 billion. In 2012-2013 and 2013-2014, non-budgetary transactions are expected to total \$3.8 billion and \$3.4 billion respectively.

TABLE C.30

### Summary of non-budgetary transactions<sup>(1)</sup> (millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>General fund</b>			
Investments, loans and advances	-1 079	-1 156	-1 020
Capital expenditures	-290	-242	-249
Retirement plans and employee future benefits	2 688	2 628	2 674
Other accounts	-1 722	-196	399
<b>Total</b>	<b>-403</b>	<b>1 034</b>	<b>1 804</b>
<b>Consolidated entities</b>			
Investments, loans and advances	-849	118	-98
Capital expenditures	-4 512	-4 794	-5 447
Retirement plans and employee future benefits	189	—	—
Other accounts	733	-189	305
<b>Total</b>	<b>-4 439</b>	<b>-4 865</b>	<b>-5 240</b>
<b>Summary of non-budgetary transactions</b>			
Investments, loans and advances	-1 928	-1 038	-1 118
Capital expenditures	-4 802	-5 036	-5 696
Retirement plans and employee future benefits	2 877	2 628	2 674
Other accounts	-989	-385	704
<b>TOTAL NON-BUDGETARY TRANSACTIONS</b>	<b>-4 842</b>	<b>-3 831</b>	<b>-3 436</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

## **☐ Investments, loans and advances**

Net financial requirements for investments, loans and advances for 2011-2012 amount to \$1.9 billion. The forecasts for 2012-2013 and 2013-2014 stand at \$1.0 billion and \$1.1 billion respectively.

For 2011-2012, the investments, loans and advances of the general fund show financial requirements of \$1.1 billion.

The net financial requirements of consolidated entities in regard to investments, loans and advances amount to \$849 million for 2011-2012.

## **☐ Retirement plans and employee future benefits**

For 2011-2012, the balance of non-budgetary transactions in regard to the retirement plans and employee future benefits is \$2.9 billion, which reduces the government's financing needs.

For 2012-2013 and 2013-2014, the retirement plans and employee future benefits should help to reduce financing needs by \$2.6 billion and \$2.7 billion respectively.

## **☐ Other accounts**

Financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable, accounts payable and deferred revenue.

In 2011-2012, the change in these other accounts will constitute a financial requirement of \$989 million.

## **☐ Capital expenditures**

In 2011-2012, financial requirements associated with capital expenditures will total \$4.8 billion.

Forecast financial requirements for 2012-2013 and 2013-2014 stand at \$5.0 billion and \$5.7 billion respectively.

Financial requirements in regard to consolidated entities for 2011-2012 are largely explained by investments of \$3.8 billion by the networks and \$3.8 billion by the special funds, including \$3.6 billion in road infrastructure and public transit. These investments also explain the financial requirements for 2012-2013 and 2013-2014.

TABLE C.31

**Net capital investments<sup>(1)</sup>**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>General fund</b>			
Investments	-448	-402	-413
Depreciation	158	160	164
<b>Net investments – General fund</b>	<b>-290</b>	<b>-242</b>	<b>-249</b>
<b>Consolidated entities</b>			
Investments			
– Special funds	-3 765	-3 941	-3 406
– Non-budget-funded bodies	-832	-821	-1 732
– Health and social services and education networks	-3 835	-4 070	-4 200
Subtotal	-8 432	-8 832	-9 338
Depreciation	2 876	3 233	3 648
<b>Net investments – Consolidated entities</b>	<b>-5 556</b>	<b>-5 599</b>	<b>-5 690</b>
<b>CONSOLIDATED</b>			
Investments	-8 880	-9 234	-9 751
Depreciation	3 034	3 393	3 812
<b>Net investments - Consolidated</b>	<b>-5 846</b>	<b>-5 841</b>	<b>-5 939</b>
Less: PPP investments <sup>(2)</sup>	1 044	805	243
<b>NET CAPITAL INVESTMENTS</b>	<b>-4 802</b>	<b>-5 036</b>	<b>-5 696</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

(2) Since PPP investments are made and financed by private-sector partners, they do not entail financial requirements for the government.

Capital investments made under public-private partnerships (PPPs) do not entail financial requirements for the government for the share of financing borne by the private partner. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.





## 6. NET FINANCIAL REQUIREMENTS

Net surpluses or financial requirements represent the difference between the government's cash inflow and disbursements. This measure takes into account not only changes in the budgetary balance on an accrual basis, but also resources or requirements arising from the acquisition of fixed assets, loans, investments and advances, and from other activities such as paying accounts payable and collecting accounts receivable. The difference between the budgetary balance and net financial requirements is recognized in non-budgetary transactions.

As a whole, the government's net financial requirements stand at \$7.3 billion in 2011-2012, \$4.4 billion in 2012-2013 and \$2.4 billion in 2013-2014.

TABLE C.32

**Net financial requirements<sup>(1)</sup>**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>SURPLUS (DEFICIT)</b>	<b>-2 452</b>	<b>-589</b>	<b>1 041</b>
<b>Non-budgetary transactions</b>			
Investments, loans and advances	-1 928	-1 038	-1 118
Capital expenditures	-4 802	-5 036	-5 696
Retirement plans and employee future benefits	2 877	2 628	2 674
Other accounts	-989	-385	704
<b>Total non-budgetary transactions</b>	<b>-4 842</b>	<b>-3 831</b>	<b>-3 436</b>
<b>NET FINANCIAL REQUIREMENTS</b>	<b>-7 294</b>	<b>-4 420</b>	<b>-2 395</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

The net financial requirements shown in the above table come from the following sources:

- The net financial requirements of the general fund amount to \$4.0 billion for 2011-2012 and \$750 million for 2012-2013. In 2013-2014, the general fund will show a surplus of \$1.6 billion. These variations mainly reflect the change in the deficits forecast for the next two years and the return to fiscal balance in 2013-2014.
- The net financial requirements of consolidated entities, excluding the Generations Fund, stand at \$4.1 billion for 2011-2012, \$4.9 billion for 2012-2013 and \$5.0 billion for 2013-2014. These net financial requirements stem largely from infrastructure investments provided for by the Land Transportation Network Fund and by the health and social services and education networks.
- The net financial surpluses of the Generations Fund amount to \$848 million for 2011-2012, \$1.2 billion for 2012-2013 and \$1.0 billion for 2013-2014.

TABLE C.33

**Net financial requirements by entity<sup>(1)</sup>**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
General fund	-4 000	-750	1 550
Consolidated entities <sup>(2)</sup>	-4 142	-4 881	-4 986
Generations Fund	848	1 211 <sup>(3)</sup>	1 041
<b>NET FINANCIAL REQUIREMENTS</b>	<b>-7 294</b>	<b>-4 420</b>	<b>-2 395</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

(2) Excluding the Generations Fund.

(3) Including a deposit of \$300 million from the accumulated surpluses of the Territorial Information Fund.

## **APPENDIX 1: INVESTMENT PROJECTS BY GOVERNEMENT ENTREPRISES**

Certain government enterprises will continue to make substantial investments that will contribute to Québec's economic prosperity. In 2012-2013, investments by these corporations will increase by \$1.0 billion compared with 2011-2012 and reach \$5.0 billion. They will climb again by \$340 million in 2013-2014, to \$5.4 billion.

### **❑ Hydro-Québec**

In 2012, Hydro-Québec will boost its investments by a substantial \$915 million compared with the previous year, for a total of \$4.7 billion. In 2013, its investments will grow by \$280 million, to \$5.0 billion.

The funds devoted to the La Romaine complex will reach \$707 million in 2012 and \$882 million in 2013. As well, \$135 million will be allocated to the Eastmain-1-A/Sarcelle/Rupert project in 2012. In addition to making a significant contribution to Québec's economy, these two projects will play an important role in securing Québec's energy future.

Renovation work on the Gentilly-2 power station will total \$275 million in 2012 and \$22 million in 2013.

Investments of \$211 million in 2012 and \$379 million in 2013 will also be devoted to boosting Québec's energy efficiency.

Overall, Hydro-Québec's other investment projects will reach \$2.8 billion in 2012 and \$3.2 billion in 2013.

### **❑ Loto-Québec and the Société des alcools du Québec**

Investments by Loto-Québec will reach \$244 million in 2012-2013 and \$304 million in 2013-2014. Of these amounts, \$95 million will be allocated to the Casino de Montréal renovation project in 2012-2013 and \$57 million will be invested in the project in 2013-2014. In 2012-2013 and 2013-2014 as well, \$65 million and \$150 million respectively will be invested to replace video lottery machines that have reached the end of their useful life.

Investments by the Société des alcools du Québec will total \$45 million in 2012-2013, compared with \$48 million in 2011-2012. In 2013-2014, the Société plans to invest \$45 million. These investments will be devoted mainly to its outlet network, to real estate projects relating to distribution and administrative centres, and to computer system development projects.

TABLE C.34

**Forecast investments by government enterprises**  
(millions of dollars)

	2011-2012	2012-2013	2013-2014
<b>HYDRO-QUÉBEC<sup>(1)</sup></b>			
<b>Major projects</b>			
Eastmain 1-A/ Sarcelle/Rupert	368.0	135.0	1.0
Gentilly-2 – Repair project	157.0	275.0	22.0
La Romaine complex	567.0	707.0	882.0
Transmission integration – Wind turbines (990 MW and 2 000 MW)	163.0	375.0	229.0
La Romaine – Integration into the power transmission grid	52.0	227.0	272.0
Global Energy Efficiency Plan	217.0	211.0	379.0
<b>Subtotal – Major projects</b>	<b>1 524.0</b>	<b>1 930.0</b>	<b>1 785.0</b>
Other projects	2 290.0	2 799.0	3 224.0
<b>Total – Hydro-Québec</b>	<b>3 814.0</b>	<b>4 729.0</b>	<b>5 009.0</b>
<b>LOTO-QUÉBEC</b>			
Modernization of the Casino de Montréal	73.3	94.5	57.0
Replacement of video lottery machines	8.9	64.8	150.0
Other projects	74.0	84.9	97.4
<b>Total – Loto-Québec</b>	<b>156.2</b>	<b>244.2</b>	<b>304.4</b>
<b>SOCIÉTÉ DES ALCOOLS DU QUÉBEC</b>			
Outlet network	17.0	10.8	10.8
Other projects	31.4	34.2	34.2
<b>Total – Société des alcools du Québec</b>	<b>48.4</b>	<b>45.0</b>	<b>45.0</b>
<b>TOTAL INVESTMENTS</b>	<b>4 018.6</b>	<b>5 018.2</b>	<b>5 358.4</b>

(1) For the fiscal year ending December 31.

## APPENDIX 2: ADJUSTMENTS TO THE 2012-2013 SPENDING OBJECTIVE SINCE BUDGET 2009-2010

In presenting the plan to restore fiscal balance in Budget 2009-2010, the government set the overall level of program spending for 2012-2013 at \$65.8 billion.

— This level has now reached \$68.0 billion, which corresponds to a difference of \$2.2 billion.

This increase is due essentially to the valuation adjustment of certain expenditure items, the deployment of additional public services and the fulfilment of the government's commitments regarding the remuneration of its employees.

The increase in the spending objective for 2012-2013 since Budget 2009-2010 is fully offset by the efforts made to reduce spending, additional revenue from the economy and downward revisions in debt service.

TABLE C.35

### Increase in the program spending objective for 2012-2013 since Budget 2009-2010 (millions of dollars)

<b>Spending</b>	
– Budget 2012-2013	–68 031 <sup>(1)</sup>
– Budget 2009-2010	–65 840
<b>Difference</b>	<b>–2 191</b>
<b>Breakdown of the difference in spending</b>	
– Valuation adjustment of certain expenditure items	–710
– Improvement of the supply of health services – FINESSES	–1 005
– Increase in the volume of public services	–445
– Fair remuneration of government employees	–502
– Downward adjustment of 2012-2013 spending objectives	471
<b>Subtotal</b>	<b>–2 191</b>
<b>Offset of the difference in spending</b>	
– Health contribution revenue	1 005
– Downward adjustments to debt service	639
– Compensation for the harmonization of the QST with the GST	733
– Other adjustments to revenue	–186
<b>Subtotal</b>	<b>2 191</b>
<b>TOTAL DIFFERENCE</b>	<b>0</b>

(1) This amount includes program spending, as well as the expenditures of FORT, FINESSES and the Tax Administration Fund (FRAF) and the allowance for doubtful accounts.

## ❑ **Increases in spending**

Adjustments of \$710 million are associated with valuation adjustments not related to the delivery of services or the management of efforts made by government departments and organizations:

- \$358 million following the actuarial revaluations of the retirement plans and \$352 million relating to the increase in the allowance for doubtful accounts.

Health services totalling \$1.0 billion were funded by the introduction of the health contribution, whose revenues are paid into FINESSE.

Other adjustments, totalling \$445 million, result essentially from additional demand for public services.

Adjustments of \$502 million stem from the fulfilment of the government's commitments regarding the remuneration of its employees: in particular, \$217 million under the *Pay Equity Act*, \$143 million for the agreements with child-care-service providers and \$142 million in respect of a reserve for wage adjustments related to economic growth and provided for in the agreements on the collective agreements.

In addition, downward adjustments of \$471 million in spending are due mainly to the slowdown in spending growth in 2012-2013, announced in Budget 2011-2012 and the fall 2011 *Update on Québec's Economic and Financial Situation*.

## ❑ **Spending increases offset by additional revenue and downward adjustments to debt service**

The \$2.3-billion increase in the program spending objective since Budget 2009-2010 has been mainly offset by:

- additional revenue of \$1 005 million from the health contribution and revenue of \$733 million from the agreement on the harmonization of the QST with the GST;
- downward adjustments of \$639 million in debt service.

## ❑ **Deficit forecast for 2012-2013**

The deficit forecast in Budget 2009-2010 for 2012-2013 was \$1 268 million, or \$232 million less than the deficit of \$1 500 million forecast in Budget 2012-2013.

If the \$300-million contingency reserve is excluded, the deficit currently forecast is \$68 million less than that presented in Budget 2009-2010.

# Section D

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# 1. DEBT

Several concepts of debt can be used to measure a government's indebtedness. The following table presents data on the Québec government's debt according to the two main concepts the government employs, namely, gross debt and debt representing accumulated deficits.

TABLE D.1

## Debt of the Québec government as at March 31 (millions of dollars)

	2011	2012 <sup>P</sup>	2013 <sup>P</sup>	2014 <sup>P</sup>	2015 <sup>P</sup>	2016 <sup>P</sup>	2017 <sup>P</sup>
<b>GROSS DEBT<sup>(1)</sup></b>	<b>173 436</b>	<b>183 780</b>	<b>191 717</b>	<b>197 130</b>	<b>203 032</b>	<b>207 138</b>	<b>210 802</b>
<i>As a % of GDP</i>	<i>54.3</i>	<i>55.0</i>	<i>55.3</i>	<i>54.6</i>	<i>54.0</i>	<i>53.0</i>	<i>52.1</i>
Less: Financial assets, net of other liabilities	-14 147	-12 893	-13 193	-13 708	-15 366	-15 984	-16 531
Less: Non-financial assets	-47 387	-53 233	-59 074	-65 013	-70 832	-76 350	-81 971
<b>DEBT REPRESENTING ACCUMULATED DEFICITS</b>	<b>111 902</b>	<b>117 654</b>	<b>119 450</b>	<b>118 409</b>	<b>116 834</b>	<b>114 804</b>	<b>112 300</b>
<i>As a % of GDP</i>	<i>35.0</i>	<i>35.2</i>	<i>34.5</i>	<i>32.8</i>	<i>31.1</i>	<i>29.4</i>	<i>27.7</i>

P: Preliminary results for 2012 and forecasts for subsequent years.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

## 1.1 Gross debt

The gross debt corresponds to the sum of the debt contracted on financial markets and the net liabilities for the retirement plans and for the employee future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

Preliminary results show that, as at March 31, 2012, the gross debt should stand at \$183 780 million, or 55.0% of GDP. As at March 31, 2017, the gross debt is expected to amount to \$210 802 million, or 52.1% of GDP.

TABLE D.2

### Gross debt as at March 31

(millions of dollars)

	2011	2012 <sup>P</sup>	2013 <sup>P</sup>	2014 <sup>P</sup>	2015 <sup>P</sup>	2016 <sup>P</sup>	2017 <sup>P</sup>
Consolidated direct debt <sup>(1)</sup>	147 748	159 318	167 820	173 447	180 345	186 106	192 070
Plus: Net retirement plans liability	29 050	28 715	29 393	30 220	30 799	31 174	31 378
Plus: Net employee future benefits liability	75	32	—	—	—	—	—
Less: Generations Fund	-3 437	-4 285	-5 496	-6 537	-8 112	-10 142	-12 646
<b>GROSS DEBT<sup>(1)</sup></b>	<b>173 436</b>	<b>183 780</b>	<b>191 717</b>	<b>197 130</b>	<b>203 032</b>	<b>207 138</b>	<b>210 802</b>
<b>As a % of GDP</b>	<b>54.3</b>	<b>55.0</b>	<b>55.3</b>	<b>54.6</b>	<b>54.0</b>	<b>53.0</b>	<b>52.1</b>

P: Preliminary results for 2012 and forecasts for subsequent years.

(1) The consolidated direct debt and the gross debt exclude pre-financing.

The consolidated direct debt represents the debt that has been contracted on financial markets. It includes the government's debt and the debt of entities whose results are consolidated line by line with those of the government. As at March 31, 2012, the consolidated direct debt is expected to total \$159 318 million.

The main consolidated entities are Financement-Québec, the Land Transportation Network Fund (FORT), the Société d'habitation du Québec (SHQ) and the Société immobilière du Québec (SIQ).

As at March 31, 2012, the net retirement plans liability should amount to \$28 715 million and the net employee future benefits liability, \$32 million. The net retirement plans liability and the net employee future benefits liability are discussed in the boxes on the next two pages.

As at March 31, 2012, the sums accumulated in the Generations Fund are expected to total \$4 285 million. These sums are dedicated exclusively to repaying the debt.

## Retirement plans liability

The net retirement plans liability is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The liability for the retirement plans represents the present value of the retirement benefits that the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. The liability should stand at \$74 067 million as at March 31, 2012.

The government created the RPSF in 1993. As at March 31, 2012, the book value of the RPSF is expected to be \$45 352 million.

The net retirement plans liability should total \$28 715 million as at March 31, 2012.

### Net retirement plans liability as at March 31, 2012<sup>P</sup>

(millions of dollars)

#### Retirement plans liability

Government and Public Employees Retirement Plan (RREGOP)	43 402
Pension Plan of Management Personnel (PPMP)	9 932
Other plans <sup>(1)</sup>	20 733

<b>Subtotal</b>	<b>74 067</b>
-----------------	---------------

Less: Retirement Plans Sinking Fund	-45 352
-------------------------------------	---------

<b>NET RETIREMENT PLANS LIABILITY</b>	<b>28 715</b>
---------------------------------------	---------------

P: Preliminary results.

(1) Takes into account, among other things, the assets of the pension plan of the Université du Québec.

## Employee future benefits liability

The government records in its debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2012, the value of the assets established to pay for employee future benefits programs should amount to \$1 197 million.

Given that assets have been established to cover these future disbursements, the net employee future benefits liability is expected to be only \$32 million as at March 31, 2012.

**Net employee future benefits liability as at March 31, 2012<sup>P</sup>**  
(millions of dollars)

<b>Employee future benefits liability</b>	
Accumulated sick leave	658
Survivor's pension plan	406
Université du Québec programs	165
<b>Subtotal</b>	<b>1 229</b>
Less:	
Accumulated Sick Leave Fund	-746
Survivor's Pension Plan Fund	-451
<b>Subtotal</b>	<b>-1 197</b>
<b>NET EMPLOYEE FUTURE BENEFITS LIABILITY</b>	<b>32</b>

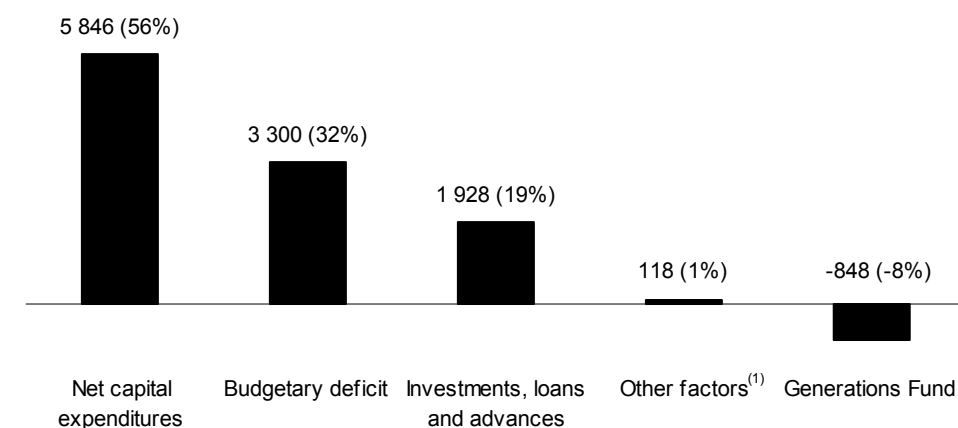
P: Preliminary results.

In 2011-2012, the government's gross debt should increase by \$10 344 million mainly because of capital investments, the budgetary deficit and investments, loans and advances.

CHART D.1

### Factors responsible for growth in the gross debt in 2011-2012

(millions of dollars)



(1) Other factors include in particular the change in "Other accounts", such as accounts payable and accounts receivable, as well as the change in the value of the debt in foreign currency.

More specifically, the gross debt is increasing in 2011-2012 for the following reasons:

- The \$3 300-million budgetary deficit.
- Government investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2011-2012, capital expenditures, net of the depreciation expenditure, should entail a \$5 846-million increase in the gross debt.

- Government investments in its corporations. These investments are made through advances, direct cash contributions or by allowing these corporations to keep part of their earnings to finance their own investments.

For example, Hydro-Québec pays 75% of its net earnings<sup>1</sup> as dividends to the government and keeps 25% to fund its own investments, notably hydroelectric dams. The portion of earnings that the government is leaving Hydro-Québec (\$628 million in 2011-2012) constitutes an investment by the government in Hydro-Québec, which creates a financial requirement for the government and thus leads to an increase in the gross debt.

In addition, loans to universities by Financement-Québec not included in the government's reporting entity (nearly \$200 million in 2011-2012) to enable them to fund their capital investments are included in investments, loans and advances.

Overall, the government's investments, loans and advances should entail a \$1 928-million increase in the gross debt in 2011-2012.

- Changes in some of the government's other asset and liability items, such as accounts receivable and accounts payable, which should increase the gross debt by \$118 million in 2011-2012.
- Deposits in the Generations Fund, which should reduce the debt by \$848 million in 2011-2012.

The following table shows how the government's gross debt has changed since March 31, 2000.

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<sup>1</sup> The amount of the dividend is calculated according to section 15.2 of the *Act respecting Hydro-Québec*:

"The distributable surplus for a financial period is equal to 75% of the Company's net profit. The net profit is computed on the basis of the annual consolidated financial statements established according to generally accepted accounting principles.

However, no dividend may be declared in respect of a financial period if the payment thereof would result in a reduction of the rate of capitalization of the Company to less than 25% at the end of that period."

TABLE D.3

# **Factors responsible for growth in the Québec government's gross debt** (millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net investment in the networks <sup>(1)</sup>	Net capital expenditures <sup>(2)</sup>	Other factors <sup>(3)</sup>	Generations Fund <sup>(4)</sup>	Total change	Debt, end of year	As a % of GDP
<b>With networks consolidated at modified equity value</b>										
2000-2001	116 761	-427	1 701	841	578	1 108		3 801	120 562	53.6
2001-2002	120 562	-22	1 248	934	1 199	-9		3 350	123 912	53.5
2002-2003	123 912	728	1 921	631	1 706	237		5 223	129 135	53.5
2003-2004	129 135	358	1 367	560	1 186	625		4 096	133 231	53.1
2004-2005	133 231	664	1 303	1 486	1 006	-796		3 663	136 894	52.1
2005-2006	136 894	-37	1 488	1 013	1 179	-809		2 834	139 728	51.4
2006-2007	139 728	-109	2 213	1 002	1 177	1 078	-584	4 777	144 505	51.2
2007-2008	144 505	—	2 658	487	1 457	767	-649	4 720	149 225	50.4
2008-2009	149 225	—	966	622	2 448	-28	-719	3 289	152 514	50.1
<b>With networks consolidated line by line<sup>(5)</sup></b>										
2009-2010	157 630	3 174	1 746		4 226	-2 733	-725	5 688	163 318	53.6
2010-2011	163 318	3 150	2 400		4 923	405	-760	10 118	173 436	54.3
2011-2012	173 436	3 300	1 928		5 846	118	-848	10 344	183 780	55.0
2012-2013	183 780	1 500	1 038		5 841	769	-1 211	7 937	191 717	55.3
2013-2014	191 717	—	1 118		5 939	-603	-1 041	5 413	197 130	54.6
2014-2015	197 130	—	1 428		5 819	230	-1 575	5 902	203 032	54.0
2015-2016	203 032	—	1 351		5 518	-733	-2 030	4 106	207 138	53.0
2016-2017	207 138	—	1 368		5 621	-821	-2 504	3 664	210 802	52.1

(1) The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and education networks. As of 2009-2010, these items are part of net capital expenditures.

(2) Investments made in the course of private-public partnership agreements are included in net capital expenditures.

(3) Other factors include in particular the change in "Other accounts", such as accounts payable and accounts receivable, as well as the change in the value of the debt in foreign currency.

(4) Deposits in the Generations Fund in 2012-2013 include \$911 million in dedicated revenues and \$300 million from the accumulated surpluses of the Territorial Information Fund (TIF).

(5) The line-by-line consolidation of the results of institutions in the health and social services and education networks raised the gross debt by \$5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.

## Adjustments to the gross debt compared with the March 2011 budget

The gross debt forecast for March 31, 2012 in the March 2011 budget was \$183 770 million. The revised forecast in this budget is \$183 780 million, or only \$10 million more.

The forecast for March 31, 2016 in the budget of last March was \$207 298 million. The revised forecast is \$207 138 million, or \$160 million less.

The increase to \$1 billion, announced in this budget, of the \$500-million funding envelope for taking equity interests in mining or hydrocarbon projects and the government's decision to invest in the rehabilitation of contaminated sites will increase the government's gross debt by \$740 million as at March 31, 2016 compared with the forecast in the budget of last March.

However, this increase in the government's debt is offset in full by the improvement in budgetary balances in 2010-2011 and 2011-2012.

### Adjustments to the gross debt as at March 31 since the March 2011 budget

(millions of dollars)

	2012	2013	2014	2015	2016
March 2011 budget	183 770	190 962	196 086	201 899	207 298
<i>As a % of GDP</i>	55.7	55.5	54.7	54.1	53.6
March 2012 budget	183 780	191 717	197 130	203 032	207 138
<i>As a % of GDP</i>	55.0	55.3	54.6	54.0	53.0
<b>Adjustments</b>	<b>10</b>	<b>755</b>	<b>1 044</b>	<b>1 133</b>	<b>-160</b>
<i>As a % of GDP</i>	<i>-0.7</i>	<i>-0.2</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.6</i>

#### Explanation of the adjustments

Lower-than-anticipated deficits:

In 2010-2011 (from \$4 200 million to \$3 150 million) -1 050

In 2011-2012 (from \$3 800 million to \$3 300 million) -500

Subtotal -1 550

Increase in the funding envelope for taking equity investments in mining or hydrocarbon projects (\$500 million over five years) 400

Rehabilitation of contaminated sites 340

Other adjustments 650

**Total adjustments -160**



## 1.2 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

Preliminary results show that the debt representing accumulated deficits should amount to \$117 654 million, or 35.2% of GDP, as at March 31, 2012.

The debt representing accumulated deficits will stop rising once the budget is balanced in 2013-2014. It will then decline year after year at the rate of increase of the Generations Fund. As a proportion of GDP, the debt representing accumulated deficits will decline as of 2012-2013.

TABLE D.4

### Factors responsible for growth in the debt representing accumulated deficits (millions of dollars)

	Debt, beginning of year	Budgetary deficit	Generations Fund <sup>(1)</sup>	Restate- ments	Total change	Debt, end of year	As a % of GDP
2011-2012 <sup>P</sup>	111 902	3 300	-848	3 300	5 752	117 654	35.2
2012-2013 <sup>P</sup>	117 654	1 500	-911	1 207	1 796	119 450	34.5
2013-2014 <sup>P</sup>	119 450	—	-1 041	—	-1 041	118 409	32.8
2014-2015 <sup>P</sup>	118 409	—	-1 575	—	-1 575	116 834	31.1
2015-2016 <sup>P</sup>	116 834	—	-2 030	—	-2 030	114 804	29.4
2016-2017 <sup>P</sup>	114 804	—	-2 504	—	-2 504	112 300	27.7

P: Preliminary results for 2011-2012 and forecasts for subsequent years.

(1) The deposits of \$911 million in 2012-2013 do not include the amount of \$300 million from the accumulated surpluses of the Territorial Information Fund (TIF). This additional deposit of \$300 million does not have an impact on the debt representing accumulated deficits in 2012-2013 since the amount was included in the assets of the consolidated entities, to which the TIF belongs.

As at April 1, 2011, the debt representing accumulated deficits was restated to reflect the adoption by Hydro-Québec of IFRS<sup>2</sup> accounting standards, which change, in particular, the recording of employee benefits. The adoption of these standards has reduced the balance of Hydro-Québec's retained earnings by an estimated \$3 300 million. Therefore, the value of the government's participation in Hydro-Québec is being reduced by the same amount. This change thus increases the government's debt representing accumulated deficits as at April 1, 2011, but does not affect the gross debt. The final impact of these new standards will be known at a later date and could lead to another adjustment of the debt representing accumulated deficits.

<sup>2</sup> International Financial Reporting Standards.

The debt representing accumulated deficits has also been restated by \$1 207 million because of the new accounting standard for government transfers, which changes the way the Société de financement des infrastructures locales (SOFIL) and the Société d'habitation du Québec (SHQ) record subsidies in respect of debt service.

## Adjustments to the debt representing accumulated deficits compared with the March 2011 budget

In the March 2011 budget, the debt representing accumulated deficits as at March 31, 2012 was \$114 278 million. The revised forecast for the present budget is \$117 654 million, or \$3 376 million more, essentially because of the decline in value of the government's investment in Hydro-Québec due to the application of IFRS standards.

The forecast for March 31, 2016 in the budget of last March was \$110 074 million. The revised forecast is \$114 804 million, or \$4 730 million more.

This \$4 730-million adjustment is explained mainly by Hydro-Québec's adoption of IFRS standards and the impact on SOFIL and the SHQ of the new accounting standard on government transfers.

These accounting adjustments have more than offset the reduction in the debt representing accumulated deficits resulting from the improvement in budgetary balances in 2010-2011 and 2011-2012.

### Adjustments to the debt representing accumulated deficits as at March 31 since the March 2011 budget (millions of dollars)

	2012	2013	2014	2015	2016
March 2011 budget	114 278	114 731	113 623	112 075	110 074
<i>As a % of GDP</i>	34.7	33.3	31.7	30.0	28.5
March 2012 budget	117 654	119 450	118 409	116 834	114 804
<i>As a % of GDP</i>	35.2	34.5	32.8	31.1	29.4
<b>Adjustments</b>	<b>3 376</b>	<b>4 719</b>	<b>4 786</b>	<b>4 759</b>	<b>4 730</b>
<i>As a % of GDP</i>	<i>0.5</i>	<i>1.2</i>	<i>1.1</i>	<i>1.1</i>	<i>0.9</i>
<b>Explanation of the adjustments</b>					
Lower-than-anticipated deficits:					
In 2010-2011 (from \$4 200 million to \$3 150 million)					-1 050
In 2011-2012 (from \$3 800 million to \$3 300 million)					-500
Subtotal					-1 550
Adjustments to deposits in the Generations Fund					211
Accounting restatements:					
Adoption of IFRS standards by Hydro-Québec					3 300
New accounting standard on government transfers for SOFIL and the SHQ					1 207
Adjustment to the environmental liability					1 080
Adoption of IFRS standards by the SGF					158
Other					324
Total accounting restatements					6 069
<b>Total adjustments</b>					<b>4 730</b>

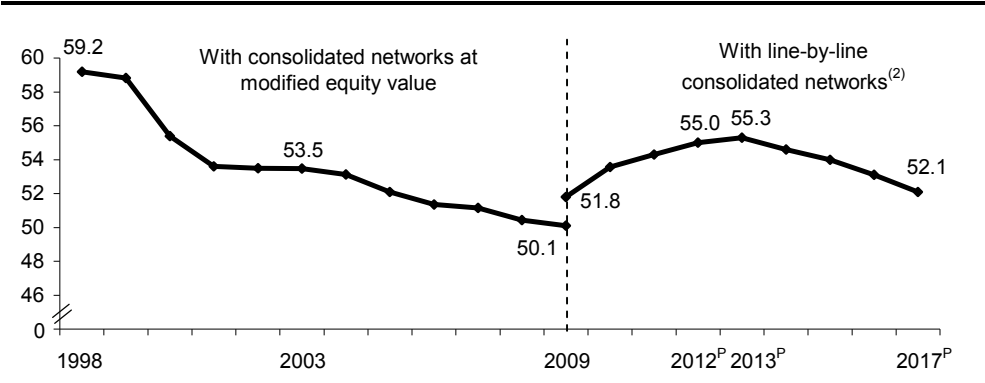
### 1.3 Debt burden

Since March 31, 1998, the Québec government's debt/GDP ratio has fallen significantly. While the gross debt was equivalent to 59.2% of GDP as at March 31, 1998, this ratio stood at 50.1% as at March 31, 2009. The line-by-line consolidation of the network institutions' results with those of the government raised the debt/GDP ratio to 51.8% as at March 31, 2009.

This ratio is expected to reach 55.3% as at March 31, 2013, mainly because of capital investments. The debt/GDP ratio should then decline to 52.1% as at March 31, 2017.

CHART D.2

#### Gross debt<sup>(1)</sup> as at March 31 (as a percentage of GDP)



P: Preliminary results for 2012 and forecasts for subsequent years.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

(2) The gross debt takes into account the debt that the health and social services and education networks have contracted in their own name. Therefore, the data as of 2009 are not comparable with those for previous years, which do not include this debt.

## 1.4 Debt reduction objectives

In the March 2010 budget, the government announced debt reduction objectives. These objectives were included in the *Act to reduce the debt and establish the Generations Fund* in June 2010.

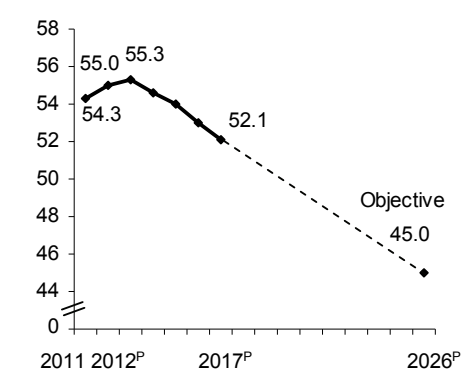
As at March 31, 2012, the gross debt is expected to amount to 55.0% of GDP. The government's objective is to reduce the ratio of gross debt to GDP to 45% as at March 31, 2026.

As at March 31, 2012, the debt representing accumulated deficits is expected to stand at 35.2% of GDP. The government's objective is to reduce the ratio of debt representing accumulated deficits to GDP to 17% as at March 31, 2026.

CHART D.3

### Gross debt

(as at March 31, as a percentage of GDP)



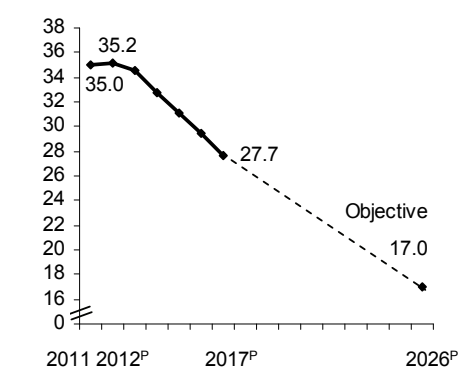
P: Preliminary results for 2012, forecasts for 2013 to 2017 and projections for subsequent years.

Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART D.4

### Debt representing accumulated deficits

(as at March 31, as a percentage of GDP)



P: Preliminary results for 2012, forecasts for 2013 to 2017 and projections for subsequent years.

To achieve these objectives the government announced:

- in its March 2010 budget:
  - that the price of heritage pool electricity will be increased gradually starting in 2014-2015 and that the resulting revenue will be deposited in the Generations Fund;
- in its March 2011 budget:
  - that 25% of mining, oil and gas royalties in excess of \$200 million will be deposited in the Generations Fund as of 2014-2015;
  - that the investments provided for under the Québec Infrastructures Plan (QIP) will be capped at a level allowing the quality of public infrastructure to be improved.

In this budget, the government announces the deposit in the Generations Fund:

- of sums derived from the auctioning of exploration licences for oil, gas and underground reservoirs, up to a level of 25%, as in the case of other mining, oil and gas royalties;
- of \$300 million from the accumulated surpluses of the Territorial Information Fund (TIF).

With all of the measures announced, the balance of the Generations Fund should reach \$12.6 billion as at March 31, 2017.

## 1.5 Comparison of the debt of governments in Canada

It is worthwhile to compare the concepts of debt used by the Québec government with those used by other governments in Canada.

An analysis of the budget documents of the federal and provincial governments shows that the concepts of debt used to assess financial position vary widely from one government to the other.

British Columbia and Saskatchewan use the concept of direct debt. Ontario, Alberta, New Brunswick, Newfoundland and Labrador, Manitoba and Nova Scotia use the concept of net debt.

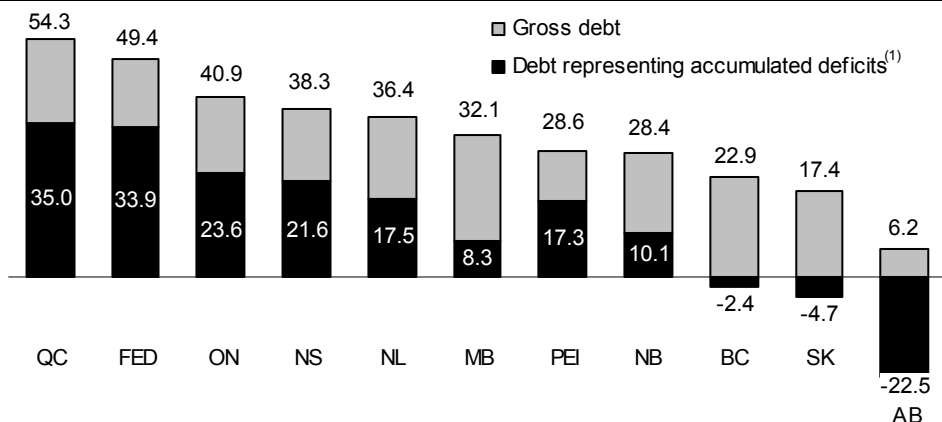
Four governments use the concept of debt representing accumulated deficits as a measure of indebtedness in their budget documents. They are the Québec government, the federal government and the governments of Ontario and Alberta.

As for Prince Edward Island, its recent budget documents make no mention of its debt concept.

Be it on the basis of the gross debt or the debt representing accumulated deficits, Québec is the most heavily indebted province.

CHART D.5

### Gross debt and debt representing accumulated deficits as at March 31, 2011 (as a percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.

Sources: Ministère des Finances du Québec, government public accounts and Statistics Canada.

The table on the following page shows the debt of the federal government and each of the provinces as at March 31, 2011. The boxes indicate the concept of debt used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

TABLE D.5

**Debt as at March 31, 2011 according to various concepts**

(millions of dollars)

	QC	FED	ON	BC	AB	NB	NL	MB	SK	NS	PEI
<b>Consolidated direct debt</b>	<b>147 748</b>	<b>597 470</b>	<b>246 111</b>	<b>44 733</b>	<b>6 446</b>	<b>8 462</b>	<b>5 696</b>	<b>15 274</b>	<b>4 886</b>	<b>12 447</b>	<b>1 378</b>
Net retirement plans liability	29 050	146 135	-5 786	87	9 922	-220	2 667	1 772	6 176	41	52
Net employee future benefits liability	75	58 206	10 236	1 684		133	1 909	387		1 448	3
Generations Fund	-3 437										
<b>Gross debt<sup>(1)</sup></b>	<b>173 436</b>	<b>801 811</b>	<b>250 561</b>	<b>46 504</b>	<b>16 368</b>	<b>8 375</b>	<b>10 272</b>	<b>17 433</b>	<b>11 062</b>	<b>13 936</b>	<b>1 433</b>
<i>As a % of GDP</i>	<i>54.3</i>	<i>49.4</i>	<i>40.9</i>	<i>22.9</i>	<i>6.2</i>	<i>28.4</i>	<i>36.4</i>	<i>32.1</i>	<i>17.4</i>	<i>38.3</i>	<i>28.6</i>
Less:											
Net financial assets <sup>(2)</sup>	-14 147	-184 903	-36 050	-15 867	-38 021	1 105	-2 143	-4 596	-7 279	-1 109	262
<b>Net debt<sup>(3)</sup></b>	<b>159 289</b>	<b>616 908</b>	<b>214 511</b>	<b>30 637</b>	<b>-21 653</b>	<b>9 480</b>	<b>8 129</b>	<b>12 837</b>	<b>3 783</b>	<b>12 827</b>	<b>1 695</b>
<i>As a % of GDP</i>	<i>49.9</i>	<i>38.0</i>	<i>35.0</i>	<i>15.1</i>	<i>-8.2</i>	<i>32.2</i>	<i>28.8</i>	<i>23.7</i>	<i>6.0</i>	<i>35.3</i>	<i>33.8</i>
Less:											
Non-financial assets	-47 387	-66 581	-69 938	-35 469	-37 607	-6 518	-3 208	-8 334	-6 744	-4 967	-829
<b>Debt representing accumulated deficits<sup>(3)</sup></b>	<b>111 902</b>	<b>550 327</b>	<b>144 573</b>	<b>-4 832</b>	<b>-59 260</b>	<b>2 962</b>	<b>4 921</b>	<b>4 503</b>	<b>-2 961</b>	<b>7 860</b>	<b>866</b>
<i>As a % of GDP</i>	<i>35.0</i>	<i>33.9</i>	<i>23.6</i>	<i>-2.4</i>	<i>-22.5</i>	<i>10.1</i>	<i>17.5</i>	<i>8.3</i>	<i>-4.7</i>	<i>21.6</i>	<i>17.3</i>

Note: The boxes indicate the debt concept(s) used in the budget documents of the government concerned.

(1) The gross debt is not shown in most government public accounts. However, the public accounts show the components of the gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. It is possible, therefore, to calculate the gross debt.

(2) Financial assets, net of other liabilities.

(3) A negative entry indicates that the government has net assets or an accumulated surplus.

Sources: Ministère des Finances du Québec, government public accounts and Statistics Canada.



## 1.6 Public sector debt

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, municipalities, universities other than the Université du Québec and its constituent universities and other government enterprises. This debt has served notably to finance public infrastructures, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

Preliminary results show that, as at March 31, 2012, Québec's public sector debt should stand at \$248 621 million, or 74.5% of GDP. These figures must be put into perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE D.6

### Public sector debt as at March 31 (millions of dollars)

	2009	2010	2011	2012 <sup>P</sup>
Government's gross debt <sup>(1)</sup>	157 630	163 318	173 436	183 780
Hydro-Québec	36 668	36 385	37 723	40 160
Municipalities <sup>(2)</sup>	18 639	19 538	20 424	21 364
Universities other than the Université du Québec and its constituent universities <sup>(3)</sup>	1 966	1 930	1 979	1 888
Other government enterprises <sup>(4)</sup>	434	697	1 363	1 429
<b>PUBLIC SECTOR DEBT</b>	<b>215 337</b>	<b>221 868</b>	<b>234 925</b>	<b>248 621</b>
<b>As a % of GDP</b>	<b>70.7</b>	<b>72.8</b>	<b>73.6</b>	<b>74.5</b>

P: Preliminary results.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government (\$3 509 million as at March 31, 2012).

(3) These amounts correspond to the debt contracted in the universities' own name. Part of this debt is subsidized by the government (\$236 million as at March 31, 2012).

(4) These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity.

## 1.7 Retirement plans

The Québec government participates financially in the retirement plans of its employees. As at December 31, 2010, these plans had 561 536 active participants and 302 164 beneficiaries.

TABLE D.7

### Retirement plans of public and parapublic sector employees as at December 31, 2010

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	515 000	199 614
Pension Plan of Management Personnel (PPMP)	28 350	23 434
Other plans:		
– Teachers Pension Plan (TPP) <sup>(1)</sup> and Pension Plan of Certain Teachers (PPCT) <sup>(1)</sup>	165	46 979
– Civil Service Superannuation Plan (CSSP) <sup>(1)</sup>	75	22 112
– Superannuation Plan of the Members of the Sûreté du Québec (SPMSQ)	5 500	4 762
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 400	1 560
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	265	335
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ) <sup>(2)</sup>	215	127
– Pension Plan of the Members of the National Assembly (PPMNA)	122	332
– Pension plan of the Université du Québec (PPUQ)	8 444	2 909
Total for other plans	18 186	79 116
<b>TOTAL</b>	<b>561 536</b>	<b>302 164</b>

(1) These plans have not accepted any new participants since July 1, 1973.

(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.

Sources: Commission administrative des régimes de retraite et d'assurances (CARRA) and Public Accounts 2010-2011.

## ❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans, which means that they guarantee participants a certain level of income upon retirement.

Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and the PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.<sup>3</sup>

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

TABLE D.8

### Change in the employee contribution rate of certain retirement plans (per cent)

	RREGOP <sup>(1)</sup>	PPMP <sup>(2)</sup>	SPMSQ <sup>(3)</sup>	PPPOCS <sup>(4)</sup>
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0

(1) Rate applicable to the excess of 35% of the amount of the maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). For 2012, the rate applies to the excess of 33% of the MPE. The equivalent rate according to the old formula would be 9.19%. In 2012, the MPE is \$50 100.

(2) Rate applicable to the excess of 35% of the MPE.

(3) Rate applicable up to the annual basic exemption under the QPP (\$3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.

(4) Rate applicable to the excess of 25% of the employee's salary or of the MPE if it is lower.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.<sup>4</sup>

<sup>3</sup> This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for paying 7/12 of the benefits.

<sup>4</sup> Except for the pension plan of the Université du Québec (PPUQ).

## ❑ Recent changes

To retain qualified workers and delay their retirement, the government has modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service.<sup>5</sup> This change, which was agreed upon during the latest renewal of the collective agreements with government employees, is aimed at ensuring that employees nearing the end of their career stay longer in the labour market and at facilitating the transfer of expertise.

Other changes are coming. Bill 58, entitled *An Act to amend the Act respecting the Pension Plan of Management Personnel and other legislative provisions*, was tabled in the National Assembly on February 22, 2012. It is the product of consultations with participant representatives and includes several amendments that will foster the financial health of the PPMP. In particular, it is proposed to tighten the pension eligibility criteria. As of January 1, 2013, new participants will have to complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction for early retirement will be increased.

### 1.7.1 Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans, as well as their years of service. This value is called the retirement plans liability. It does not take into account the assets established to pay the retirement benefits, particularly, the Retirement Plans Sinking Fund (RPSF), which is discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,<sup>6</sup> following the rules of the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA) for the public sector.

In the case of cost-sharing plans (e.g. RREGOP and the PPMP), only the portion payable by the government is included in the government liability. In the case of cost-balance plans, the total liability is presented in the government's financial statements.

As at March 31, 2012, the liability for the retirement plans of public and parapublic sector employees should stand at \$74 067 million. This amount is recognized in the government's gross debt.

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<sup>5</sup> Measure implemented gradually until January 1, 2014.

<sup>6</sup> Except for the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE D.9

**Retirement plans liability**  
(millions of dollars)

	March 31, 2012 <sup>P</sup>
Government and Public Employees Retirement Plan (RREGOP)	43 402
Pension Plan of Management Personnel (PPMP)	9 932
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 902
– Civil Service Superannuation Plan (CSSP)	4 008
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 603
– Pension plan of the Université du Québec (PPUQ)	2 730
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	826
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	522
– Pension credits under supplemental pension plans	409
– Supplemental pension plan arising from the transfer of the pension plan for non-teaching personnel of the Commission des écoles catholiques de Montréal (SPP of the CECM) to RREGOP	256
– Pension Plan of the Members of the National Assembly (PPMNA)	181
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	123
– Supplemental pension plan arising from the transfer of the pension plan for certain employees of the Commission scolaire de la Capitale (SPP of the CSC) to RREGOP	42
Plan assets <sup>(1)</sup>	–3 869
Total for other plans	20 733
<b>RETIREMENT PLANS LIABILITY</b>	<b>74 067</b>

P: Preliminary results.

(1) Assets of the SPMSQ, PPUQ, SPP pension credits, SPP of the CECM, PPFEQ and the SPP of the CSC.

**□ Annual retirement plans expenditure**

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. \$1 741 million in 2011-2012;
- the amortization of revisions to the government's actuarial obligations that arise from the updating of actuarial valuations, for a cost of \$639 million in 2011-2012.

In 2011-2012, government program spending in respect of the retirement plans should total \$2 380 million.

TABLE D.10

**Program spending in respect of the retirement plans**  
(millions of dollars)

	2011-2012 <sup>P</sup>
Net cost of vested benefits	1 741
Amortization of revisions arising from actuarial valuations	639
<b>PROGRAM SPENDING IN RESPECT OF THE RETIREMENT PLANS</b>	<b>2 380</b>

P: Preliminary results.

In addition, the government must record an interest charge on the obligation relating to the retirement plans from which the investment income of the RPSF is subtracted.

TABLE D.11

**Interest ascribed to the retirement plans**  
(millions of dollars)

	2011-2012 <sup>P</sup>
Interest on the actuarial obligation	4 853
Less: Investment income of the RPSF	-2 087
<b>INTEREST ASCRIBED TO THE RETIREMENT PLANS</b>	<b>2 766</b>

P: Preliminary results.

Moreover, in 2011-2012, the government should pay \$4 577 million to cover its share of the benefits paid to its retired employees. These disbursements do not affect either the government's expenditures or its deficit, because they correspond to expenditures that were already recorded in the past. They are part of the government's non-budgetary transactions.

## 1.7.2 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2012, the book value of the RPSF should amount to \$45 352 million.

TABLE D.12

### Change in the Retirement Plans Sinking Fund (millions of dollars)

	Book value, beginning of year	Deposits	Investment income imputed	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	—5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 <sup>(1)</sup>	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 <sup>(1)</sup>	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749 <sup>(2)</sup>	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012 <sup>P</sup>	42 265	1 000	2 087	45 352

P: Preliminary results.

(1) This amount takes into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.

(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARS�) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2012 is higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Sub-section 1.10 describes these items in greater detail.

The government's accounting policies apply when the RPSF's book value is higher than its market value as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 18 years.

TABLE D.13

**Book value and market value of the Retirement Plans Sinking Fund  
as at March 31**  
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	-31
1996-1997	1 014	1 095	-81
1997-1998	1 179	1 321	-142
1998-1999	2 209	2 356	-147
1999-2000	5 040	5 703	-663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	-479
2006-2007	26 877	28 859	-1 982
2007-2008	31 764	32 024	-260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012 <sup>P</sup>	45 352	37 431	7 921

P: Preliminary results.



## ❑ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. However, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the amount of borrowings contracted to make deposits increases the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE D.14

### Illustration of the impact on the government's gross debt of borrowing \$1 billion on financial markets and depositing it in the RPSF<sup>(1)</sup> (millions of dollars)

	Before deposit	After deposit	Change
(A) Consolidated direct debt	159 318	160 318	1 000
Retirement plans liability	74 067	74 067	—
Less: Book value of the RPSF	—45 352	—46 352	—1 000
(B) Net retirement plans liability	28 715	27 715	—1 000
(C) Net employee future benefits liability	32	32	—
(D) Less: Generations Fund	—4 285	—4 285	—
<b>(E) GROSS DEBT (E = A + B + C + D)</b>	<b>183 780</b>	<b>183 780</b>	<b>—</b>

(1) Illustration based on preliminary results as at March 31, 2012.

## ❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 13 years out of 18.

TABLE D.15

### Comparison of the RPSF's annual return and the Québec government's borrowing costs (per cent)

	Return of the RPSF <sup>(1)</sup>	Cost of new borrowings <sup>(2)</sup>	Difference (in percentage points)
1994-1995	-3.3 <sup>(3)</sup>	5.9	-9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	-4.7	5.5	-10.2
2002-2003	-8.5	4.7	-13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	-25.6	4.2	-29.8
2009-2010	10.7	4.6	6.1
2010-2011	13.4	4.4	9.0
2011-2012 <sup>P</sup>	3.5	4.0	-0.5

P: Preliminary results.

(1) On a calendar year basis.

(2) On a fiscal year basis.

(3) From February to December 1994.

## ❑ A flexible deposit policy

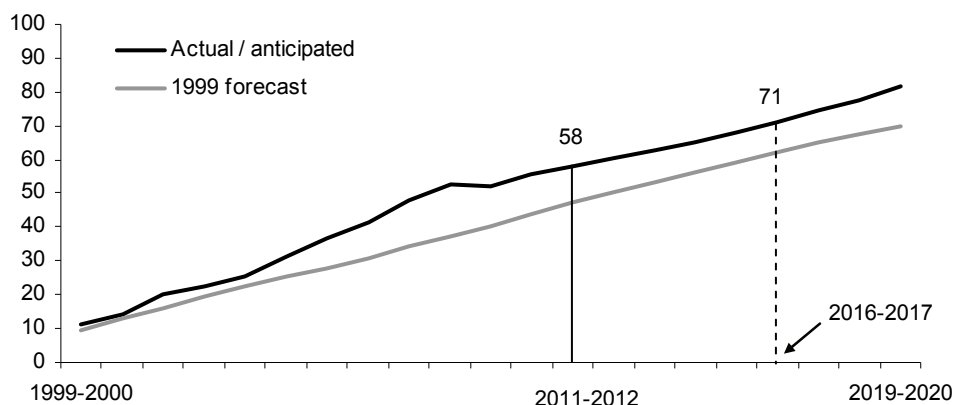
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues. For example, the government did not make any deposits in 2009-2010, but deposited \$2 billion in 2010-2011 and \$1 billion in 2011-2012.

The RPSF's book value is expected to represent roughly 58% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees as at March 31, 2012. If deposits of \$1 billion per year were made in the RPSF, the target of 70% would be attained three years earlier than anticipated, i.e. in 2016-2017.

CHART D.6

**The RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees**  
(per cent)



## 1.8 Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated exclusively to repaying the debt.

As at March 31, 2012, the book value of the Generations Fund should amount to \$4 285 million. Starting in 2014-2015, deposits in the Generations Fund will climb substantially owing mainly to the amounts stemming from the gradual increase, over five years, of 1¢/kWh in the price of heritage pool electricity.

The sums accumulated in the Generations Fund are expected to reach \$12 646 million as at March 31, 2017.

TABLE D.16

### Generations Fund (millions of dollars)

	2011- 2012 <sup>P</sup>	2012- 2013 <sup>P</sup>	2013- 2014 <sup>P</sup>	2014- 2015 <sup>P</sup>	2015- 2016 <sup>P</sup>	2016- 2017 <sup>P</sup>
<b>BOOK VALUE, BEGINNING OF YEAR</b>	<b>3 437</b>	<b>4 285</b>	<b>5 496</b>	<b>6 537</b>	<b>8 112</b>	<b>10 142</b>
<b>DEDICATED REVENUES</b>						
Water-power royalties						
Hydro-Québec	608	628	636	648	667	682
Private producers	88	90	93	96	98	100
	696	718	729	744	765	782
Heritage pool electricity	—	—	—	315	630	945
Mining, oil and gas royalties	—	—	—	45	50	50
Unclaimed property	10	10	10	10	10	10
Investment income	142	183	302	461	575	717
<b>Subtotal</b>	<b>848</b>	<b>911</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
Deposit from the accumulated surpluses of the Territorial Information Fund	—	300	—	—	—	—
<b>TOTAL</b>	<b>848</b>	<b>1 211</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
<b>BOOK VALUE, END OF YEAR</b>	<b>4 285</b>	<b>5 496</b>	<b>6 537</b>	<b>8 112</b>	<b>10 142</b>	<b>12 646</b>

P: Preliminary results for 2011-2012 and forecasts for subsequent years.

The following table shows the book and market values of the Generations Fund since its creation.

TABLE D.17

**Book value and market value of the Generations Fund  
as at March 31**  
(millions of dollars)

	Book value	Market value	Difference
2006-2007 <sup>(1)</sup>	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	-87
2011-2012 <sup>P</sup>	4 285	4 272	13

P: Preliminary results.

(1) The first deposit was made in the Generations Fund on January 31, 2007.

### **❑ Faster reduction of the debt**

One of the advantages of the *Act to reduce the debt and establish the Generations Fund* is that it imposes discipline on the government by obliging it to devote sums to debt reduction every year.

If the Generations Fund did not exist, these dedicated revenues would reduce the government's financial requirements every year, thus reducing the growth in its indebtedness. However, if there were no specific fund for depositing dedicated revenues, Quebecers would not know, over time, by how much the debt is being brought down thanks to these dedicated revenues.

The Generations Fund is thus a "transparency tool" that enables Quebecers to follow the change in the funds devoted to repaying the debt and to see the impact of these funds on the debt.

In addition, the sums in the Generations Fund are managed by the Caisse de dépôt et placement du Québec. Since the returns obtained by the Caisse are generally higher than the cost of new borrowings by the government, the existence of a fund of this type helps to accelerate debt reduction.

Ever since the first deposit was made in the Generations Fund in January 2007, the return has been higher than or equivalent to the cost of new borrowings by the government 4 years out of 5.

TABLE D.18

**Comparison of the Generations' Fund's annual return and the Québec government's borrowing costs**  
(per cent)

	<b>Return of the Generations Fund <sup>(1)</sup></b>	<b>Cost of new borrowings <sup>(2)</sup></b>	<b>Difference (in percentage points)</b>
2007-2008	5.6 <sup>(3)</sup>	4.8	0.8
2008-2009	-22.4	4.2	-26.6
2009-2010	11.3	4.6	6.7
2010-2011	12.3	4.4	7.9
2011-2012 <sup>P</sup>	4.0	4.0	—

P: Preliminary results.

(1) On a calendar year basis.

(2) On a fiscal year basis.

(3) Return realized from February to December 2007, since the first deposit in the Generations Fund was made on January 31, 2007.

## 1.9 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2011, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec (the Caisse) was 3.50% for the RPSF, 3.98% for the Generations Fund and 3.40% for the Accumulated Sick Leave Fund. The details of the investment policy of these funds are presented in the box on page D.37.

TABLE D.19

### **Market value and return in 2011 of funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances**

	Return	Market value as at December 31, 2011
	%	\$ million
Retirement Plans Sinking Fund	3.50	36 351
Generations Fund	3.98	4 024
Accumulated Sick Leave Fund	3.40	769

### 1.9.1 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund showed a return of 3.50% in 2011. Its market value was \$36 351 million as at December 31, 2011.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Minister of Finance in cooperation with the Caisse. This investment policy is established taking several factors into account, including the recommendations of the Caisse, the 10-year return, standard deviation and correlation forecasts for various categories of assets, as well as opportunities for investing in these assets.

The investment policy of the RPSF consists of 36.25% fixed-income securities (bonds, real estate debt, etc.), 14.50% inflation-sensitive investments (real estate, infrastructure, etc.), 45.75% equities and 3.50% other investments. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE D.20

#### Investment policy of the RPSF as at January 1, 2012 (per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole <sup>(1)</sup>
Fixed-income securities	36.25	36.6
Inflation-sensitive investments	14.50	14.0
Equities	45.75	46.9
Other investments	3.50	2.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

(1) Data for 2010. *Annual Report 2010* of the Caisse de dépôt et placement du Québec. The annual report for 2011 is not available yet.

With its investment policy, the RPSF should generate a short- and medium-term annual return of 6.50%; the average annual long-term (10-year or longer) return is approximately 6.75%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 3.72% in 2011. In 2010, the RPSF obtained a return of 13.43% compared with 9.19% in the case of its benchmark portfolio.



## 1.9.2 Generations Fund

The Generations Fund posted a return of 3.98% in 2011. Its market value was \$4 024 million as at December 31, 2011.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Minister of Finance in cooperation with the Caisse. This investment policy is established taking several factors into account, including the recommendations of the Caisse, the 10-year return, standard deviation and correlation forecasts for various categories of assets prepared by the Caisse, as well as opportunities for investing in these assets.

The investment policy of the Generations Fund consists of 42.0% fixed-income securities (bonds, real estate debt, etc.), 12.5% inflation-sensitive investments (real estate, infrastructure, etc.), 42.5% equities and 3.0% other investments.

TABLE D.21

### Investment policy of the Generations Fund as at January 1, 2012 (per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole <sup>(1)</sup>
Fixed-income securities	42.0	36.6
Inflation-sensitive investments	12.5	14.0
Equities	42.5	46.9
Other investments	3.0	2.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

(1) Data for 2010. *Annual Report 2010* of the Caisse de dépôt et placement du Québec. The annual report for 2011 is not available yet.

The investment policy of the Generations Fund aims to achieve a long-term (10-year or longer) annual return of about 6.5%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 4.23% in 2011. In 2010, the Generations Fund obtained a return of 12.32% compared with 9.20% in the case of its benchmark portfolio.

### **1.9.3 Accumulated Sick Leave Fund**

The Accumulated Sick Leave Fund (ASLF) showed a return of 3.40% in 2011. Its market value was \$769 million as at December 31, 2011.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Minister of Finance in cooperation with the Caisse. Since January 1, 2009, the ASLF's investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans.

The ASLF's benchmark portfolio would have generated a return of 3.72% in 2011. In 2010, the ASLF obtained a return of 12.94% compared with 9.19% in the case of its benchmark portfolio.

### Comparison of investment policies

#### Investment policies as at January 1, 2012

(per cent)

Specialized Portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole <sup>(1)</sup>
Short-Term Investments	1.0	1.0	1.2
Bonds	29.25	35.0	26.5
Long-Term bonds	0.0	0.0	2.4
Real Estate Debt	6.0	6.0	6.5
<b>Total – Fixed Income</b>	<b>36.25</b>	<b>42.0</b>	<b>36.6</b>
Real Return Bonds	0.0	0.0	0.6
Infrastructure	4.5	4.0	3.3
Real Estate	10.0	8.5	10.1
<b>Total – Inflation-Sensitive Investments</b>	<b>14.5</b>	<b>12.5</b>	<b>14.0</b>
Canadian Equity	13.25	10.0	12.9
Global Equity	6.05	5.1	3.4
Québec International	2.45	3.9	6.4
US Equity	5.0	5.0	4.0
Foreign Equity	5.0	6.5	6.5
Emerging Markets Equity	4.0	4.0	3.8
Private Equity	10.0	8.0	9.9
<b>Total – Equity</b>	<b>45.75</b>	<b>42.5</b>	<b>46.9</b>
Hedge Funds	3.5	3.0	2.5
Asset Allocation	0.0	0.0	0.0
<b>Total – Other Investments</b>	<b>3.5</b>	<b>3.0</b>	<b>2.5</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

RPSF: Retirement Plans Sinking Fund.

ASLF: Accumulated Sick Leave Fund.

(1) Data for 2010. *Annual Report 2010* of the Caisse de dépôt et placement du Québec. The annual report for 2011 is not available yet.

## 1.10 Impact of the returns of the Retirement Plans Sinking Fund on debt service

As indicated in sub-section 1.7.2, the income of the RPSF is applied against the government's debt service. The returns of the Caisse affect RPSF income and therefore debt service.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

“When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.” (Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .035)

Under the accounting policy, the “adjusted market value” of the RPSF is adjusted every year based on the returns realized by the fund. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.<sup>7</sup>

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<sup>7</sup> Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

In addition, the differences between actual and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 13 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.<sup>8</sup> This amortization mechanism and the period used are prescribed by GAAP.<sup>9</sup>

Therefore, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010. The returns realized by the Caisse in 2009-2010, which were higher than anticipated, led to an increase in the RPSF's income as of 2010-2011. Similarly, the returns realized by the Caisse in 2010-2011, which were also higher than expected, led to an increase in the RPSF's income as of 2011-2012. Lastly, the preliminary rate of return in 2011-2012, which is lower than the projected long-term rate, will lead to a decline in RPSF income in 2012-2013.

TABLE D.22

### Impact of the returns of the Caisse de dépôt et placement du Québec on debt service<sup>(1)</sup>

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013 <sup>P</sup>	2013-2014 <sup>P</sup>
Before 2008-2009	-48	-78	-57	11	10
From 2008-2009	307	629	972	1 337	1 726
From 2009-2010		-65	-134	-207	-285
From 2010-2011			-53	-110	-171
From 2011-2012 <sup>P</sup>				37	76
<b>IMPACT ON DEBT SERVICE</b>	<b>259</b>	<b>486</b>	<b>728</b>	<b>1 068</b>	<b>1 356</b>

P: Preliminary results for 2011-2012 and forecasts for subsequent years.

Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.

(1) These amounts represent the impact on RPSF income, and therefore on debt service, of returns of the Caisse that are lower or higher than the projected long-term rate for that period and that are amortized.

<sup>8</sup> As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 9 years compared with 14 years under the other plans.

<sup>9</sup> "...actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and expected results.



## **2. FINANCING**

In 2011-2012, the government contracted borrowings totalling \$20 148 million, including \$4 401 million in pre-financing conducted over the last few months of the year.

### **2.1 Financing strategy**

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

#### **2.1.1 Diversification by market**

Financing transactions are conducted regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

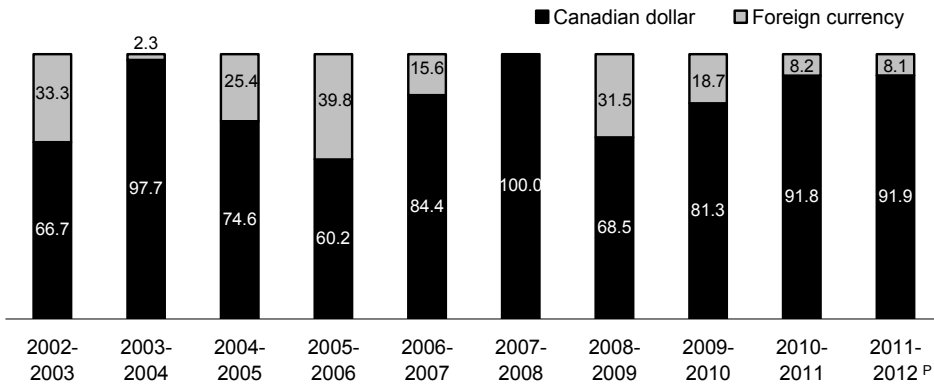
Over the past 10 years, 19% of borrowings have been contracted in foreign currency. Nonetheless, the government has only a very low exposure to these currencies: the exposure should be only 0.5% as at March 31, 2012 (see sub-section 3.1).

In 2011-2012, the government contracted 8.1% of its borrowings on foreign markets:

- one borrowing for US\$1 400 million (CAN\$1 373 million) in August 2011;
- one borrowing for AUS\$225 million (CAN\$231 million) in July 2011;
- one borrowing for 27 million euros (CAN\$36 million) in December 2011.

CHART D.7

**Borrowings by currency<sup>(1)</sup>**  
(per cent)



P: Preliminary results.

(1) Borrowings of the government's general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

### 2.1.2 Diversification by instrument

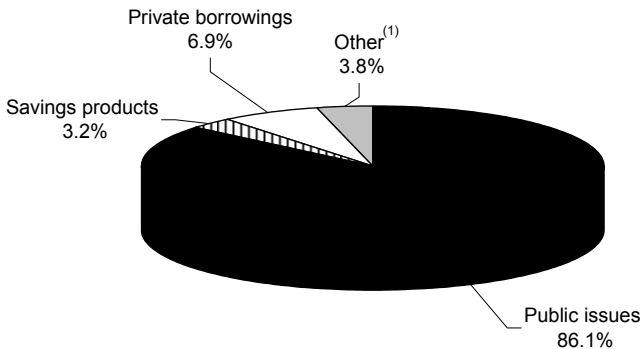
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2011-2012 consisted mainly of public issues (86.1%) and private borrowings (6.9%).

CHART D.8

**Borrowings in 2011-2012<sup>P</sup> by instrument**



P: Preliminary results.

(1) Includes the Business Assistance — Immigrant Investor Program and borrowings from the Canada Pension Plan Investment Fund.



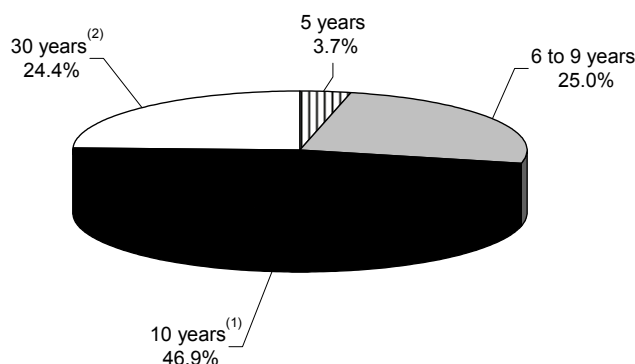
### 2.1.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In 2011-2012, 46.9% of borrowings contracted had a maturity of 10 years, 25.0%, 6 to 9 years, 24.4%, 30 years and 3.7%, 5 years.

CHART D.9

#### Borrowings in 2011-2012<sup>P</sup> by maturity



P: Preliminary results.

(1) Includes borrowings maturing in 2021 and 2022.

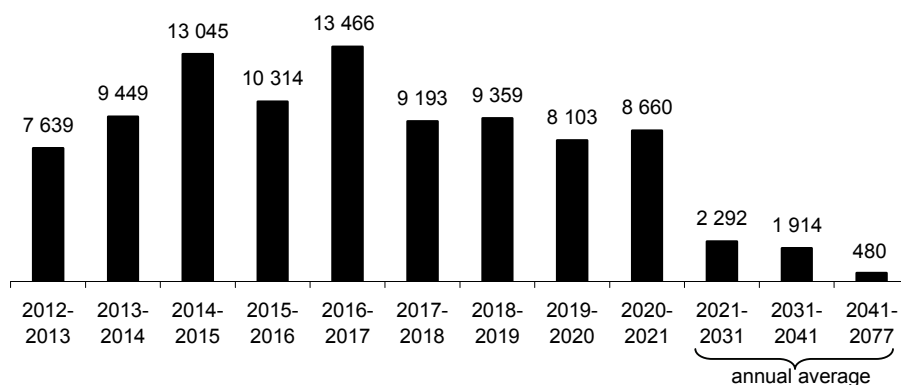
(2) Includes primarily borrowings maturing in 2041 and 2043.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2012, the average maturity of the debt should be 12 years.

CHART D.10

#### Maturity of the long-term debt as at March 31, 2012<sup>P</sup>

(millions of dollars)



P: Preliminary results.

Note: Direct debt of the general fund, debt contracted to make advances to the Financing Fund and debt of Financement-Québec.

## 2.2 Financing program

The financing program of the general fund makes it possible to refinance maturing borrowings, contribute to the Retirement Plans Sinking Fund and meet new financial requirements, particularly for capital investments and investments in government corporations.

The Financing Fund makes loans to consolidated entities (e.g. Land Transportation Network Fund, Société immobilière du Québec, etc.) and to certain government enterprises.

Financement-Québec makes borrowings on financial markets to meet the needs of institutions in the health and social services and education networks.

In 2011-2012, the government contracted borrowings totalling \$20 148 million, including \$4 401 million in pre-financing conducted over the last few months of the year.

In 2012-2013, the financing program is expected to amount to \$14 950 million. It would have amounted to \$19 351 million had there not been any pre-financing in 2011-2012. In 2013-2014, the financing program should total \$17 773 million.

TABLE D.23

**The government's financing program**  
 (millions of dollars)

	2011-2012 <sup>P</sup>	2012-2013 <sup>P</sup>	2013-2014 <sup>P</sup>
<b>GENERAL FUND<sup>(1)</sup></b>			
Net financial requirements <sup>(2),(3)</sup>	6 124	2 732	297
Repayment of borrowings	7 034	4 519	4 476
Change in cash position	-4 518	-4 401	—
Deposits in the Retirement Plans Sinking Fund	1 000	—	—
Transactions under the credit policy <sup>(4)</sup>	-644	—	—
Additional contributions to the sinking fund for borrowings	—	3 000	3 000
Pre-financing	4 401	—	—
<b>TOTAL - General fund</b>	<b>13 397</b>	<b>5 850</b>	<b>7 773</b>
<b>FINANCING FUND</b>	<b>3 360</b>	<b>5 100</b>	<b>4 500</b>
Including: repayment of borrowings	548	1 254	1 251
<b>FINANCEMENT-QUÉBEC</b>	<b>3 391</b>	<b>4 000</b>	<b>5 500</b>
Including: repayment of borrowings	1 962	1 866	3 722
<b>TOTAL</b>	<b>20 148</b>	<b>14 950</b>	<b>17 773</b>
Including: repayment of borrowings	9 544	7 639	9 449

P: Preliminary results for 2011-2012 and forecasts for subsequent years.

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

(1) The general fund corresponds to what used to be called the Consolidated Revenue Fund.

(2) These amounts exclude the net financial requirements of consolidated entities.

(3) Net financial requirements are adjusted to take into account the non-receipt of RPSF revenues and of funds dedicated to employee future benefits.

(4) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government received \$644 million in 2011-2012 following the change in foreign exchange rates. These receipts reduce financial requirements that have to be met through new borrowings.

## **❑ Additional contributions to the sinking fund for government borrowings**

This year, the Ministère des Finances is putting forward a new policy aimed at raising the level of prudential liquidity. The goal is to increase the government's liquid assets by \$6 billion over the next two years. These liquid assets will be available for use in the event of major disturbances on financial markets.

Borrowings of \$3 billion will be made for this purpose in 2012-2013 and 2013-2014.

The federal government announced a similar policy in its June 2011 budget. Borrowings by the federal government will be increased by \$35 billion over three years in order to boost its liquid assets. Ontario has also increased its liquid assets substantially in recent years.

In the case of Québec, the \$6 billion in additional liquid assets corresponds to roughly one third of the Québec government's annual financing requirements in the coming years.

The \$6 billion that is to be borrowed will be paid into the sinking fund for government borrowings, already in existence (see the box on the next page), and invested in very liquid, government short-term securities, such as federal Treasury bills. This will make it possible, in the event of a major financial market disturbance where it is difficult to contract short- or long-term borrowings, to sell these securities and rapidly recover the liquid assets. These assets could then be used to buy short-term securities issued by the Québec government, thus enabling it to meet its financial obligations. Once the disturbance is over and the short-term securities issued by the Québec government have matured, the sinking fund for government borrowings could again buy short-term securities such as federal Treasury bills.

Since the \$6 billion in borrowings over two years will be paid into the sinking fund for government borrowings, there will be no impact on the government's gross debt. This is because the value of a borrowings sinking fund is subtracted from the debt in accordance with accounting standards.

### Sinking fund for borrowings

Some borrowings come with provisions that require borrowers to put sums aside annually for repaying the borrowings at maturity. These sums are paid into “sinking funds for borrowings.” As at March 31, 2011, there was a total of \$5.9 billion in the sinking funds for government borrowings, invested for the most part in securities issued by Québec’s public sector (Québec government, Financement-Québec, Hydro-Québec, universities, municipalities, etc.). Sinking funds for borrowings are managed in prudent fashion by the Ministère des Finances in order to preserve the principal and earn income.

#### Investments of sinking funds for borrowings<sup>(1)</sup>

(as at March 31, 2011)

	\$ million	%
Québec bonds and bonds guaranteed by Québec	4 711	79.7
Network and municipal bonds	783	13.3
Bonds from other governments <sup>(2)</sup>	217	3.7
Money market securities, cash on hand and other	196	3.3
<b>TOTAL</b>	<b>5 907</b>	<b>100.0</b>

(1) Includes the sinkings funds for borrowings by the government and by the health and social services and education networks.

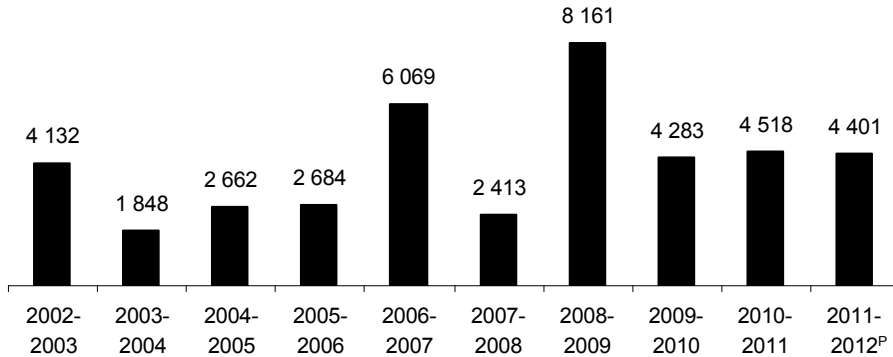
(2) Includes bonds from the federal government, the CMHC (guaranteed by the federal government), other provinces and the US government.

## Pre-financing

The government makes advance borrowings, i.e. borrowings that would normally be made in the following fiscal year. The government carries out pre-financing to take advantage of favourable market conditions.

Over the past 10 years, the government has carried out an average of \$4 117 million in pre-financing per year.

### Pre-financing (millions of dollars)



P: Preliminary results.

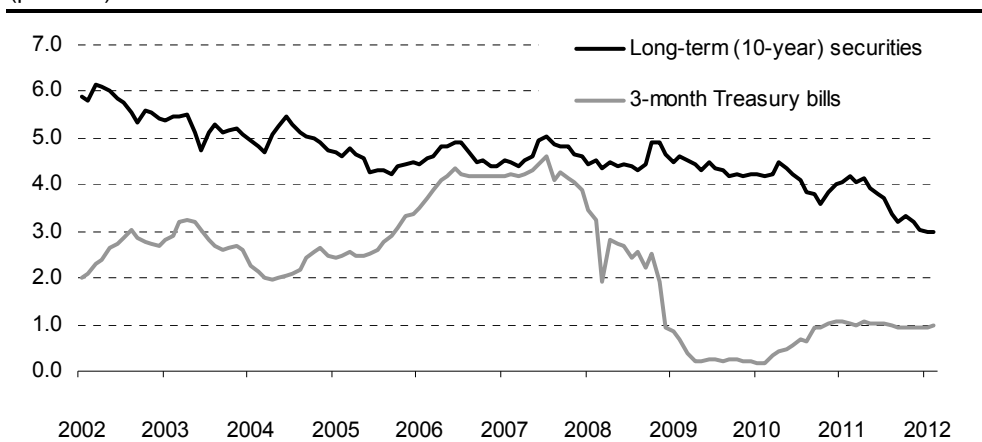
## 2.2.1 Yield

In 2011, the yield on long-term Québec securities fell, while short-term interest rates stayed roughly the same.

CHART D.11

### Yield on Québec securities

(per cent)



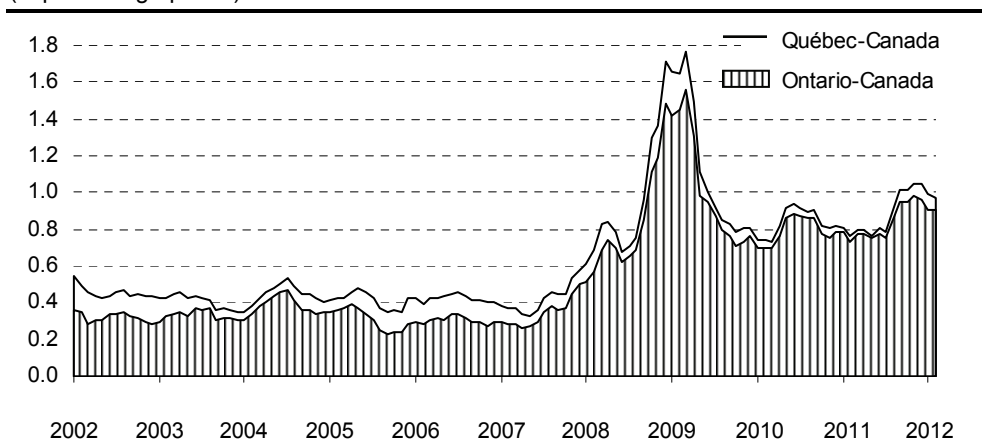
Sources: PC-Bond and ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in summer 2008, has been considerably reduced since then, without returning, however, to the levels observed prior to 2008. The same situation has been observed in the case of the other provinces.

CHART D.12

### Yield spread on long-term (10-year) securities

(in percentage points)



Source: PC-Bond.





### 3. DEBT MANAGEMENT

The government's debt management strategy aims to minimize the cost of the debt and limit the risks related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

Debt management enables the government to save money on debt service.

#### 3.1 Structure of the debt by currency

As at March 31, 2012, the proportion of the government's gross debt in Canadian dollars should amount to 99.5% and the proportion in foreign currency, to 0.5%.

TABLE D.24

#### Structure of the gross debt as at March 31, 2012<sup>P</sup> (millions of dollars)

Currency	Consolidated direct debt	%	Net retirement plans liability	Net employee future benefits liability	Less: Generations Fund	Gross debt	%
Canadian dollar <sup>(1)</sup>	162 757	99.4	28 715	32	—4 285	187 219	99.5
US dollar <sup>(1)</sup>	206	0.1	—	—	—	206	0.1
Euro	137	0.1	—	—	—	137	0.1
Swiss franc	206	0.1	—	—	—	206	0.1
Yen	413	0.3	—	—	—	413	0.2
<b>Subtotal</b>	<b>163 719</b>	<b>100.0</b>	<b>28 715</b>	<b>32</b>	<b>—4 285</b>	<b>188 181</b>	<b>100.0</b>
Pre-financing	—4 401		—	—	—	—4 401	
<b>TOTAL</b>	<b>159 318</b>		<b>28 715</b>	<b>32</b>	<b>—4 285</b>	<b>183 780</b>	

P: Preliminary results.

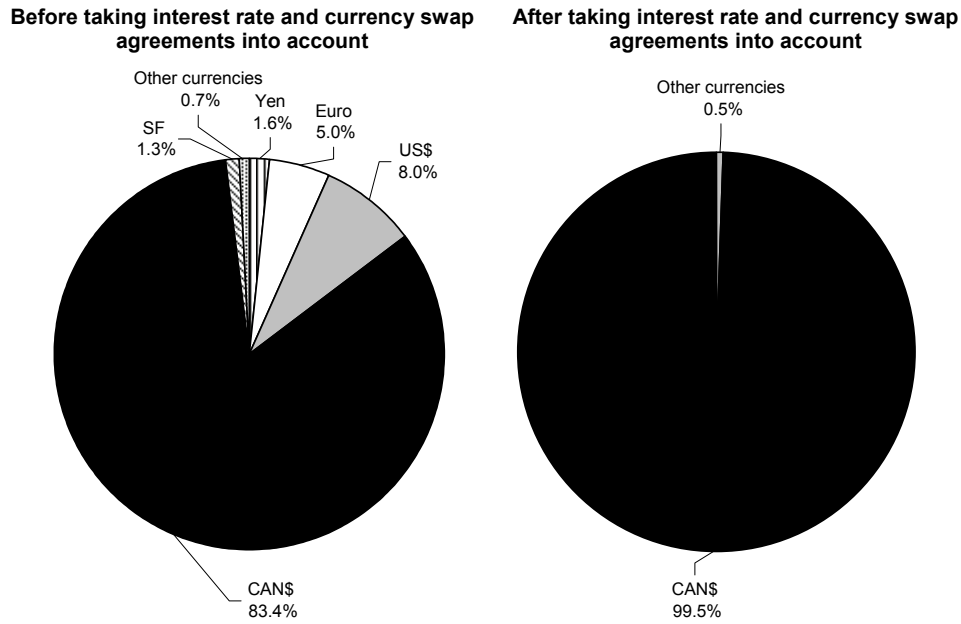
Note: The debt in foreign currency is expressed in the Canadian equivalent based on the exchange rates in effect on March 9, 2012.

(1) The debt takes into account the sinking fund for government borrowings.

Before interest rate and currency swap agreements are taken into account, the proportion of the debt in foreign currency as at March 31, 2012 should be 16.6%. After interest rate and currency swap agreements are taken into account, the proportion should be 0.5%. This proportion was 0.7% as at March 31, 2011.

CHART D.13

**Structure of the gross debt by currency as at March 31, 2012<sup>P</sup>**



P: Preliminary results.

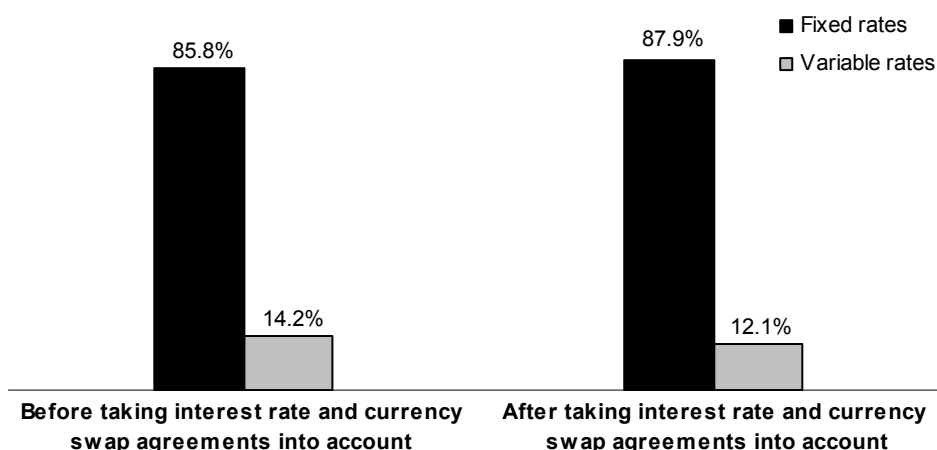
## 3.2 Structure of the debt by interest rate

The government keeps part of its debt at variable rates and part at fixed rates.

Before interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates should be 14.2% as at March 31, 2012. After interest rate and currency swap agreements are taken into account, the proportion should be 12.1%. This proportion was 20.8% as at March 31, 2011.

CHART D.14

### Structure of the gross debt by interest rate as at March 31, 2012<sup>P</sup>



P: Preliminary results.



## **4. CREDIT RATINGS**

### **4.1 The Québec government's credit ratings**

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.25

**Credit rating scales for long-term debt**

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings	Japan Credit Rating Agency
<b>Extremely strong</b> capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
<b>Very strong</b> capacity to pay interest and repay principal.	Aa1	AA+	AA (high)	AA+	<b>AA+</b>
	<b>Aa2</b>	AA	AA	AA	AA
	Aa3	AA-	AA (low)	<b>AA-</b>	AA-
<b>Strong</b> capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	<b>A+</b>	<b>A (high)</b>	A+	A+
	A2	A	A	A	A
	A3	A-	A (low)	A-	A-
<b>Adequate</b> capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB (low)	BBB-	BBB-
<b>Uncertain</b> capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB (low)	BB-	BB-
<b>Very uncertain</b> capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)	B+	B+
	B2	B	B	B	B
	B3	B-	B (low)	B-	B-

Agencies add an “outlook” to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a “stable” outlook to its credit rating.

TABLE D.26

**The Québec government’s current credit ratings**

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA-	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.27

**Credit rating scales for short-term debt<sup>(1)</sup>**

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings
<b>Very strong</b> capacity to pay interest and repay principal over the short term.	<b>P-1</b>	<b>A-1+</b> A-1	R-1 <sup>High</sup> <b>R-1<sup>Middle</sup></b> R-1 <sup>Low</sup>	<b>F1+</b> F1
<b>Very adequate</b> capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than upper level.	P-2	A-2	R-2 <sup>High</sup>	F2
<b>Adequate</b> capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P-3	A-3	R-2 <sup>Middle</sup> R-2 <sup>Low</sup> R-3	F3
<b>Uncertain</b> capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime <sup>(2)</sup>	B-1 B-2 B-3 C	R-4 R-5	B C
<b>Incapacity</b> to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime <sup>(2)</sup>	D	D	D

(1) Not applicable in the case of JCR.

(2) Moody's uses the “Not Prime” category for all securities not included in the upper categories.

**Change in Québec's credit ratings**

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2012 are those in effect when the budget is tabled.

CHART D.15

**Credit rating assigned to Québec by Moody's**

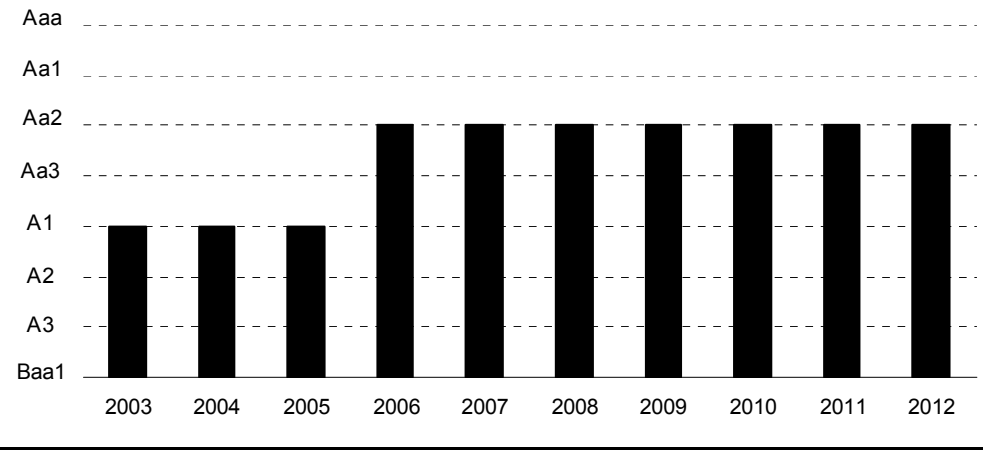


CHART D.16

**Credit rating assigned to Québec by Standard & Poor's**

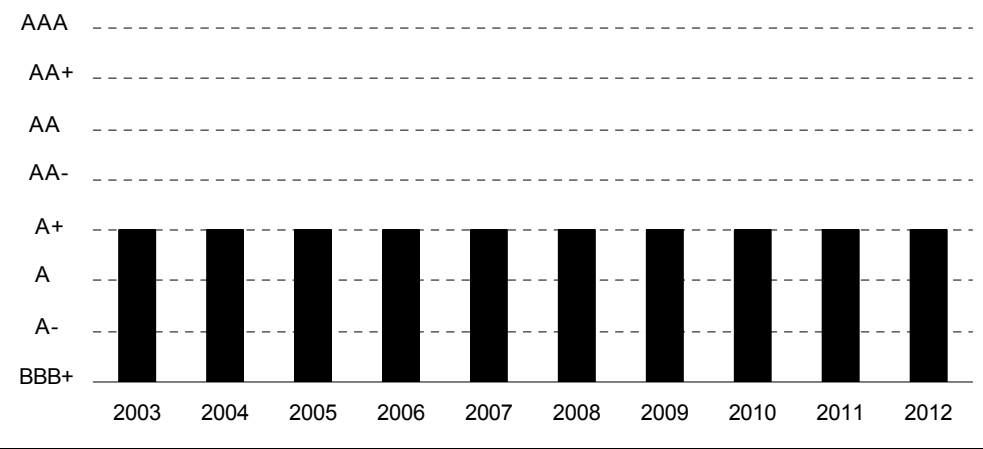




CHART D.17

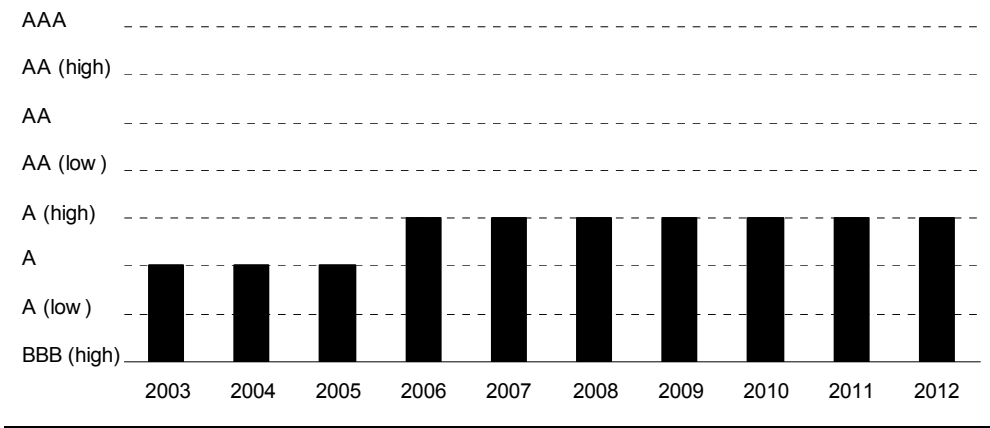
**Credit rating assigned to Québec by DBRS**

CHART D.18

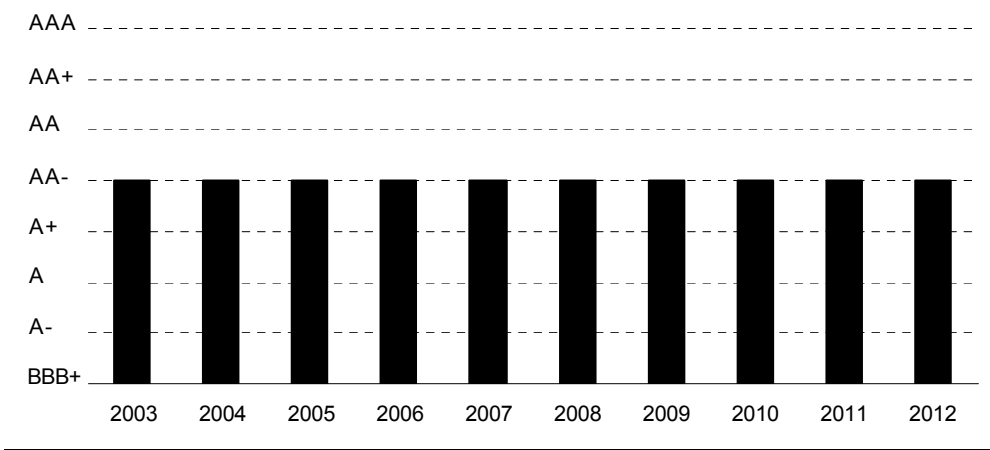
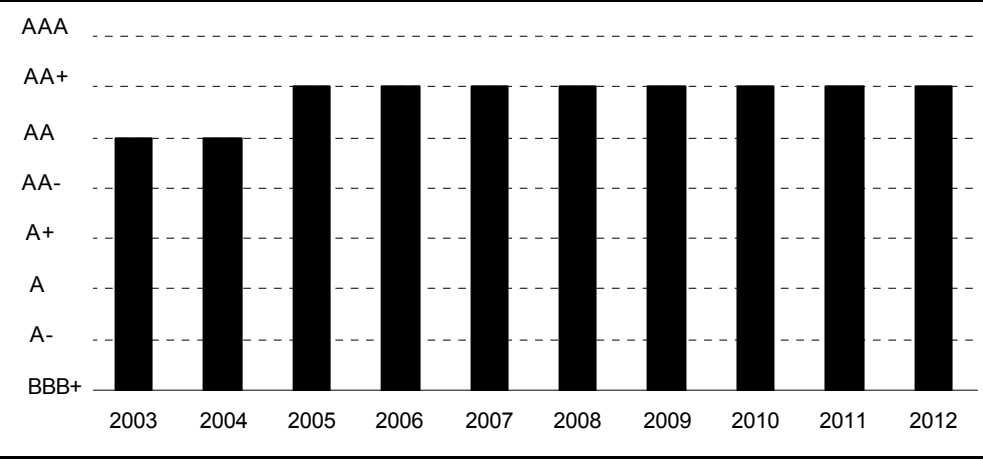
**Credit rating assigned to Québec by Fitch**

CHART D.19

**Credit rating assigned to Québec by JCR**

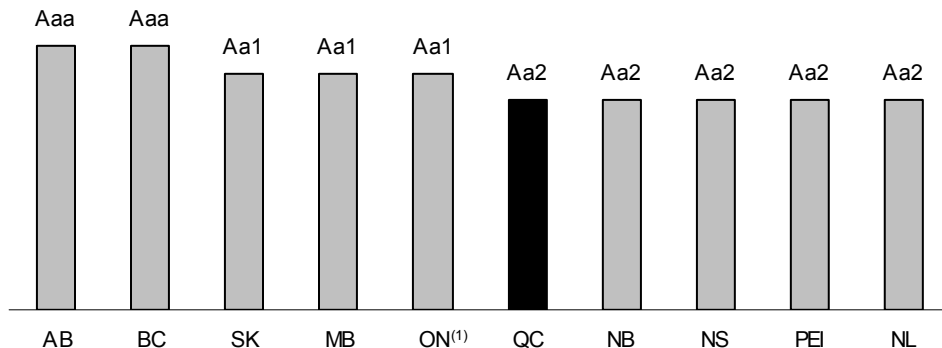


## 4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces in early March 2012. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.20

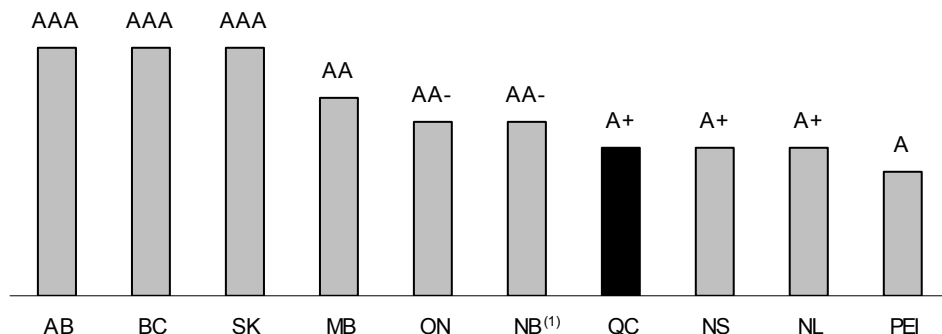
### Credit ratings of Canadian provinces – Moody's



(1) Negative outlook.

CHART D.21

### Credit ratings of Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART D.22

**Credit ratings of Canadian provinces – DBRS**

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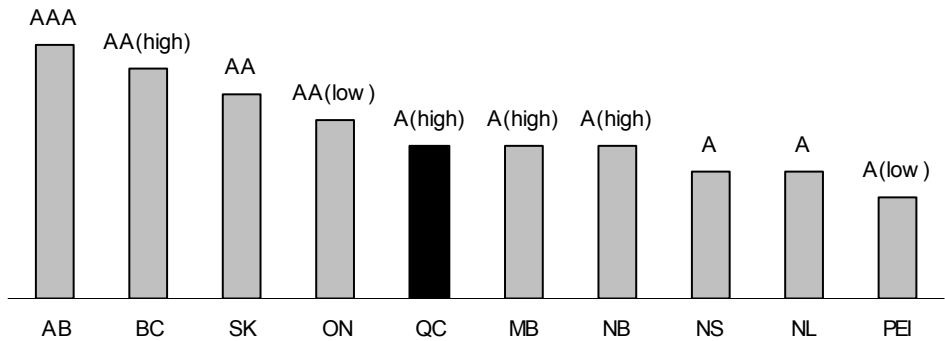
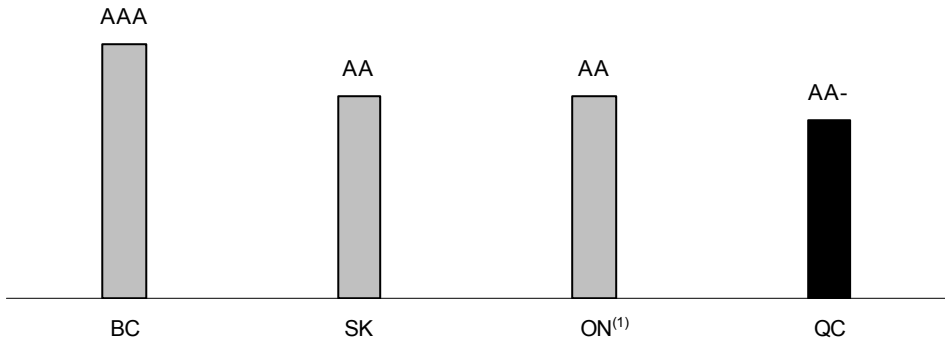


CHART D.23

**Credit ratings of Canadian provinces – Fitch**

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Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces rated by this agency.  
(1) Negative outlook.

## 5. ADDITIONAL INFORMATION

### 5.1 Adjustments to the gross debt compared with the March 2010 budget

When the government set new debt objectives in the March 2010 budget, the gross debt forecast as at March 31, 2012 was \$180 084 million. It is now estimated at \$183 780 million, an upward adjustment of \$3 696 million.

The possibility that such a difference would arise, due to the implementation of the last phase of the accounting reform undertaken in 2007, was explained in the debt forecast tables published in March 2010. A note to table D.6 presenting the growth factors of the government's gross debt informed readers that: "once line-by-line recording of the results of institutions in the health and social services and education networks is completed, gross debt data will be restated."<sup>10</sup>

In December 2010, when the *Update on Québec's Economic and Financial Situation* and Public Accounts 2009-2010 were published, the final debt figures, i.e. including an amount of \$4 713 million for the debt contracted by network institutions in their own name, were made public.

According to the debt projection as at March 31, 2015, the last year of the forecast presented in the March 2010 budget, the gross debt was expected to amount to \$192 169 million. It is now estimated at \$203 032 million, a difference of \$10 863 million.

The first reason for this difference is, of course, the fact that the aforementioned debt contracted by institutions in the health and social services and education networks in their own name (\$4.7 billion) has been taken into account.

Another factor is the adjustment stemming from the change in the method used to record interest in respect of the retirement plans liability, which has led to a \$1 164-million increase in the debt. Previously, interest was calculated on a calendar-year basis, whereas now it is calculated on a fiscal-year basis. This change in method, agreed upon with the Auditor General, has given rise to the recording of an amount of \$1 164 million in the debt.

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<sup>10</sup> 2010-2011 Budget Plan, page D.11.

TABLE D.28

**Adjustments to the gross debt as at March 31 since the March 2010 budget**  
(millions of dollars)

	2012	2013	2014	2015
March 2010 budget	180 084	186 490	189 428	192 169
<i>As a % of GDP</i>	<i>55.1</i>	<i>54.6</i>	<i>53.3</i>	<i>52.0</i>
March 2012 budget	183 780	191 717	197 130	203 032
<i>As a % of GDP</i>	<i>55.0</i>	<i>55.3</i>	<i>54.6</i>	<i>54.0</i>
<b>Adjustments</b>	<b>3 696</b>	<b>5 227</b>	<b>7 702</b>	<b>10 863</b>
<i>As a % of GDP</i>	<i>-0.1</i>	<i>0.7</i>	<i>1.3</i>	<i>2.0</i>
<b>Explanation of the adjustments</b>				
Adjustments to budgetary deficits:				
In 2009-2010 (from \$4 257 million to \$3 174 million)				-1 083
In 2010-2011 (from \$4 506 million to \$3 150 million)				-1 356
In 2011-2012 (from \$2 900 million to \$3 300 million)				400
In 2012-2013 (from \$1 200 million to \$1 500 million)				300
Subtotal				-1 739
Accounting changes:				
Line-by-line consolidation of the financial statements of institutions in the health and social services and education networks				4 713
Restatement of the retirement plans liability to take into account the interest accrued on a fiscal year rather than a calendar year basis				1 164
Subtotal				5 877
Agreement with the federal government to offer low-cost loans to Québec municipalities				1 208
Adjustment to capital investments				1 680
Commitments in regard to public-private partnerships taken into account in the government's debt				2 058
Envelope of \$1 billion for taking equity interests in mining and hydrocarbon projects				600
Rehabilitation of contaminated sites				220
Other adjustments (change in certain asset or liability items such as accounts receivable and accounts payable, etc.)				959
<b>Total adjustments</b>				<b>10 863</b>

In addition, under the Economic Action Plan introduced by the federal government to deal with the last recession, a program administered by the Canada Mortgage and Housing Corporation (CMHC) was set up to offer municipalities low-cost loans for work in housing. Owing to Financement-Québec's extensive experience in funding the networks, the Québec government decided that Financement-Québec would act as an intermediary for the purposes of the program. Financement-Québec contracted borrowings with the CMHC and then lent the money to municipalities.

The program had a Canada-wide funding envelope of \$2 billion. Québec municipalities received \$1.2 billion from the program, or 60% of the total envelope. The borrowings contracted by Financement-Québec were not forecast in the debt data included in the March 2010 budget. These borrowings have raised the government's gross debt by \$1.2 billion. However, as an offset to these borrowings, Financement-Québec has an equivalent financial asset in the form of the loans it made to the municipalities.<sup>11</sup>

The upward adjustment to the gross debt as at March 31, 2015 compared with the March 2010 budget can also be attributed to an increase of nearly \$1.7 billion in capital investments. In addition, commitments made in respect of public-private partnerships explain a rise of roughly \$2 billion in the gross debt. Indeed, the government presents these commitments in its debt.

Furthermore, the announcement in last year's budget of an envelope of \$500 million over five years for taking equity interests in mining or hydrocarbon projects and the announcement in the present budget to raise this envelope to \$1 billion have led to a \$600-million increase in the debt as at March 31, 2015 (the remaining \$400 million will be invested after March 31, 2015).

Moreover, the decision to devote resources to the rehabilitation of contaminated sites has led to a \$220-million rise in the debt as at March 31, 2015.

Overall, it can be noted therefore that over half of the adjustments made to the debt forecast as at March 31, 2015 since the March 2010 budget can be explained by accounting changes (\$4 713 million + \$1 164 million = \$5 877 million). The other factors are related, for the most part, to increased investment in various fields and to changes in certain asset and liability items, such as accounts receivable and accounts payable.

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<sup>11</sup> The impact on the gross debt of Financement-Québec's involvement in implementing the federal municipal loans program was explained in the 2011-2012 Budget Plan, page D.41.

## 5.2 Adjustments to the debt representing accumulated deficits compared with the March 2010 budget

In the March 2010 budget, the debt representing accumulated deficits as at March 31, 2012 amounted to \$112 170 million. The revised forecast in this budget is \$117 654 million, or \$5 484 million more.

The forecast for March 31, 2015 in the March 2010 budget was \$109 644 million. The revised forecast is \$116 834 million, or \$7 190 million more.

These upward revisions to the debt representing accumulated deficits are explained, for the most part, by the many accounting adjustments that have more than offset the overall improvement in budgetary balances.

TABLE D.29

**Adjustments to the debt representing accumulated deficits as at March 31 since the March 2010 budget**  
(millions of dollars)

	2012	2013	2014	2015
March 2010 budget	112 170	112 309	111 186	109 644
<i>As a % of GDP</i>	34.3	32.9	31.3	29.7
March 2012 budget	117 654	119 450	118 409	116 834
<i>As a % of GDP</i>	35.2	34.5	32.8	31.1
<b>Adjustments</b>	<b>5 484</b>	<b>7 141</b>	<b>7 223</b>	<b>7 190</b>
<i>As a % of GDP</i>	<i>0.9</i>	<i>1.6</i>	<i>1.5</i>	<i>1.4</i>
<b>Explanation of the adjustments</b>				
Adjustments to budgetary deficits:				
In 2009-2010 (from \$4 257 million to \$3 174 million)				-1 083
In 2010-2011 (from \$4 506 million to \$3 150 million)				-1 356
In 2011-2012 (from \$2 900 million to \$3 300 million)				400
In 2012-2013 (from \$1 200 million to \$1 500 million)				300
Subtotal				-1 739
Adjustment to deposits in the Generations Fund				445
Accounting changes:				
Adoption of IFRS standards by Hydro-Québec				3 300
Adjustment to the environmental liability				2 096
New accounting standard on government transfers for SOFIL and the SHQ				1 207
Retirement plans liability for interest accrued on a fiscal year rather than a calendar year basis				1 164
Adoption of IFRS standards by the SGF				158
Other				559
Total accounting restatements				8 484
<b>Total adjustments</b>				<b>7 190</b>



## 5.3 Information on borrowings contracted

TABLE D.30

### Québec government Summary of long-term borrowings<sup>(1)</sup> in 2011-2012<sup>P</sup>

Currency	\$ million	%
<b>CANADIAN DOLLAR</b>		
Public issues	15 741	78.1
Private borrowings	1 361	6.8
Savings products	643	3.2
Business Assistance — Immigrant Investor Program	750	3.7
Canada Pension Plan Investment Fund	13	0.1
<b>Subtotal</b>	<b>18 508</b>	<b>91.9</b>
<b>OTHER CURRENCIES</b>		
US dollar	1 373	6.8
Australian dollar	231	1.2
Euro	36	0.1
<b>Subtotal</b>	<b>1 640</b>	<b>8.1</b>
<b>TOTAL</b>	<b>20 148</b>	<b>100.0</b>

P: Preliminary results.

(1) The amounts include borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE D.31

**Québec government  
Borrowings for the general fund in 2011-2012<sup>P</sup>**

Amount received in Canadian dollars <sup>(1)</sup>	Face value in foreign currency	Interest rate <sup>(2)</sup>	Date of issue	Date of maturity	Price to investor	Yield to investor <sup>(3)</sup>
millions		%			\$	%
74	—	4.25	April 29	2021-12-01	101.163	4.113
169	—	5.00	May 20	2041-12-01	108.534	4.484
215	—	4.25	June 13	2021-12-01	103.053	3.892
364	—	5.00	June 16	2041-12-01	110.749	4.359
557	—	5.00	June 23	2041-12-01	111.307	4.328
231	AUS\$225	6.50	July 12	2021-07-12	99.927	6.510
350	—	4.25	July 18	2021-12-01	104.007	3.779
411	—	4.25	August 8	2021-12-01	106.264	3.520
519	—	4.25	August 17	2043-12-01	103.875	4.034
1 373	US\$1 400	2.75	August 25	2021-08-25	99.610	2.795
467	—	4.25	September 6	2043-12-01	103.467	4.056
356	—	4.25	September 12	2021-12-01	108.080	3.311
534	—	4.25	September 19	2043-12-01	106.764	3.880
449	—	4.25	September 28	2021-12-01	109.783	3.120
542	—	4.25	October 12	2021-12-01	108.430	3.266
330	—	4.50	October 17	2020-12-01	109.888	3.239
523	—	4.25	October 26	2043-12-01	104.680	3.990
113	—	3.50	December 2	2022-12-01	100.600	3.434
505	—	3.50	December 6	2022-12-01	101.029	3.387
554	—	4.25	December 14	2043-12-01	110.860	3.670
36 <sup>(4)</sup>	27 €	3.50 <sup>(5)</sup>	December 15	2031-12-15	100.000	3.500
340	—	4.50	December 23	2020-12-01	113.412	2.794
519	—	3.50	January 13	2022-12-01	103.875	3.078
523	—	3.50	February 7	2022-12-01	104.557	3.003
341	—	4.50	February 7	2020-12-01	113.805	2.727
518	—	3.50	February 13	2022-12-01	103.523	3.113
560	—	4.25	February 17	2043-12-01	111.957	3.614
518	—	3.50	March 13	2022-12-01	103.584	3.104
643 <sup>(6)</sup>	—	Various	Various	Various	Various	Various
750 <sup>(7)</sup>	—	Zero coupon	Various	Various	Various	Various
13 <sup>(8)</sup>	—	Various	Various	Various	Various	Various
<b>13 397</b>						

P: Preliminary results.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually.

(4) Private borrowing.

(5) Interest payable annually.

(6) Savings products issued by Épargne Placements Québec.

(7) Business Assistance — Immigrant Investor Program.

(8) Borrowings from the Canada Pension Plan Investment Fund.

TABLE D.32

**Québec government  
Borrowings for the Financing Fund in 2011-2012<sup>P</sup>**

Amount received in Canadian dollars	Face value in foreign currency	Interest rate <sup>(1)</sup>	Date of issue	Date of maturity	Price to investor	Yield to investor <sup>(2)</sup>
millions		%			\$	%
<b>A. Borrowings for consolidated entities</b>						
502	—	4.25	April 4	2021-12-01	100.473	4.194
432	—	4.25	April 29	2021-12-01	101.163	4.113
374	—	5.00	May 20	2041-12-01	108.534	4.484
300	—	4.25	June 13	2021-12-01	103.053	3.892
190	—	5.00	June 16	2041-12-01	110.749	4.359
170	—	4.25	July 18	2021-12-01	104.007	3.779
120	—	4.25	August 8	2021-12-01	106.264	3.520
50	—	4.25	September 6	2043-12-01	103.467	4.056
5	—	4.25	September 12	2021-12-01	108.080	3.311
100	—	4.25	September 28	2021-12-01	109.783	3.120
547	—	4.25	November 14	2021-12-01	109.310	3.161
390	—	3.50	December 2	2022-12-01	100.600	3.434
<b>3 180</b>						
<b>B. Borrowings for entities not included in the reporting entity</b>						
180	—	4.25	September 12	2021-12-01	108.080	3.311
<b>3 360</b>						

P: Preliminary results.

(1) Interest payable semi-annually except if another frequency is indicated in a note.

(2) Yield to investor is determined on the basis of interest payable semi-annually.

TABLE D.33

**Québec government  
Borrowings by Financement-Québec in 2011-2012<sup>P</sup>**

Amount received in Canadian dollars	Face value in foreign currency	Interest rate <sup>(1)</sup>	Date of issue	Date of maturity	Price to investor	Yield to investor <sup>(2)</sup>
millions		%			\$	%
502	—	3.50	May 25	2017-12-01	100.475	3.418
285 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	July 25	2017-04-25	100.001	Variable
10 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	July 29	2017-04-25	99.974	Variable
15 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 4	2017-04-25	99.922	Variable
20 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 8	2017-04-25	99.882	Variable
30 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 8	2017-04-25	99.855	Variable
26 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 9	2017-04-25	99.842	Variable
25 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 10	2017-04-25	99.801	Variable
50 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	August 11	2017-04-25	99.654	Variable
89 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	September 22	2017-04-25	98.812	Variable
20 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	September 23	2017-04-25	98.681	Variable
529	—	3.50	October 21	2017-12-01	105.797	2.472
295 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	December 20	2017-04-25	98.860	Variable
248 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	December 23	2017-04-25	99.140	Variable
49 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	January 13	2017-04-25	99.325	Variable
99 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	January 16	2017-04-25	99.325	Variable
50 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	January 16	2017-04-25	99.350	Variable
50 <sup>(3)</sup>	—	Variable <sup>(4)</sup>	January 17	2017-04-25	99.400	Variable
500	—	2.40	January 24	2018-12-01	99.961	2.406
499	—	2.40	January 31	2018-12-01	99.823	2.428
<b>3 391</b>						

P: Preliminary results.

(1) Interest payable semi-annually except if another frequency is indicated in a note.

(2) Yield to investor is determined on the basis of interest payable semi-annually.

(3) Private borrowings.

(4) Interest payable quarterly.

TABLE D.34

**Borrowings by Hydro-Québec in 2011<sup>(1)</sup>**

Amount received in Canadian dollars	Face value in foreign currency	Interest rate <sup>(2)</sup>	Date of issue	Date of maturity	Price to investor	Yield to investor <sup>(3)</sup>
millions		%			\$	%
536	—	5.00	January 24	2050-02-15	107.145	4.604
53	—	Variable <sup>(4)</sup>	February 11	2015-02-11	100.000	Variable
300	—	Variable <sup>(4)</sup>	February 25	2015-02-11	99.910	Variable
25	—	Variable <sup>(4)</sup>	March 15	2015-02-11	99.929	Variable
63	—	Variable <sup>(4)</sup>	March 16	2015-02-11	99.876	Variable
116	—	Variable <sup>(4)</sup>	March 17	2015-02-11	99.896	Variable
25	—	Variable <sup>(4)</sup>	March 17	2015-02-11	99.895	Variable
50	—	Variable <sup>(4)</sup>	March 21	2015-02-11	99.892	Variable
150	—	Variable <sup>(4)</sup>	March 22	2015-02-11	99.840	Variable
75	—	Variable <sup>(4)</sup>	March 22	2015-02-11	99.858	Variable
25	—	Variable <sup>(4)</sup>	March 23	2015-02-11	99.821	Variable
334	—	Variable <sup>(4)</sup>	March 25	2015-02-11	99.859	Variable
200	—	Variable <sup>(4)</sup>	March 30	2015-02-11	99.897	Variable
20	—	Variable <sup>(4)</sup>	March 31	2015-02-11	99.897	Variable
100	—	Variable <sup>(4)</sup>	April 14	2015-02-11	99.990	Variable
100	—	Variable <sup>(4)</sup>	April 20	2015-02-11	99.935	Variable
100	—	Variable <sup>(4)</sup>	April 20	2015-02-11	99.936	Variable
7	—	Zero coupon	April 27	2027-04-15	46.389	4.925
100	—	Variable <sup>(4)</sup>	May 3	2015-02-11	99.896	Variable
200	—	Variable <sup>(4)</sup>	May 4	2015-02-11	99.906	Variable
964	US\$1 000	2.00	June 30	2016-06-30	99.981	2.004
610	—	5.00	September 30	2050-02-15	121.978	3.892
619	—	5.00	November 8	2050-02-15	123.836	3.811
<b>4 772</b>						

(1) Borrowings contracted from January 1 to December 31, 2011.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually.

(4) Interest payable quarterly.



# Section E

## UPDATE ON FEDERAL TRANSFERS

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## INTRODUCTION

Québec's federal transfers have risen from \$8.9 billion in 2002-2003 to \$15.1 billion in 2012-2013, an increase of almost 69%. This improvement is the result of efforts made by the Québec government and close cooperation with the federal government.

Over the past year, the Québec government and the federal government have worked together successfully on a number of major issues. Examples include the upcoming construction of a new bridge to replace the Champlain Bridge, the agreement on the shared management of petroleum resources in the Gulf of St. Lawrence (Old Harry deposit), the agreement on the harmonization of sales taxes and the implementation of voluntary retirement savings plans. Québec hopes that this same cooperation will form the basis of discussions on the renewal of federal transfers in 2014 and the resolution of certain priority issues for Québec.

Concerning the renewal of federal transfers, federal legislation stipulates that the existing rules of the equalization program, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) remain in force until March 31, 2014. New rules will apply to these federal transfers as of April 1, 2014.

This section summarizes Québec's positions on federal transfers in the context of the renewal of these programs, namely:

- remove the caps imposed on the equalization program. Should the GDP cap be maintained, Québec hopes that it will be raised gradually towards the historical average of the equalization program in proportion to Canada's nominal GDP, i.e. 1.02%;
- gradually restore the share of federal funding of provincial health spending to 25% within ten years and distribute the CHT more fairly, taking into account the additional costs relating to the demographic weight of persons over age 65 in each province;
- quickly resolve certain outstanding issues between the Québec government and the federal government.

Concerning equalization, Québec is asking that the federal government return to the formula it had put in place in 2007 based on the recommendations of the Expert Panel on Equalization (O'Brien report).<sup>1</sup> This reform enabled the program to play its role by ensuring the provinces have the capacity to offer comparable services while maintaining a comparable tax burden.

Since 2008, the caps the federal government has introduced unilaterally have substantially reduced the equalization envelope compared with what would have been paid under the program in place in 2007-2008 and 2008-2009.

- The caps have also turned the equalization program into a “zero-sum game” where the gains of one recipient province inevitably come at the expense of other recipient provinces.

Concerning the CHT, given the pressure that demographic and technological changes will bring to bear on health spending in the years ahead, Québec is asking the federal government to gradually raise its contribution to 25% of the provinces' spending on health within ten years and adjust the allocation of its contribution to reflect the additional costs relating to the demographic weight of persons over age 65 in each province.

- Originally, the federal government covered 50% of the eligible costs of public health plans; the CHT currently covers no more than 20% of the provinces' health spending.
- The federal government's recent announcement that it will limit the growth in the CHT to that of Canada's nominal GDP will further reduce the share of the federal health contribution compared to the provinces' health spending.

In addition, the exclusion of the value of tax points in the allocation of the CHT as of 2014-2015 will benefit only Alberta, which will receive an increase in this transfer of \$1.1 billion on average per year over ten years.

The reduction in the share of federal health funding, together with the losses tied to the capping of the equalization program, results in a significant increase in fiscal disparities among the provinces and imposes major financial constraints on the public finances of many of them, including Québec.

By adopting an inadequate mechanical approach to federal transfers, the federal government is avoiding its responsibilities.

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<sup>1</sup> EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose: Putting Equalization Back on Track*, [Report], May 2006.

# 1. THE FACTS ON FEDERAL TRANSFERS

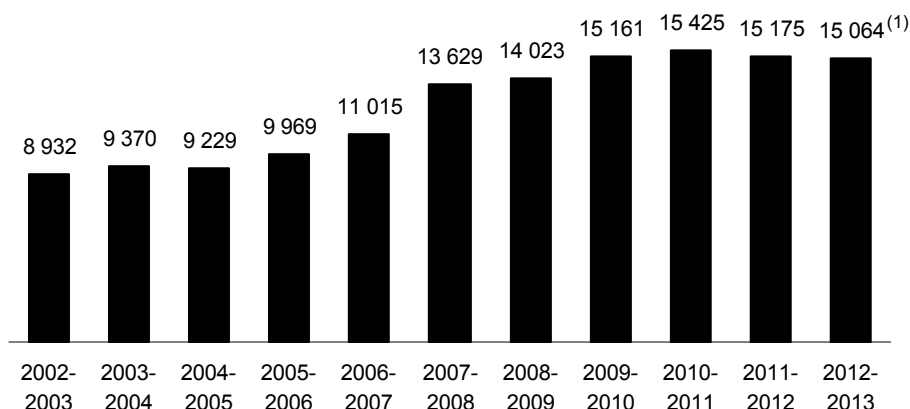
## 1.1 Change in Québec's federal transfer revenue

Between 2002-2003 and 2012-2013, Québec's federal transfers have risen from \$8.9 billion to \$15.1 billion, an increase of almost 69%. This improvement is chiefly the result of close cooperation between the Québec government and the federal government on two major issues:

- the rise in federal transfers for health stemming from the September 2004 Health Accord;
- the reform of the equalization program, announced in the 2007 federal budget, which increased the equalization envelope as of 2007-2008.

CHART E.1

### Change in Québec's federal transfer revenue (millions of dollars)



(1) Total federal transfers in 2012-2013 exclude the first payment of \$733 million arising from the agreement on sales tax harmonization since it involves a specific compensation.

Source: Ministère des Finances du Québec.

The changes made by the federal government to the equalization program in the fall of 2008 are unacceptable, but they do not call into question the major progress made in federal transfers since 2002-2003. Of course, there are problems that remain to be corrected and priority issues regarding which Québec is looking forward to productive cooperation with the federal government. This section updates the situation regarding these issues.

# 1.2 The federal budgetary balance by province

Statistics Canada’s provincial economic accounts (PEA) show the federal budgetary balance by province. A federal deficit in one province means that the federal government collected less revenue there than what it spent and vice versa<sup>2</sup>.

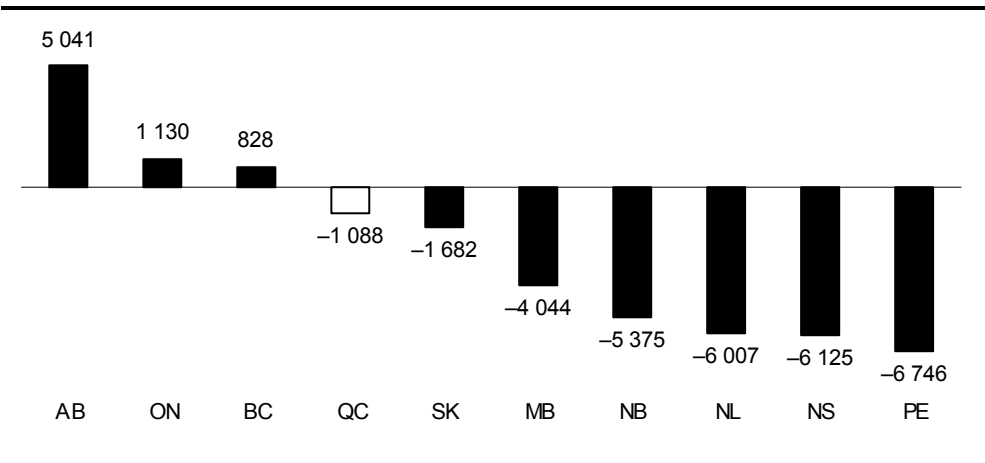
— All federal spending is included in this calculation, from transfers to the provinces, transfers to persons or direct spending by the federal government (e.g.: public servants, military bases).

Over the most recent five years available (2005 to 2009), the federal government registered its smallest deficit in Québec (\$1 088 per capita on average) among the seven provinces where the revenue the federal government collected was less than what it spent.

In addition, for 2009, the federal government was in a deficit position in every province except Alberta (surplus of \$4 325 per capita).

CHART E.2

**Budgetary balance of the federal government by province, annual average from 2005 to 2009**  
(dollars per capita)



Source of data: Statistics Canada.

<sup>2</sup> Caution is needed when using the PEA to assess inter-provincial redistribution in Canada. On this issue, Statistics Canada noted in the edition of the *Canadian Economic Observer* published in February 2007: “Performing a cost-benefit analysis of Confederation simply using the federal government revenue and expenditure estimates of the PEA is erroneous. The fiscal arrangements in our confederation are far more subtle than that [...] While the federal government may, for example, transfer money to the Atlantic Provinces under the equalization program, that money might then be used to purchase medical equipment manufactured in Ontario (pages 3.2 and 3.3).

### 1.3 Québec's share of the equalization envelope

Of the six recipient provinces in 2012-2013, Québec is, after Ontario, the province whose payments per capita are the lowest (\$943 per capita). Because Québec is a province with a large population of eight million people, it receives 48% of the equalization envelope.

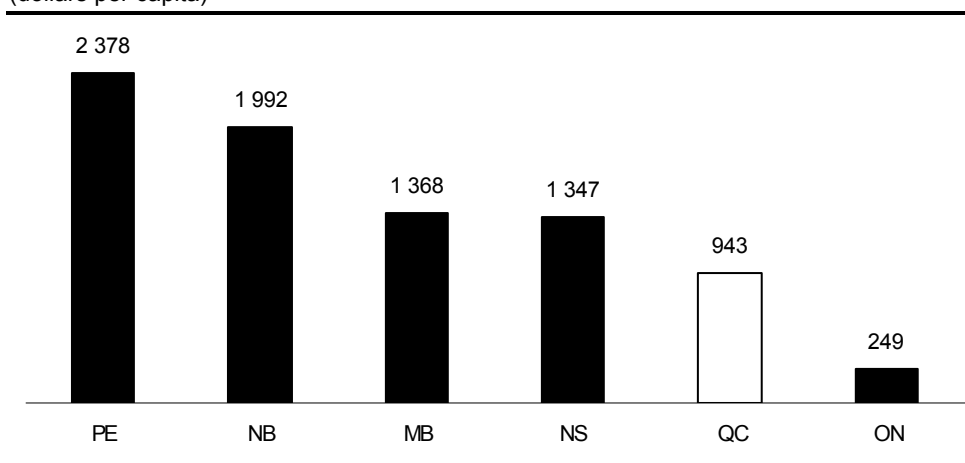
- In absolute terms, since the equalization program is calculated on per capita payment basis, Québec is the largest recipient of equalization and will receive \$7.4 billion of the \$15.4-billion total envelope in 2012-2013.

It should be noted that since the equalization program was implemented in 1957-1958, all the provinces have received equalization payments at one time or another.

- Recently, there have been changes regarding the equalization-recipient provinces: Ontario has received equalization payments since 2009-2010 while Saskatchewan and Newfoundland and Labrador have not received any since 2008-2009.

CHART E.3

#### Equalization payments – 2012-2013 (dollars per capita)



Source of data: Department of Finance Canada.

## 1.4 Québec funds its “supplementary” services

Under the equalization program, the equalization payments received by the recipient provinces must raise their fiscal capacity to the average of the ten provinces so that they can “provide reasonably comparable levels of public services at reasonably comparable levels of taxation”.<sup>3</sup>

Services that are “supplementary” to the services “comparable” to the Canadian average that Québec offers its citizens are funded by the supplementary revenue it collects from its level of taxation, which is higher than the Canadian average. This is a societal choice.

Indeed, the Advisory Committee on the Economy and Public Finances<sup>4</sup> also came to the same conclusion in 2009:

Even when the contribution of federal transfers is considered, Québec spends more than the other provinces. Accordingly, this additional spending is not funded by federal transfers. [...] Québec funds its additional spending by means of taxes and by incurring debt.

Québec could not maintain this level of service were it to adopt the tax system of most other provinces. For instance, were Québec to apply the personal taxation structure of Ontario or Alberta, it would collect respectively \$3.7 and \$5.5 billion less for 2011.

In addition, Alberta has chosen not to have a sales tax. In Québec, this revenue source represents \$11.3 billion in 2011-2012.

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<sup>3</sup> Constitution Act, 1982, section 36(2).

<sup>4</sup> ADVISORY COMMITTEE ON THE ECONOMY AND PUBLIC FINANCES, *Québec and Its Challenges – Extensive Public Services. Constrained leeway and Emerging challenges*, Document 1, Gouvernement du Québec, December 2009, p. 21.

## **2. 2014 RENEWAL OF FEDERAL TRANSFERS**

On April 1, 2014, new rules will apply to the major federal transfers. Québec is asking that these new rules ensure that the provinces receive transfers that are adequate and fair.

### **2.1 Issues relating to the equalization program**

The objective of the equalization program, entrenched in the Constitution, is to provide the provinces with “sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.”<sup>5</sup>

The provinces obtain their revenue from two sources: own-source revenue from the tax effort of their taxpayers (e.g.: taxes, fees and royalties) and federal transfers, including equalization.

The operation of the equalization program is such that if Québec’s collective wealth is higher and its fiscal capacity approaches the average of the ten provinces, then its equalization payments decline, which is quite normal.

- In the equalization program, fiscal capacity is defined as the revenue a province could obtain if it applied, to its tax bases (personal income tax, corporate income tax, consumption taxes, natural resources and property taxes) the average tax rates in effect in the ten provinces. Fiscal capacity differs from the revenue actually collected by a province, which results from the tax rates the province imposes according to its own societal choices.
- Any measure that results in increasing the fiscal capacity of a province receiving equalization, because of an increase in its share of the tax bases in relation to the other provinces, will reduce its equalization payments.

#### **2.1.1 Maximize Quebecers’ collective wealth**

Québec is actively working to implement a variety of measures to increase its economic prosperity, despite the resulting decline in equalization payments. The Québec government’s objective is to maximize Quebecers’ collective wealth and not maximize its equalization payments.

- Initiatives like the Plan Nord, the revision of the mining duties regime and the Québec Infrastructures Plan are part of this vision.
- In addition, to reduce the debt and ensure fairness among generations, the Québec government did not hesitate to announce, in 2010, a gradual rise in electricity rates beginning in 2014.

<sup>5</sup> Constitution Act, 1982, section 36(2).

## Examples of Measures to Ensure Québec's Economic Prosperity

### The Plan Nord

In the spring of 2011, the Québec government unveiled the Plan Nord, a plan for the sustainable development of the economic potential of Northern Québec in a variety of sectors, such as energy, mineral resources and forest resources. Concretely, Québec has notably announced the development of 3 500 megawatts of clean, renewable energy, including 3 000 megawatts of hydroelectricity.

The Plan Nord will be carried out over the next 25 years with investments of over \$80 billion. These investments will create or consolidate 20 000 jobs per year on average.

### Revision of the mining duties regime

In Budget 2010-2011, Québec overhauled its mining duties regime, in particular regarding mining royalty rates, allowing Quebecers to obtain their fair share of the benefits arising from the development of these non-renewable natural resources.

- Mining duty rates have been raised gradually from 12% at the time of Budget 2010-2011 to 16% on January 1, 2012.

Whereas under the former regime mining duties were forecast to total \$327 million over five years, from 2010-2011 to 2014-2015, the revision of the mining duties regime, together with the improved economic outlook for this sector, will result in royalties reaching \$1.8 billion over this period, i.e. an amount almost six times higher.

### Québec Infrastructures Plan

In 2007, the Québec government implemented the Québec Infrastructures Plan with funding of \$44.2 billion for the period 2011-2016 to ensure the continuity of existing infrastructures for future generations.

- Since the beginning of the 2000s, Québec's stock of public capital (engineering works and public buildings) has grown faster than Québec's GDP. The stock of public capital has risen from 22.5% of GDP in 2002 to 28.1% in 2011, an increase of 25%. These results are attributable to the effort made by the Québec government in recent years with respect to infrastructure.

In addition to contributing to the growth of the public sector, the stock of public capital also contributes to the increase in corporate capital investment. Public infrastructure investments are therefore a significant driver of Québec's economic growth and productivity.

### Rise in hydroelectricity rates

As of 2014, the average cost of the heritage pool will be gradually raised by 1 cent/kWh over a period of five years, generating additional revenue of roughly \$1.6 billion per year. All of this revenue will be paid into the Generations Fund to reduce the debt burden.



A decline in equalization payments as a result of these measures is to be expected in the context of a genuine increase in Québec's wealth in relation to the other provinces.

- Between 2009-2010 and 2012-2013, Québec's fiscal capacity has moved 7% closer to the average of the ten provinces. Québec's relative position has therefore improved.

However, a decline in Québec's equalization payments is unacceptable where it stems solely from the caps imposed on the program, which exacerbates fiscal disparities among the provinces.

- Between 2009-2010 and 2012-2013, Québec's equalization payments have declined by 12%. Accordingly, Québec's equalization payments are reduced in a proportion that exceeds the relative rise in its fiscal capacity, which is unacceptable.

### 2.1.2 Caps imposed on the equalization program in 2008

In its 2007 budget, the federal government affirmed that the fundamental principle of fairness was restored regarding the fiscal arrangements with the implementation of "balanced" measures that would correct the fiscal imbalance.<sup>6</sup> The reform put forward two major changes:

- on the one hand, a measure that benefited the provinces receiving equalization, namely an enhancement to the program based on a formula and fair principles;
- on the other, a measure that benefited the more affluent provinces by no longer taking the value of tax points into account in the allocation of the CST as of 2007-2008 and of the CHT as of 2014-2015 (allocation on an equal per capita basis).

**Accordingly, provided the equalization program played its role fully, Québec could cope with the fact that the other transfer no longer had a redistributive effect by taking the relative wealth of each province into account.**

However, on November 3, 2008, the federal government unilaterally announced the implementation of caps on equalization while maintaining an equal per capita allocation of the CST and the CHT.

- The balance achieved in 2007 among the major federal transfers was thus upset so that after equalization, fiscal disparities among the provinces are very significant.

<sup>6</sup> "Taken together, these measures [...] ensure that the new transfer system is more generous than before and that fundamental fairness is brought back to fiscal arrangements." DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007. Aspire to a Stronger, Safer, Better Canada*, March 19, 2007, p. 114.

### 2.1.3 Financial losses linked to the caps

Since 2009-2010, the caps imposed on the equalization program have substantially reduced, i.e. by \$14.8 billion (20.1%), equalization payments to the provinces compared with what would have been paid to them had the formula implemented by the federal government in 2007 been applied.

TABLE E.1

**Total financial losses stemming from the caps imposed on the equalization program in 2008**  
(billions of dollars and per cent)

	Equalization that would have been paid under the 2007 <sup>(1)</sup> formula	Equalization paid under the existing caps	Difference	
			(\$ billion)	(%)
2009-2010	16.1	14.2	-1.9	-11.8
2010-2011	20.0	14.4	-5.6	-28.0
2011-2012	18.8	14.7	-4.1	-21.8
2012-2013	18.6	15.4	-3.2	-17.2
<b>TOTAL</b>	<b>73.5</b>	<b>58.7</b>	<b>-14.8</b>	<b>-20.1</b>

(1) The closed envelope applied between 2004-2005 and 2006-2007 was maintained for Newfoundland and Labrador in 2009-2010, in accordance with its choice.

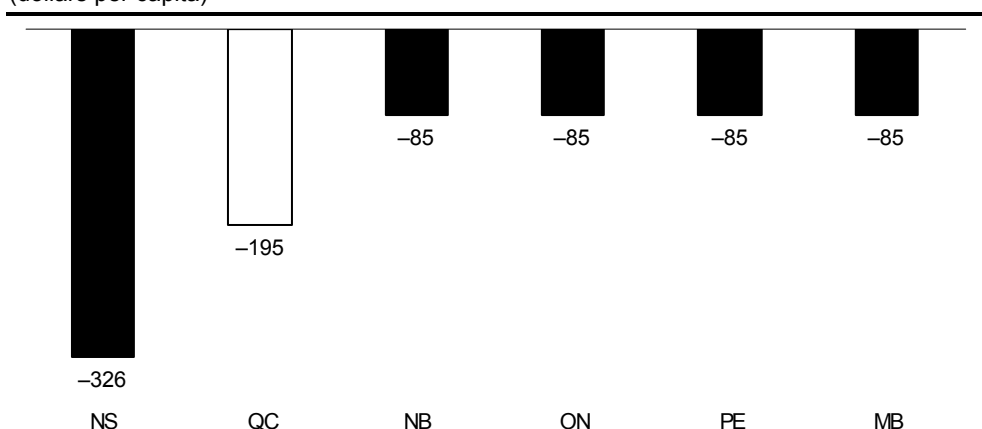
Source of data: Department of Finance Canada.

In 2012-2013, the financial losses stemming from the caps imposed in 2008 ranged from \$85 per capita (Manitoba, Prince Edward Island, Ontario, New Brunswick) to \$326 per capita in Nova Scotia. For its part, Québec lost \$195 per capita.

- This gap of \$195 per capita has significant financial consequences. Indeed, Québec must maintain an additional tax burden of more than \$1.5 billion to offer a level of public services comparable with the Canadian average.
- In addition to causing substantial financial losses, these caps produce major distortions.

CHART E.4

**Financial losses per province stemming from the caps imposed in 2008 on the equalization program – 2012-2013**  
(dollars per capita)



Source of data: Department of Finance Canada.

## **Individual cap**

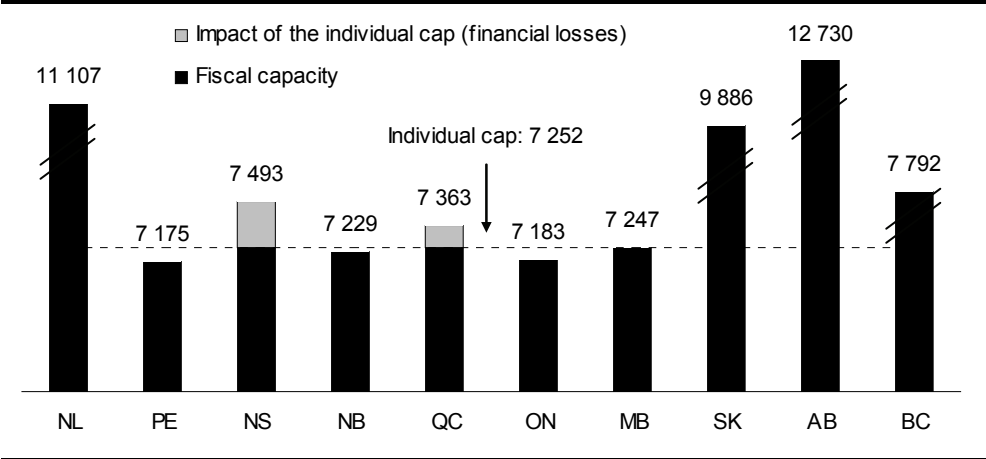
At the time of the 2007 reform, the federal government implemented a cap to prevent a recipient province from becoming “richer” than the least “rich” province not receiving equalization (2007 fiscal capacity cap), in accordance with the recommendations of the O’Brien report. As a result of the 2007 cap, after equalization, the recipient provinces had the same fiscal capacity.

In 2008, the 2007 cap was replaced by another cap, the individual cap, as a result of which currently a recipient province cannot be “richer” than the average of the provinces receiving equalization.

With this cap, the fiscal capacities of Québec (\$7 363 per capita) and Nova Scotia (\$7 493 per capita), which have a fiscal capacity above the average of the provinces receiving equalization, were reduced to that of the average of the recipient provinces (\$7 252 per capita). The reduction in equalization payments of these two provinces benefits the other recipient provinces since the envelope is capped at nominal Canadian GDP, which is unfair.

CHART E.5

### **Fiscal capacity and impact of the individual cap – 2012-2013** (dollars per capita)



Source: Department of Finance Canada.

In addition, after equalization, the recipient provinces do not have the same fiscal capacity.

Had the 2007 cap been applied in 2012-2013, Québec’s equalization payments and those of Nova Scotia would not have been reduced because their fiscal capacity is below that of the least “rich” of the non-recipient provinces, namely British Columbia (\$7 792 per capita).

— From 2009-2010 to 2012-2013, Québec has suffered losses estimated at \$3 billion as a result of the individual cap.

In fairness, Québec considers that the 2007 cap must be restored, so that all the recipient provinces can have the same fiscal capacity after equalization.

## ❑ GDP cap

Under the GDP cap, the annual increase in the equalization envelope corresponds to the three-year moving average of the growth in Canada's nominal GDP.

- Regardless of the factors that could exacerbate disparities in fiscal capacity among the provinces, the equalization envelope cannot increase more quickly than Canada's nominal GDP.
- The federal government has thus protected itself against any financial risk at the expense of the less affluent provinces.

In addition, because of the GDP cap, any change in fiscal capacity disparities among the recipient provinces results in a “zero-sum game”: an increase in one province's equalization payments is necessarily at the expense of those of other recipient provinces.

Accordingly, Québec's share of the equalization envelope can decline from one year to the next without its fiscal capacity having moved closer to the average fiscal capacity of the provinces. It is enough now that the average fiscal capacity of the recipient provinces fall more than that of Québec for its share to be cut – in other words, the other recipient provinces, not the federal government, suffer the consequences of the deterioration in the economic situation of a recipient province.

- Between 2009-2010 and 2012-2013, Québec's equalization payments have fallen 1.7 times faster than its fiscal capacity was approaching the average of the ten provinces. Accordingly, Québec's equalization payments fell in a proportion that exceeds the relative rise in its fiscal capacity.
- During this same period, Ontario's equalization payments have risen 2.5 times faster than its fiscal capacity was falling behind the average of the ten provinces. Accordingly, Ontario's equalization payments rose in a proportion that exceeds the relative decline in its fiscal capacity.

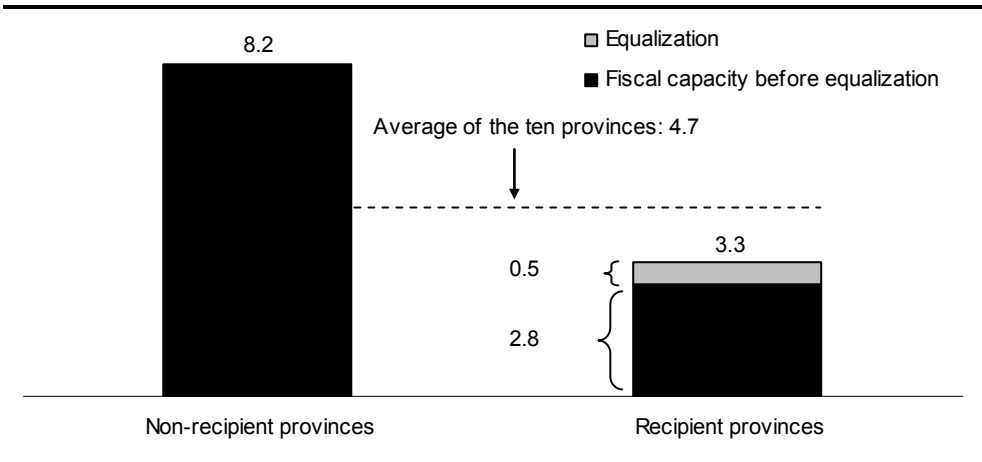
The caps therefore cause significant distortions and fail to redistribute the equalization envelope fairly.

### 2.1.4 Increase in fiscal capacity disparities

The distortions caused by the caps are even more problematic in the context where, between 2009-2010 and 2012-2013, fiscal capacity disparities have increased significantly among the provinces. The fiscal capacity of the recipient provinces before equalization has risen by 2.8% while that of the non-recipient provinces has gained 8.2%, almost three times more.

CHART E.6

#### Growth in the fiscal capacity of the provinces - From 2009-2010 to 2012-2013 (per cent)



Source of data: Department of Finance Canada.

In view of the fiscal capacity disparity not bridged (1.4 percentage points) by equalization compared to the average of the ten provinces, the recipient provinces no longer have the fiscal capacity of the average of the ten provinces, as was the case in 2007-2008 and 2008-2009.

— Québec's per capita fiscal capacity, after equalization, is still 2.7% below that of the Canadian average and 38.5% below that of Alberta.

Without an adequate equalization program based on a fair formula and solid principles, Canada will become a two-tier country.

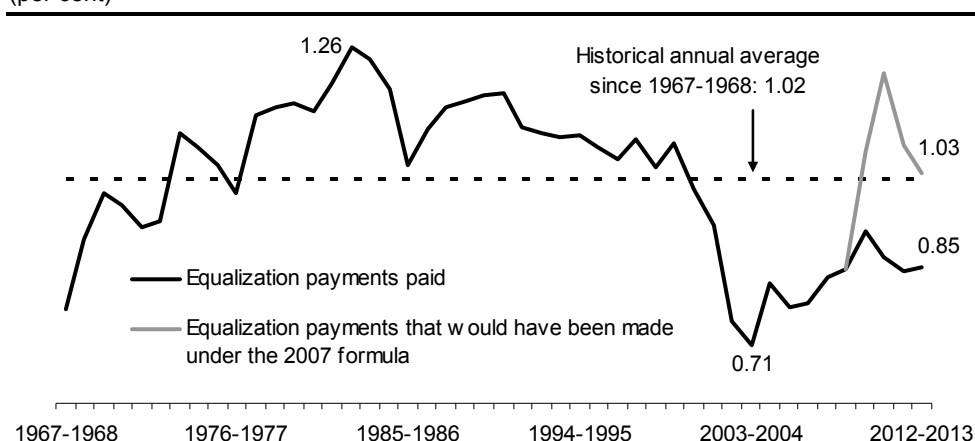
## 2.1.5 The equalization program's cost

To justify the changes it made to the equalization program in 2008, the federal government said that its growth rate was unsustainable.

While the federal government will pay \$15.4 billion in equalization payments in 2012-2013, a record in absolute terms, this represents 0.85% of Canada's nominal GDP, which is less than the annual average of 1.02% between 1967-1968<sup>7</sup> and 2012-2013.

CHART E.7

### Equalization as a proportion of Canada's nominal GDP (per cent)



Sources of data: Department of Finance Canada, Statistics Canada and Ministère des Finances du Québec.

To illustrate, the cost of an equalization program representing 1.02% of Canada's nominal GDP in 2012-2013 would amount to \$18.3 billion, almost \$3 billion more than what will be paid that year.

Note that had the federal government not introduced the cap in 2008, the cost of the equalization program in 2012-2013 according to the 2007 formula would be comparable (1.03%) to what has been paid historically over the last few decades as a proportion of Canada's nominal GDP (1.02%).

Furthermore, the cost of Canada's equalization program is also lower than the average cost among countries of the Organization for Economic Cooperation and Development (OECD) that have such a program. According to a study published by the OECD<sup>8</sup> in 2007, equalization represented 2.3% of the GDP of the 16 countries studied, on average, whereas in Canada, the percentage was 1.0%.

<sup>7</sup> The year 1967-1968 corresponds to the implementation of the average of the ten provinces as the standard of comparison among the provinces.

<sup>8</sup> *Fiscal Equalisation in OECD Countries*, [Working Paper], September 2007, in Publications, on the OECD website, [www.oecd.org/dataoecd/51/6/39234016.pdf](http://www.oecd.org/dataoecd/51/6/39234016.pdf).

## 2.1.6 A gradual return toward the historical average

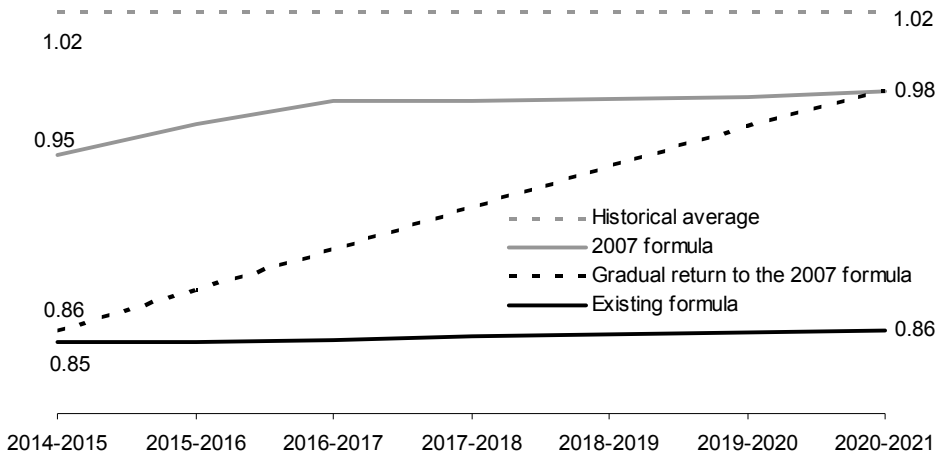
In view of the problems raised by the GDP cap, Québec considers that it must be withdrawn. However, if the federal government believes it must protect itself against a sudden increase in the equalization envelope, a capping mechanism must be used only on an exceptional basis and not as a rule.

For instance, the federal government could gradually raise the cap on the equalization envelope calculated using the 2007 formula to bring it closer to the historical annual average as a proportion of Canada's nominal GDP (1.02%).

- In fact, had the federal government maintained the 2007 formula, the cost of the program would be below the historical average for the period from 2014-2015 to 2020-2021 according to existing estimates.

CHART E.8

### Equalization as a proportion of Canada's nominal GDP according to various formulas (per cent)



Sources of data: Department of Finance Canada, Statistics Canada and Ministère des Finances du Québec.



Compared to the existing program, this proposal would have raised the envelope by \$9.6 billion or 14.1% between 2009-2010 and 2012-2013.

TABLE E.2

**Comparison of equalization payments made under the existing caps and a return to the historical average of 1.02%**

(billions of dollars and per cent)

	Equalization that would have been paid under the 2007 formula and a return to the historical average of 1.02% <sup>(1)</sup>	Equalization paid under the existing caps	Difference	
			(\$ billion)	(%)
2009-2010	15.7	14.2	-1.5	-9.6
2010-2011	16.7	14.4	-2.3	-13.8
2011-2012	17.6	14.7	-2.9	-16.5
2012-2013	18.3	15.4	-2.9	-15.8
<b>TOTAL</b>	<b>68.3</b>	<b>58.7</b>	<b>-9.6</b>	<b>-14.1</b>

(1) The historical average of the equalization envelope in proportion to Canada's nominal GDP between 1967-1968 and 2012-2013 is 1.02%.

Sources: Department of Finance Canada and Ministère des Finances du Québec.

Should the equalization envelope exceed the historical average of 1.02%, an equivalent reduction in dollars per capita of the equalization payments of the recipient provinces could be applied to bring the envelope back to the historical average.

- A decrease in the equalization envelope through an equivalent reduction in dollars per capita of equalization payments was proposed in 2006 by the Advisory Panel on Fiscal Imbalance<sup>9</sup> set up by the Council of the Federation. This method would have the advantage of being fair for the recipient provinces since they would have the same fiscal capacity after equalization, unlike the existing situation.

<sup>9</sup> ADVISORY PANEL ON FISCAL IMBALANCE, *Reconciling the Irreconcilable – Addressing Canada's Fiscal Imbalance*, [Report], Council of the Federation, 2006, p. 86.

## **2.2 Issues relating to the Canada Health Transfer (CHT)**

### **2.2.1 CHT growth limited to that of Canada's nominal GDP**

At the December 2011 meeting of Finance Ministers, i.e. two years ahead of the 2014 renewal, the federal government unilaterally announced its intention to limit CHT growth to that of Canada's nominal GDP as of 2017-2018.

- The CHT's existing 6% growth will be maintained until 2016-2017.
- Thereafter, the CHT will increase at the growth rate of Canada's nominal GDP (i.e. about 3.9% over the long term), subject to a floor of 3%, which would produce cumulative losses estimated at \$7.1 billion for Québec between 2017-2018 and 2024-2025 compared to the existing growth.

Québec considers that these changes, like those made to the equalization program in 2008, should have been discussed with the provinces before being put in place.

Of course, Québec is pleased that the federal government decided not to place additional conditions on the CHT. However, respecting provincial jurisdiction should not be used as a pretext to justify the federal government's financial disengagement from health by disregarding unremitting health costs. The federal government, which does not have to deal with the difficult and complex problems of the health system, must not aggravate the situation. Rather, it should ensure stable and adequate health funding, while respecting provincial jurisdiction.

### **2.2.2 Control of health spending**

Health spending accounts for 42% of provincial program spending in 2011-2012. Since they cover 80% of health spending, which accounts for almost half their budgetary expenditure, the provinces are aware of the importance of controlling health spending. Québec has taken major steps in this sense, in particular:

- reducing the average annual growth in health spending from 5.8% for the period from 2003-2004 to 2009-2010 to 5% from 2009-2010 to 2013-2014 under its plan to return to fiscal balance and thanks to the health spending control plan;
- implementing a health contribution in 2010 to enable sustainable funding of Québec's health system while maintaining other government missions.

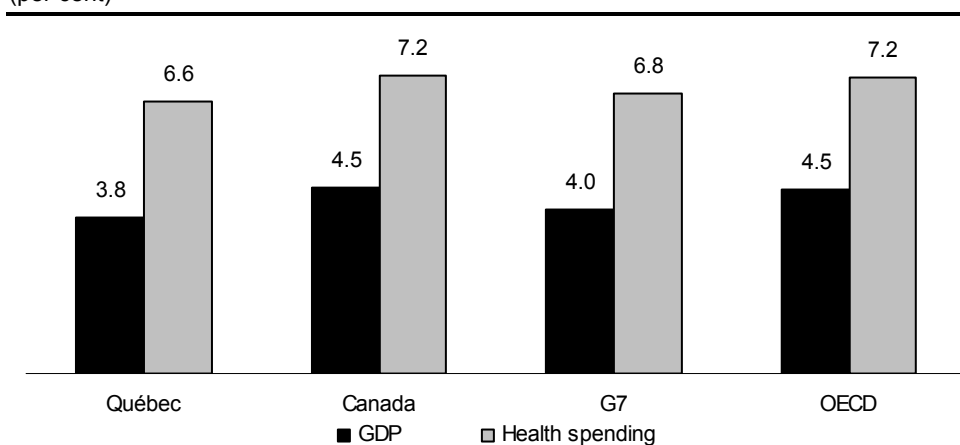
## 2.2.3 Growth in health costs

In Québec, Canada and other industrialized jurisdictions, growth in health spending has outpaced that of collective wealth between 1999-2000 and 2009-2010 and is applying significant pressure on public finances. Since all industrialized countries feature a gap of 2.8 percentage points between growth in nominal GDP and that of health spending, it cannot simply be a problem in managing the health system specific to the provinces of Canada.

- From 1999-2000 to 2009-2010, the average annual growth rate of health spending in Québec was 6.6% while that of nominal GDP stood at 3.8%.
- During this same period, health spending in Canada's provinces grew by 7.2% a year on average, while the average annual growth in nominal GDP was 4.5%.
- Furthermore, the average annual growth rates of public sector health spending in both G7 and OECD countries were higher than those of nominal GDP.

CHART E.9

### Average annual growth rate of GDP and health spending – From 1999-2000 to 2009-2010 (per cent)



Sources of data: Ministère des Finances du Québec and OECD.

Despite the efforts to curb health spending, many studies show that these costs will continue to grow, here as elsewhere. To that effect, mention can be made of the following explanatory factors taken from the report of the Task Force on the Funding of the Health System, tabled in February 2008.

Everything indicates that the upward pressure on health care costs will be maintained in the future.

- New technologies and new medications are going through rapid and costly developments, which have an impact on the costs of offering care.
- Chronic diseases related to population aging are increasing in importance, and contribute directly to increase the demand for care.
- More generally, the demographic changes under way will have an impact on the types of medical services required, and thereby on health care costs.<sup>10</sup>

## ❑ Technologies and medications

Instead of resulting in savings, scientific advances regarding new technologies and new medications lead to higher health costs. That indeed is the conclusion of a recent study<sup>11</sup> on the matter conducted by Gérard Bélanger, professor in the Department of Economics at Université Laval.

[...] in the health care world, advances in knowledge quite often result in the development of new and better treatments rather than reducing the cost of existing treatments. Regardless of the mix of impact of advances in knowledge (lower costs and new services), in view of the income elasticity of demand for care, an increase in the quantity demanded can be expected either because of the lower cost or the novelty of the treatment, or both. [TRANSLATION]

## ❑ Demographic changes

Over the next twenty years, Québec will be faced with more significant demographic changes than the Canadian average: slower population growth, accelerated aging because of the large number of baby-boomers who will gradually reach age 65 and a decline in the number of people of working age. These demographic changes, which Québec is undergoing, will necessarily increase the cost pressures on the health system.

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<sup>10</sup> TASK FORCE ON THE FUNDING OF THE HEALTH SYSTEM, *Getting Our Money's Worth*, [Report], February 2008, p. 35.

<sup>11</sup> GÉRARD BÉLANGER, "Should one complain about the bottomless pit of health care expenditures?", *Optimum Online, The Journal of Public Sector Management*, vol. 41, n° 4, 2011.

In 2010, 15.3% of Québec's population was age 65 or over, whereas in Canada, this group accounted for 14.1% of the population. In 2030, the proportion of Quebecers over age 65 is expected to reach 24.3%, with the corresponding percentage of Canadians being 22.6%.<sup>12</sup>

Between 2010 and 2030, Québec's potential labour pool (age 15 to 64) is expected to decline by 1.1%. During the same period, that of Canada is expected to rise by 7.6%.

A recent analysis<sup>13</sup> concludes that it costs five times more to care for people age 65 or over than those under age 65.

— In 2009, demographic pressure on health spending was greatest in Nova Scotia (almost 16% over age 65) and lowest in Alberta (almost 11% over age 65).

With a CHT allocation that ignores the demographic weight of people over age 65, a province with an older population would not receive enough health transfers from the federal government and vice versa.

As part of the 2014 renewal of federal transfers, the CHT should be allocated more fairly, taking into account the additional costs relating to the demographic weight of persons over age 65 in each province.

<sup>12</sup> Statistics Canada, Table 052-0005 – Projected population, by projection scenario, sex and age group as of July 1, Canada, provinces and territories, CANSIM, [www5.statcan.gc.ca/cansim/a05?lang=eng&id=0520005](http://www5.statcan.gc.ca/cansim/a05?lang=eng&id=0520005).

<sup>13</sup> JEAN-PIERRE AUBRY, PIERRE FORTIN and LUC GODBOUT, *Aubry, Godbout & Fortin: A better way to allot the Canada Health Transfer*, in Opinion, Full Comment, on the website of the *National Post*, February 9, 2012, [www.nationalpost.com](http://www.nationalpost.com).

## 2.2.4 Federal disengagement from health funding

The federal government, which at the time the health programs were implemented covered 50% of eligible costs, funds a much lower share in 2012-2013, i.e. 20% for the country as a whole and 22% in Québec.

- It should be pointed out that in ten years, even if Québec kept growth in health spending at 5% and the federal government kept growth in the CHT at 6%, the federal share of health funding would only rise from 22% to 23%.

This federal contribution to health funding is clearly insufficient in view of the initial partnership that gave rise to the public health, education and social assistance systems in Canada, as well as the expectations of Quebecers and Canadians regarding the health system.

- During the 1950s and 1960s, the federal government set up transfers in the health, post-secondary education and social assistance sectors to **share, on an equal basis**, with the provinces, eligible expenditures in these fields. The federal funding share was then directly linked to the costs of these public services offered by the provinces.
- In the 1970s, the federal government adopted a new funding method for health and post-secondary education: “block” transfers. These transfers had no connection with how much the provinces spend in these fields. Accordingly, block transfers protected the federal financial framework against the risks associated with the growth in costs of these public services, leaving the provinces to bear the entire load.
- Regardless of the cost increases the provinces must deal with, the federal government determines transfers dedicated to these programs on the basis of its own financial situation and its political choices. The federal government’s unilateral announcement in December 2011 regarding the CHT is a striking example of this situation.

While existing federal funding is inadequate, limiting the growth of the CHT to that of GDP will accelerate the federal financial disengagement. The medium and long-term projections carried out by the Office of the Parliamentary Budget Officer<sup>14</sup> last January, taking this new cap into consideration as of 2017-2018, illustrate this situation.

- The average federal share of the provinces’ health spending is estimated at 18.6% for the period from 2011-2012 to 2035-2036 and at 11.9% for the following 25 years.

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<sup>14</sup> OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, “Renewing the Canada Health Transfer: Implications for Federal and Provincial-Territorial Fiscal Sustainability”, January 12, 2012, in Publications, Reports and Briefing Notes, on the website of the *Parliamentary Budget Officer*, [www.parl.gc.ca/PBO-DPB/](http://www.parl.gc.ca/PBO-DPB/).

Rather than being part of the solution, the federal government is making the problem worse. As a partner of the federation, the federal government must gradually raise its funding to 25% of the provinces' health spending within ten years, i.e. to a level comparable with that of 1977-1978. It should be noted in this regard:

- that when Established Programs Financing was implemented in 1977, the share of federal funding of the provinces spending on health and post-secondary education was 25%;
- that in 2004-2005, the federal government covered only 16% of the provinces' social spending (health, education and social assistance);
- that in this context, at the meeting of the Council of the Federation in February 2004, the Premiers asked the federal government to restore its contribution to 25% of the provinces' health spending.<sup>15</sup>

Without an increase in federal health funding and a fairer allocation taking into account the additional costs relating to the demographic weight of persons over age 65 in each province, the viability of Canada's public health system will be weakened.

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<sup>15</sup> COUNCIL OF THE FEDERATION, "Council of the Federation Sets Course for First Ministers' Health Summit", [News Release], February 24, 2004, in the Newsroom on the website of the *Council of the Federation*, [www.councilofthefederation.ca](http://www.councilofthefederation.ca).

### 2.2.5 Equal per capita allocation of the CHT

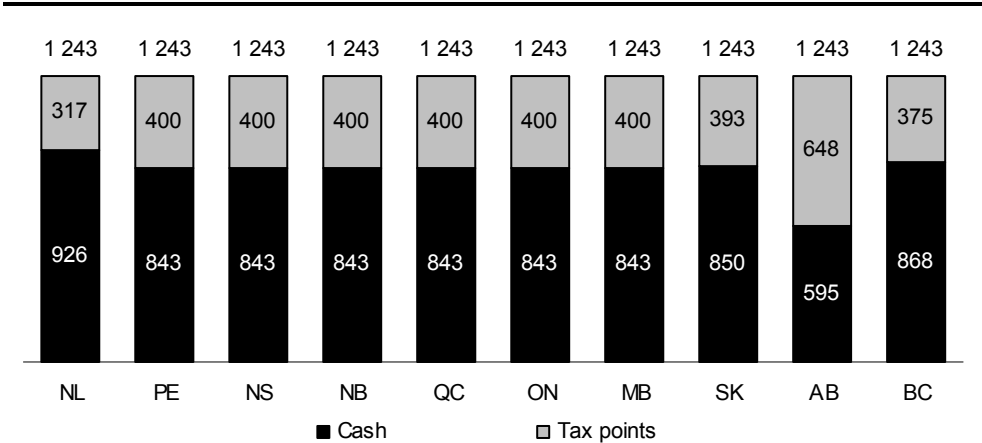
In December 2011, the federal government reaffirmed that the CHT would be allocated on an equal per capita basis as of 2014-2015, i.e. that the value of the tax points transferred to the provinces in 1977-1978 will no longer be taken into account in allocating the envelope. This change does not cost the federal government, which simply redistributes the envelope in another way.

- Currently, total CHT entitlements, which include cash and tax points transfers, are allocated on an equal amount per capita.

CHART E.10

#### Allocation of total CHT entitlements – 2012-2013

(dollars per capita)



Source of data: Department of Finance Canada.

It should be recalled that in the 2007 federal budget, the government announced that the equal per capita approach would apply to the CST in 2007-2008 and to the CHT in 2014-2015. These changes, which favoured the more affluent provinces, could then be considered acceptable provided the equalization program was improved and did an adequate job of reducing disparities in fiscal capacity among the provinces.

However, this balance was upset in November 2008 with the imposition of caps on the equalization program. Consequently, the continuation of the equal per capita approach in the CHT is unfair in a context where the equalization program remains capped to GDP.

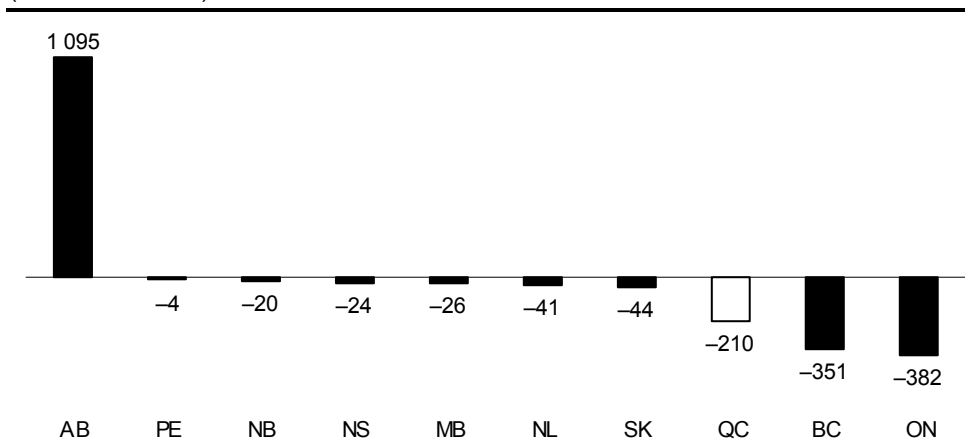


The move to a transfer allocated on an equal per capita basis will further widen fiscal disparities among the provinces.

- Between 2014-2015 and 2024-2025, only Alberta will see an increase in its share of the CHT, by an average of \$1.1 billion per year (equivalent to Québec's receiving an average increase of \$2.1 billion per year).
- Since growth in the CHT will be limited to that of GDP, this change will represent for Québec average losses estimated at \$210 million per year and cumulative losses of \$2.3 billion compared to the existing growth for the same period. These losses could have been acceptable had the 2007 equalization formula been maintained.

CHART E.11

**Average annual impact of an equal per capita allocation of the CHT –  
From 2014-2015 to 2024-2025**  
(millions of dollars)



Source: Ministère des Finances du Québec.

The federal government also indicated in December 2011 that it would pay a protection payment, so that no province will receive a lower health transfer from one year to the next compared to the transfer for 2013-2014.

- Only Newfoundland and Labrador may benefit from such a protection payment, estimated at \$13 million in 2014-2015. Thereafter, according to Québec's estimates, no province will obtain such a payment.

And yet, in the 2007 federal budget, the government had undertaken to pay a protection payment calculated so that no province would receive a smaller payment than what it would have received had tax points been included in the allocation of the CHT envelope. This method is completely different from the one announced in 2011.

- The 2007 approach would have enabled the provinces to receive a protection payment estimated at \$930 million in 2014-2015.
- For Québec, that means that the forecast loss of \$178 million in 2014-2015 from an equal per capita allocation of the CHT will not be offset by the federal government.

### 2.2.6 Financial losses linked to the changes to the CHT

Limiting the growth in the CHT to that of GDP, together with the allocation of this transfer on an equal per capita basis, will result in a shortfall of almost \$9.4 billion for Québec between 2014-2015 and 2024-2025. The provinces will be deprived of almost \$32 billion during this period because of this measure.

TABLE E.3

#### Impact for Québec of changes to the CHT (millions of dollars)

	2014-2015	2017-2018	2020-2021	2024-2025	Cumulative
Equal per capita allocation	-178 <sup>(1)</sup>	-199	-216	-241	-2 314
CHT growth limited to GDP	0	-137	-699	-1 813	-7 063
<b>TOTAL</b>	<b>-178</b>	<b>-336</b>	<b>-915</b>	<b>-2 054</b>	<b>-9 377</b>

(1) Had the 2007 federal commitment been maintained, Québec would receive a protection payment of \$178 million in 2014-2015, to avoid suffering a loss.

Source: Ministère des Finances du Québec.

The federal government's financial disengagement is unacceptable in view of the substantial financial pressures in health the provinces must deal with.

To secure the viability of Canada's health system, the federal government must be part of the solution by gradually restoring its share of funding of the provinces' health spending to 25% within the next ten years and adjusting this funding more fairly by taking into account the additional costs linked to the demographic weight of people over age 65 in each province.

### 3. OTHER ISSUES TO BE SETTLED

In recent years, Québec has raised issues in which it is seeking fair treatment from the federal government. Certain priority issues remain to be settled with the federal government.

First of all, it should be mentioned that a major issue was settled in 2011, concerning compensation pertaining to sales tax harmonization. On September 29, 2011, the two governments entered into a memorandum of agreement stipulating the payment of financial compensation of \$2.2 billion for the harmonization of the Québec sales tax (QST) with the goods and services tax (GST).

#### **Sales Tax Harmonization Agreement**

On September 29, 2011, the federal government and the Québec government entered into an agreement under which Québec will obtain financial compensation of \$2.2 billion from the federal government for harmonizing the QST with the GST.

Québec was the first province to recognize the benefits of a value-added tax, harmonizing its sales tax with the GST on July 1, 1992. This reform of the tax system helped improve the competitiveness of the business tax system, promote job creation and increase the standard of living of Quebecers.

Since the QST is already substantially harmonized, the changes that will be made to it will have no impact on the tax burden of Québec consumers. Accordingly, as of January 1, 2013, the QST will no longer apply on the GST and all the existing exemptions will be maintained (books, diapers for infants, etc.).

Moreover, as is the case in Ontario, financial institutions will no longer be entitled to reimbursement of the tax on their purchases.

The agreement provides that Québec will gradually allow businesses in other sectors of the economy to obtain a rebate of the QST on goods and services to which restrictions currently apply. The rebate of the QST paid on business inputs is a basic principle of value-added taxes.

The financial compensation will be paid in two instalments: \$733 million in January 2013, when the measures stipulated under the agreement are implemented, and \$1 467 million one year later.

In 2013-2014, \$430 million of the federal compensation will be paid to the Fund to Finance Health and Social Services Institutions (FINESSS). The rest of the compensation will be applied to debt service in 2012-2013 and 2013-2014.

Now that this contentious issue has been settled to both governments' satisfaction, it is reasonable to expect that the following other priority issues will also be settled in the near future.

### **3.1 Fair treatment of Hydro-Québec's revenue in the equalization program**

Since 2008, the federal government has included, in the equalization program, the dividends derived from the electricity distribution and transmission activities of Ontario's government-owned corporation Hydro One in the corporate income tax base, while Hydro-Québec's dividends from the same activities are still included in the natural resources base. This decision by the federal government has reduced Ontario's relative fiscal capacity for the natural resources base and thus increases its equalization payments.

Fair treatment of Hydro-Québec's revenue in the equalization program would raise Québec's equalization payments by more than \$300 million per year.

The federal government has all the information needed to make the requested change, but maintains that the issue must be dealt with as part of the 2014 renewal of federal transfers. There is no need to wait until then and Québec is asking the federal government to settle this issue of fairness right now.

### **3.2 Systematic use of protection payments**

Québec obtained a protection payment of \$369 million in 2011-2012 and of \$362 million in 2012-2013, responding in part to one of the requests made in its Budget 2010-2011, i.e. that protection payments to the provinces be made systematic so that their equalization payments or the total of their transfers do not decline from one year to the next.

For Québec, as long as the equalization program is not based once again on a formula and solid principles, the federal government must undertake to make such protection payments systematic.

### **3.3 Favourable settlement of the dispute pertaining to the revenue stabilization program**

In 1995, Québec filed a \$127-million lawsuit against the federal government following its refusal to make a revenue stabilization payment to Québec for 1991-1992.

Despite two decisions in favour of Québec in 2007 and 2008 by the Federal Court and the Federal Court of Appeal respectively, the federal government has been slow to settle the issue. Québec hopes for a settlement in the near future.

## CONCLUSION

Whereas in 2007, the federal government had implemented “balanced” measures, with on the one hand, an equalization program based on a formula and principles, and on the other, transfers in health, post-secondary education and other social programs based on an equal per capita allocation, the changes announced unilaterally by the federal government in 2008 and 2011 are such that federal transfers are no longer fair and fail to meet their objectives.

- The existing equalization program no longer adequately reduces fiscal capacity disparities.
- The equal per capita allocation of the CHT favours only Alberta, which might have been acceptable provided the equalization program fully played its role.
- Limiting the growth of the CHT to that of GDP means that the federal government is protecting its financial health and leaving the provinces to bear the financial burden arising from the increase in health costs.

The solutions put forward by the Québec government would prevent:

- the federal government’s financial disengagement toward the provinces with respect to the equalization program and the CHT;
- a widening of the disparity, after equalization, between the fiscal capacities of the provinces with significant reserves of oil and gas and those without such reserves.

The federal government’s unilateral announcement in December 2011 regarding the CHT is all the more incomprehensible because there was ample time for consultations with the provinces and territories. The intergovernmental committees set up over the years to ensure that the provinces and territories can make their views known before changes are made to federal legislative measures, were not employed to their full potential. From now until 2014, more productive consultations between the federal government and the provinces and territories could improve the process and ensure that the appropriate changes are made to the major federal transfers.

Simultaneous discussions on improvements to be made to the equalization program and to federal health funding are necessary if the less affluent provinces are to have the financial resources necessary to ensure and maintain the delivery of quality public services.

For the Canadian federation to return to fiscal balance, the shortcomings raised with respect to the equalization program and federal health funding must be corrected.



# Section F

## THE FIGHT AGAINST TAX EVASION

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## THE FIGHT AGAINST TAX EVASION

Since the plan to return to fiscal balance was announced in 2009, the government has deployed substantial efforts in the fight against tax evasion to ensure that everyone pays their fair share to fund public services. The issue is one of social justice.

These efforts have made it possible to achieve and even exceed the tax recovery targets the government set in the plan to return to fiscal balance.

Budget 2012-2013 stipulates that these efforts will be continued and enhanced by:

- hiring additional tax audit staff at Revenu Québec;
- additional targeted actions in the construction sector;
- improved knowledge and information sharing to prevent certain economic and financial crimes and thus better protect investors;
- concrete steps targeting the illicit tobacco trade to act on certain recommendations of the Commission des finances publiques;
- greater efforts by various partners in fighting organized networks of unreported work.

This section presents the new initiatives and the results of the actions the government has taken to fight tax evasion since the implementation of its plan to return to fiscal balance.



# 1. OBJECTIVES OF THE FIGHT AGAINST TAX EVASION

The Québec government is fighting tax evasion, in every sphere of the economy, to:

- improve fairness for taxpayers;
- clean up practices in certain at-risk sectors;
- increase revenue, which will help return to fiscal balance without penalizing taxpayers who meet their tax obligations.

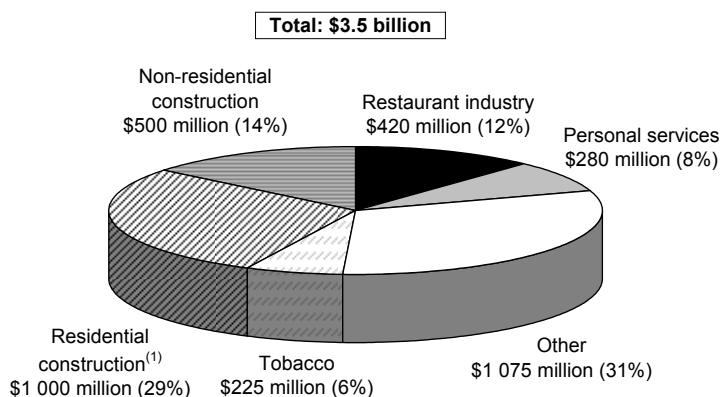
Despite the initiatives put in place, tax losses linked to unreported work remain substantial. They are estimated at \$3.5 billion for 2008.<sup>1</sup>

Tax losses are most substantial in the following sectors:

- residential (29%) and non-residential (14%) construction;
- restaurants (12%);
- tobacco products (6%).

CHART F.1

## Breakdown of tax losses by sector in 2008



(1) This sector includes renovation activities.

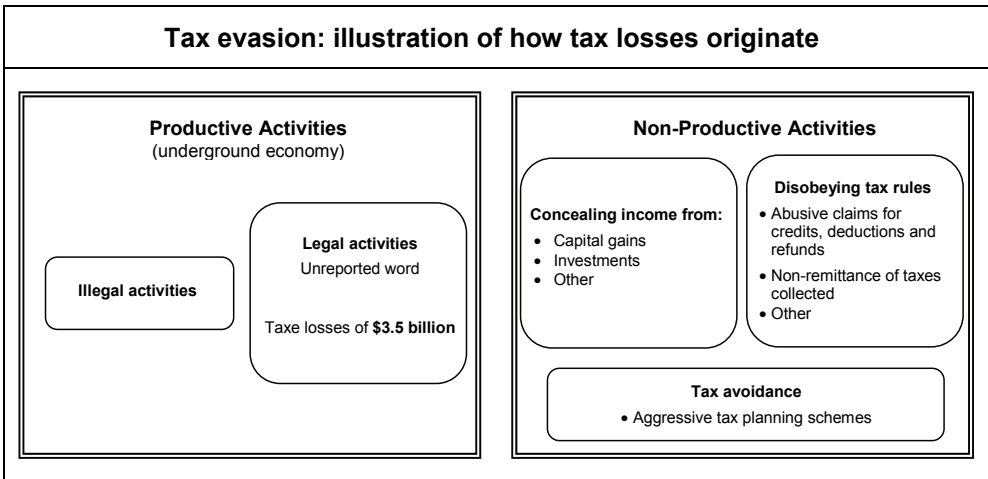
Sources: Revenu Québec, Ministère des Finances du Québec and Statistics Canada.

1 Estimated amounts are based on 2009 for the restaurant sector and on 2010 for tobacco products.

The estimate of \$3.5 billion does not include certain unproductive activities for which it is difficult to estimate losses for the government:

- concealing income;
- disobeying tax rules (e.g.: fraudulent input tax rebate);
- tax avoidance (e.g.: aggressive tax planning).

Moreover, some illegal activities such as prostitution and the sale of drugs also cause losses for the government that are difficult to estimate.<sup>2</sup>



The government is focusing on two major avenues in fighting tax evasion and increasing the recovery of revenue it is owed:

- a multiplicity of tax inspection activities at Revenu Québec, that incidentally have been acknowledged beyond our borders;<sup>3</sup>
- joint initiatives in at-risk sectors carried out by concerted action committees that bring together all stakeholders that may contribute to reducing tax losses.

2 Compared to certain OECD countries, the ratio of Canada's shadow economy to its gross domestic product falls within the average and is much lower than certain European countries.

3 Commission on the Reform of Ontario's Public Services (2012) and United Nations Organization Public Service Award for the Wealth Index project.

## 2. INVESTMENTS TO SUPPORT THE FIGHT AGAINST TAX EVASION

The additional tax inspection efforts and the initiatives in at-risk sectors require investments that will exceed \$435 million in 2012-2013.<sup>4</sup>

- This amount represents an increase of \$157 million compared to 2009-2010, i.e. since the implementation of the plan to return to budget balance.

Most of these investments will be made by Revenu Québec for its tax inspection activities and will be financed by the Tax Administration Fund.

Another portion of these investments will be made to fund initiatives in at-risk sectors through the Provision to increase any appropriation for initiatives concerning revenues (Provision) of the Ministère des Finances.

- The Provision's funding targets projects not covered by Revenu Québec's regular efforts and that require an additional effort from various government departments and organizations.

The remaining investments will be used to fund the Unité permanente anticorruption (UPAC), a permanent, independent entity. UPAC is contributing to curb activities that are likely to lead to tax evasion, in particular by carrying out investigations and administrative audits on allegations of corruption and collusion in public procurement process.

TABLE F.1

### Investments in efforts to fight tax evasion (millions of dollars)

	2009-2010	2012-2013	Difference
<b>Tax inspection by Revenu Québec</b>	<b>238</b>	<b>343</b>	<b>105</b>
<b>At-risk sectors (concerted actions)</b>			
– Construction	5	16	12
– Economic and financial crime	15	21	6
– Tobacco	10	13	3
– Alcoholic beverages	7	7	1
– Employment agencies	—	3	3
– Other	4	2	–2
<b>Subtotal (concerted actions)</b>	<b>40</b>	<b>62</b>	<b>22</b>
<b>UPAC</b>	<b>—</b>	<b>30</b>	<b>30</b>
<b>TOTAL</b>	<b>278</b>	<b>435</b>	<b>157</b>

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

4 For this section, unless otherwise indicated, the data for 2010-2011 are real, those for 2011-2012 are preliminary and those for subsequent years are forecasts.



### 3. TAX INSPECTION ACTIVITIES BY REVENU QUÉBEC

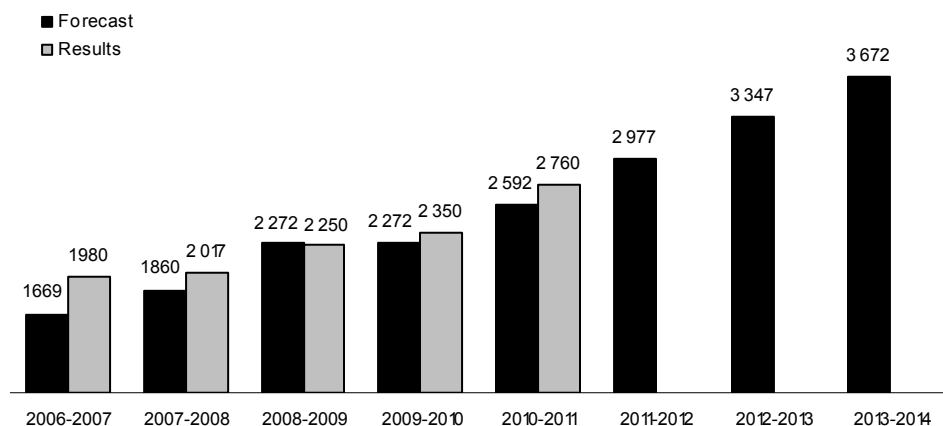
Revenu Québec's primary mandate is to collect the sums allocated to the funding of public services. It is therefore to be expected that a large part of its regular activities is devoted to tax inspection.

Apart from these regular tax inspection activities, the government has given Revenu Québec additional tax recovery targets to be achieved as part of the plan to return to balanced budgets.

- These targets were raised following the change in status from government department to that of an agency.

CHART F.2

#### Tax recovery at Revenu Québec (millions of dollars)



Note: Figures have been rounded off, so they may not add up to the total indicated.

#### □ Results in 2010-2011

For 2010-2011, Revenu Québec's tax inspection activities enabled the recovery of \$2.8 billion, i.e. \$169 million more than the \$2.6-billion total target set in Budget 2011-2012.

- The additional recovery from activities relating to the plan to restore fiscal balance exceeded the stipulated target of \$320 million by \$18 million and amounted to \$338 million.
- The target for regular activities was also exceeded by more than \$150 million.

## ❑ Preliminary results for 2011-2012

The preliminary results for 2011-2012 indicate that Revenu Québec, thanks to its new status as an agency and the additional resources allocated to it, is on the way to achieving its tax recovery target.

The results obtained as at January 31, 2012 for additional tax inspection activities amount to \$469 million, which corresponds to the target set for that date.

- Revenu Québec considers that it could even exceed the targets set for 2011-2012 and subsequent years by at least \$15 million.
- Moreover, the expenditure for bad debts has been raised to \$865 million, i.e. \$15 million more than the initial forecast. This adjusted amount will be renewed for subsequent years.
  - It should be noted that Revenu Québec collects more than \$80 billion annually.

TABLE F.2

### **Preliminary results of the fight against tax evasion – 2011-2012** (millions of dollars)

	2011-2012 targets	As at January 31, 2012			
		Targets	Results	Difference	Success rate
Additional targets	705	468	469	1	100.1 %
Regular tax recovery activities	2 272	1 873	1 913	40	102.1 %
<b>TOTAL</b>	<b>2 977</b>	<b>2 341</b>	<b>2 382</b>	<b>41</b>	<b>101.7 %</b>



## ❑ Review of the additional tax recovery targets

Apart from the efforts sought under the plan to return to fiscal balance, additional tax recovery targets were set for Revenu Québec in Budget 2011-2012.

Indeed, following the change in Revenu Québec's status to that of an agency, targets were raised by \$150 million for 2011-2012 and by \$200 million for subsequent years.

— These new targets are related to the cost-benefit approach.

TABLE F.3

### **Additional tax recovery targets** (millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Plan to return to fiscal balance	320	555	875	1 200
Increase following the change in status – Budget 2011-2012	—	150	200	200
<b>TOTAL</b>	<b>320</b>	<b>705</b>	<b>1 075</b>	<b>1 400</b>

### 3.1 Funding of Revenu Québec

Since April 1, 2011, Revenu Québec's funding method has been revised by the *Act respecting the Agence du revenu du Québec*.<sup>5</sup> This process stipulates that Revenu Québec funds its activities by:

- amounts from the Tax Administration Fund;
- own-source revenue, such as fees required for recovery or collection.

Revenu Québec's budget for fiscal year 2012-2013 has been set at \$997 million:

- \$740 million from the Tax Administration Fund (remuneration);
- \$257 million in own-source revenue.

Moreover, an amount of \$20 million from the 2011-2012 fiscal year's surplus will also be allocated to remuneration for 2012-2013, helping to fund the same level of activity as initially planned for this year.

TABLE F.4

#### Funding of Revenu Québec (millions of dollars)

	2011-2012	2012-2013
<b>Revenue</b>		
Remuneration by the Tax Administration Fund	787	740
Own-source revenue	272	257
<b>Total revenue</b>	<b>1 059</b>	<b>997</b>
<b>Expenditure</b>		
Regular activities	-901	-937
Cost-benefit approach	-63	-80
Subsidy Program for Restaurateurs	-55	—
<b>Total expenditure</b>	<b>-1 019</b>	<b>-1 017</b>
<b>Annual balance</b>	<b>40</b>	<b>-20</b>
Utilization of the 2011-2012 surplus	—	20
<b>ACCUMULATED SURPLUS</b>	<b>40</b>	<b>20</b>

5 R.S.Q., c. A-7.003.

Revenu Québec's forecast spending for 2012-2013 amounts to \$1 017 million.

Spending on regular activities will rise by \$36 million, to \$937 million.

- This growth is attributable chiefly to the rise in depreciation and interest linked to investments in recent years for the overhaul of computer systems and electronic delivery of services.

Spending related to the cost-benefit approach<sup>6</sup> will rise to \$80 million. This funding will make it possible to:

- achieve the tax recovery targets and limit the increase in the expense for bad debts;
- improve tax inspection and, by hiring additional staff, ensure that amounts owed are collected.

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6 As described in Budget 2011-2012.

## 3.2 Results of Revenu Québec's specific projects

Revenu Québec was able to achieve its tax recovery targets by implementing a number of specific tax inspection projects and intensifying its efforts in projects with promising recovery potential.

### ❑ **Projet Resto**

A high level of tax evasion has long been a feature of the restaurant sector. Tax losses rose from \$300 million in 2002 to \$420 million in 2009, according to estimates of Revenu Québec and the Ministère des Finances.

To curb tax evasion in this sector and ensure that the taxes customers pay are in fact remitted to the government, restaurateurs are now legally required to:

- produce the bill using a sales recording module (SRM);
- give the bill to customers at all times;
- produce a periodic sales summary and send it to Revenu Québec.

The additional revenue expected from this project is estimated at \$102 million for 2011-2012, \$250 million for 2012-2013 and \$300 million per year subsequently.

### ■ **Results**

According to Revenu Québec, the intensive SRM implementation phase is over and the restaurant sector has cooperated very well in Projet Resto.

- As at January 31, 2012, more than 30 000 SRMs had been installed in almost 18 000 restaurant establishments.

With the rapid installation of SRMs in almost all restaurant establishments and the heightened presence of inspectors, results significantly higher than forecast can be expected for 2011-2012.

Moreover, over the coming months, Revenu Québec will carry out analyses to determine whether the requirement to produce a bill using an SRM could be extended to other activity sectors.

## ■ Regulatory streamlining measures

While continuing to rigorously monitor the implementation and diligent use of SRMs in 2012-2013, the government is announcing a set of measures to reduce the administrative burden concerning the sale of alcoholic beverages in establishments, particularly restaurants. These measures, which entail amendments to the *Act respecting Liquor permits*,<sup>7</sup> will make it possible, in particular:

- to set up a new single permit system by permit category for all rooms and terraces, thus reducing the number of permits applied for by the owner of an establishment;
- to stop taking into account the type of alcoholic beverages offered to obtain a bar permit;
- to allow a customer, under certain conditions, to bring home a bottle of wine opened in the restaurant.

## □ Aggressive tax planning

In 2009, Québec was one of the first governments to review the legislative framework of aggressive tax planning with a view to incorporating dissuasive measures in it.

- Aggressive tax planning is carried out by taxpayers who, by means of often complex tax avoidance transactions, try to avoid tax or reduce the effective tax rate on a given amount of income.

Thanks to the implementation, four years ago, of a team specializing in detecting and countering aggressive tax schemes, Revenu Québec is in a position to take appropriate steps to fight them effectively.

## ■ Results

This specialized team has helped recover \$46 million between April 1, 2011 and January 31, 2012. Since 2008-2009, \$254 million has been recovered.

Revenu Québec is confident that the forecast yield of \$80 million stipulated for 2011-2012 will be achieved.

TABLE F.5

### Tax recovery linked to efforts on aggressive tax planning (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	Total
Forecast	10	50	50	80	190
Results	11	72	124	46 <sup>(1)</sup>	254

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

(1) From April 1, 2011 to January 31, 2012.

7 R.S.Q., c. P-9.1.

## ❑ Tax audits – Trusts

Generally, a trust<sup>8</sup> that has income from its activities in Québec does not have to file a tax return or an information return if:

- it has no tax payable;
- it did not allocate income to an individual residing in Québec or to a corporation having an establishment there;
- it did not realize a taxable capital gain.

This is the case, in particular, where a trust that resides in Québec allocates its income to beneficiaries who do not reside in Québec.

Accordingly, Revenu Québec is not in a position to identify all the trusts with activities in Québec as well as their settlors, their trustees and their beneficiaries. Accordingly, tax audits of trusts are more difficult.

Over the coming year, Revenu Québec will continue to study new measures with a view to gaining a more complete picture of trusts with activities in Québec.

In addition, Revenu Québec will intensify its audits, either while commercial buildings are held, or prior to their alienation, in particular to validate compliance with the tax laws (registration, taxes, wages, etc.).

In the course of tax audits, Revenu Québec has noted that rental income from certain major commercial buildings located in Québec is not subject to any tax under the *Taxation Act*<sup>9</sup> and that some non-resident trusts have become residents of Canada, outside Québec, before alienating their rental building located in Québec so that the taxable capital gain resulting from such alienation eludes Québec tax.

Because of these factors, the Ministère des Finances is announcing, as part of Budget 2012-2013, amendments to the tax legislation concerning the taxation of inter vivos trusts that are not resident in Canada. The details of these amendments are given in the Additional Information on the Fiscal Measures.

Since 2007, Revenu Québec's actions have helped recover almost \$250 million in the trusts sector.

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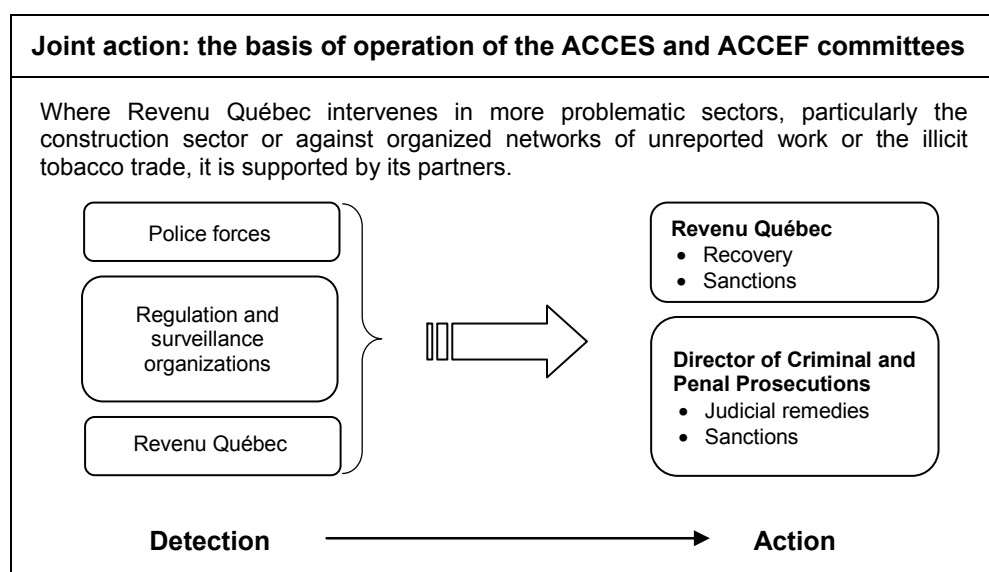
8 In Québec civil law, a trust results from an act whereby a person, the settlor, transfers property from his patrimony to another patrimony constituted by him which he appropriates to a particular purpose and which a trustee undertakes, by his acceptance, to hold and administer.

9 R.S.Q., c. I-3.

## 4. JOINT ACTIVITIES IN AT-RISK SECTORS

To support Revenu Québec in the course of its activities to counter tax evasion in at-risk sectors, many government departments and organizations are working together in ACCES committees,<sup>10</sup> chiefly with the goal of carrying out major concerted actions in these sectors. The committees the government has set up include:

- ACCES construction;
- ACCES tobacco;
- ACCES alcohol;
- ACCEF.<sup>11</sup>



The government is announcing a series of new initiatives to be carried out jointly:

- intensification of efforts in the construction sector;
- improved knowledge and information sharing to prevent certain economic and financial crimes and thus better protect citizens and investors;
- more actions targeting the illicit tobacco trade in response to certain proposals of the Commission des finances publiques;
- intensification of efforts by various partners in fighting organized networks of unreported work.

10 Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

11 Actions concertées pour contrer les crimes économiques et financiers (concerted action to counter economic and financial crime).

## **4.1 The fight against unreported work in the construction sector**

For a number of years now, the government has taken vigorous action in the construction sector, in particular through the ACCES construction committee.

- This committee brings together the Commission de la construction du Québec, the Director of Criminal and Penal Prosecutions, the Régie du bâtiment du Québec, Revenu Québec, the Ministère des Finances du Québec, the Commission de la santé et de la sécurité du travail, the Secrétariat du Conseil du trésor and the Canada Revenue Agency.

The committee's role is to promote the involvement and participation of all organizations and set the policy directions and action priorities for fighting unreported work and tax evasion.

The tax losses linked to the construction sector amount to \$1.5 billion annually.

- Of this amount, 65% is thought to be attributable to the residential sector and 35% to the non-residential sector.
- These losses stem from illegal practices, including false invoicing, misappropriation of funds and unreported work.

### **□ New initiatives to combat tax evasion and unreported work**

New initiatives to combat tax evasion and unreported work are divided into three sections. Mainly, they will help to:

- intervene even more effectively on construction sites;
- facilitate information exchange among control organizations;
- intensify operations in the residential renovation sector.



## ❑ Interventions on construction sites

### ■ Sustained presence on major worksites

In Budget 2010-2011, the government announced the sustained presence of Revenu Québec auditors on 50 large public worksites in Québec.

- The objective is to ensure that companies on construction sites fulfil their tax obligations regarding withholdings at source and taxes.
- The effectiveness of this approach stems from the real-time monitoring, by the auditors, of all the activities on the worksite while the work is being done.

This project has resulted in self-assessments by companies rising by \$36 million since it was implemented in October 2010.

Banking on the results of this initiative, the government is announcing that the number of major worksites where Revenu Québec will maintain a sustained presence will double in 2012-2013 to 100 worksites. Major private worksites will also be targeted.

### ■ New prevention strategy among major clients

Revenu Québec and the Commission de la construction du Québec will deploy a new joint strategy among major clients to fight unreported work and tax evasion among major clients.

- Control organizations will meet with major clients to present best practices to them to ensure compliance by stakeholders on their construction sites. These meetings will be in addition to the prevention meetings that take place regularly on worksites of the Ministère des Transports du Québec.
- The Régie du bâtiment du Québec, the Commission de la construction du Québec, the Secrétariat du Conseil du trésor as well as the Unité permanente anticorruption will work together in this prevention and education strategy.

### ■ Intensive operations targeting certain trades

In 2012-2013, Revenu Québec, together with the Régie du bâtiment du Québec, the Commission de la construction du Québec and the Commission de la santé et de la sécurité du travail, is expected to carry out intensive operations targeting certain at-risk trades.

- The objective of this joint strategy is, in particular, to clean up practices in certain very specific problematic activity sectors.
- These operations help prevent tax evasion, audit the tax data filed and ensure collection of amounts owing.

## ■ Tightening of Bill R-20 to more effectively fight certain schemes

To prevent unfair competition, refusal to cooperate and ensure a higher degree of compliance among stakeholders, legislative amendments will be made to the *Act respecting Labour relations, vocational training and workforce management in the construction industry*<sup>12</sup> (Bill R-20) to:

- specify the fields of activity of independent contractors to reduce the number of individuals working alone on worksites as subcontractors not having to report their hours to the Commission de la construction du Québec;
- facilitate recourse to civil and penal remedies regarding non-compliant stakeholders who refuse to supply information required in the course of an investigation;
- include provisions stipulating a mandatory period for keeping the record book, invoices and other relevant documents;
- set provisions designed to make it easier to prove the employment relationship between employees and their employers;
- stipulate the same penalties or sanctions as those for legal persons for other legal forms of business organization, in particular partnership and limited partnership where they are sued as employers.

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12 R.S.Q., c. R-20.

## ❑ Facilitate information exchange

To optimize worksite operations, the Commission de la construction du Québec, the Commission de la santé et de la sécurité du travail, the Régie du bâtiment du Québec and Revenu Québec will continue to improve mechanisms fostering information exchange and the transmission of knowledge.

- To that effect, bilateral information exchange agreements will be entered into and others will be updated in the course of the activities of ACCES construction.
- Last year, amendments were made to the *Tax Administration Act*<sup>13</sup> to facilitate information exchange, on the one hand, between Revenu Québec and the Régie du bâtiment du Québec and, on the other, between Revenu Québec and the Commission de la santé et de la sécurité du travail.

Moreover, the Minister of Labour will propose the tabling of a bill amending the *Act respecting Occupational health and safety*<sup>14</sup> that includes provisions designed to systematize information sharing on delinquent contractors with the Régie du bâtiment du Québec and the Commission de la construction du Québec.

## ❑ Intensification of operations in the residential renovation sector

### ■ New investigative unit of the Régie du bâtiment du Québec

The Régie du bâtiment du Québec will deploy a new investigation strategy and new teams will be put in place to improve the response to problems with unreported work in the residential renovation sector.

- On the basis of risk analyses, this new intervention technique on worksites and in examinations of the books will help curb cases of work without a permit and tax evasion.

### ■ Joint operations in the residential renovation sector

Revenu Québec will intensify its inspection and prevention activities with various stakeholders on residential renovation worksites.

A pilot project involving joint operations on residential renovation worksites by Revenu Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail and the municipalities of Québec City, Montréal and Trois-Rivières was implemented in 2011-2012.

- Since April 1, 2011, 669 joint operations have been carried out, with almost 200 anomalous situations detected.
- This pilot project will be broadened to other cities, in particular Laval, Rimouski and the Rivière-des-Prairies–Pointe-aux-Trembles borough of the Ville de Montréal.

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13 R.S.Q., c. A-6.002.

14 R.S.Q., c. S-2.1.

## **Results of recent measures to combat unreported work in the construction sector**

TABLE F.6

### **Monitoring of construction projects as announced as part of Budget 2011-2012**

(results from April 1 to December 31, 2011)

Operational partners <sup>(1)</sup>	Projects	Results
CCQ, CSST, RBQ, RQ, CRA <sup>(2)</sup>	Double the number of joint operations on worksites from 150 to 300.	287 joint visits with three or more partners have been carried out.
CCQ, RQ, CSST, RBQ, SCT	Increase prevention among major clients by organizing prevention meetings to propose measures reducing the likelihood of unreported work on worksites.	35 prevention meetings have been held on Ministère des Transports du Québec worksites.
CCQ	Increase penal and administrative sanctions under Bill R-20	<p>The number of fines concerning unreported hours and non-registration with the CCQ has risen.</p> <p>The rate of monetary administrative sanctions for repeated omissions to report hours worked has risen from 20% to 40%.</p> <p>New measures preventing certain worksite delegates and union representatives found guilty of certain breaches of the Criminal Code from carrying out their duties.</p>
RQ, CCQ, CSST, RBQ	Improve information exchange and propose legislative amendments, if needed.	<p>Amendments made to the Tax Administration Act authorize the transfer of information from the CSST to RBQ and from RQ to the RBQ.</p> <p>Information exchange agreements are being developed.</p>
RQ, CSST, RBQ, municipalities	Act in the home renovation sector: <ul style="list-style-type: none"> <li>joint operations on worksites and implementation of the pilot project in Québec City, Montréal and Trois-Rivières.</li> </ul>	<p>669 operations have been carried out and almost 200 cases of potentially fraudulent businesses have been detected:</p> <ul style="list-style-type: none"> <li>39 cases are being audited by RQ and three completed cases have resulted in assessments being issued for more than \$100 000;</li> <li>22 cases are being audited by the CSST;</li> <li>the RBQ has filed 22 lawsuits.</li> </ul>

(1) Canada Revenue Agency (CRA), Commission de la construction du Québec (CCQ), Commission de la santé et de la sécurité du travail (CSST), Régie du bâtiment du Québec (RBQ), Revenu Québec (RQ) and Secrétariat du Conseil du trésor (SCT).

(2) The Canada Revenue Agency participates in joint interventions without receiving funding from Québec to that effect.

Sources: Commission de la construction du Québec, Commission de la santé et de la sécurité du travail, Régie du bâtiment du Québec and Revenu Québec. Compilation by the Ministère des Finances du Québec.

TABLE F.7

# Monitoring of construction projects as announced as part of Budget 2010-2011

(results from April 1, 2010 to December 31, 2011)

Operational partners <sup>(1)</sup>	Projects	Results
RQ	Sustained presence on major worksites	848 operations carried out, 156 cases under examination for audit purposes and more than \$1 million in tax recovered;  \$36 million linked to the increase in self-assessment by businesses.
	Revenu Québec certificate <sup>(2)</sup>	41 349 certificates have been issued to 13 827 businesses.  3 015 businesses have put their file in order for a total of more than \$62 million.  The certificate has led to \$8.6 million in tax recovered.
CCQ	Tactical squad	2 733 worksite visits have been carried out, <sup>(3)</sup> 302 investigations completed and \$6.1 million demanded.
	Service Intégrité Construction (construction integrity service)	108 investigations of the books have been carried out.  121 051 hours have been claimed for \$2.7 million.
	Service de plaintes et de dénonciations (complaints and denunciations service)	937 complaints have been filed with the CCQ: – 21 investigations have been completed; – 26 cases are underway.
RBQ	Contractor integrity	Ten licenses have been suspended in relation to criminal acts and 23 licenses have been suspended in relation to tax violations.  152 restricted licenses have been issued for the purposes of obtaining a public contract.

(1) Commission de la construction du Québec (CCQ), Régie du bâtiment du Québec (RBQ) and Revenu Québec (RQ).

(2) The results of the Revenu Québec certificate concern the period from June 1, 2010 to January 31, 2012.

(3) As of November 30, 2011.

Sources: Commission de la construction du Québec, Régie du bâtiment du Québec and Revenu Québec.

Compilation by the Ministère des Finances du Québec.

It should be noted that since 2006-2007, the fight against tax evasion and unreported work in the construction sector have made it possible:

- to issue tax assessments in excess of \$1.3 billion;
- to lead to 50 462 convictions for unreported work under Bill R-20 and the *Building Act*;<sup>15</sup>
- for the second year in a row, to post in an increase in the number of hours reported to the Commission de la construction du Québec, greater than the growth in volume of activity in this sector;<sup>16</sup>
  - the increase from April 1 to September 30, 2011 compared to the same period in 2010 was 6%.
  - the increase in 2010-2011 compared to 2009-2010 was 8%.

TABLEAU F.8

**Results of measures to combat unreported work – Construction**  
(millions of dollars)

	2006- 2007	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012 <sup>(1)</sup>	Total
<b>Tax component</b>							
Tax assessments	161.6	215.8	214.2	218.8	278.0	219.0	<b>1 307.4</b>
Fines	0.4	1.1	2.1	4.7	0.4	0.6	<b>9.3</b>
<b>Penal component<sup>(2)</sup></b>							
Reports of violations (units)	15 517	10 426	8 440	11 484	9 820	7 762	<b>63 449</b>
Convictions (units)	12 041	7 956	6 777	9 268	8 096	6 324	<b>50 462</b>
Fines	5.6	3.5	3.1	4.3	3.6	2.8	<b>22.9</b>

(1) From April 1 to December 31, 2011.

(2) The results shown in the penal component relate to violations under Bill R-20 and the *Building Act*, solely for unreported work.

Sources: Commission de la construction du Québec, Revenu Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances du Québec.

15 R.S.Q., c. B-1.1.

16 The volume of activity in the construction sector as measured by the gross domestic product.

## **4.2 The fight against economic and financial crime**

The ACCEF committee was formed in 2004 to fight against economic and financial crime.

- It consists of the Sûreté du Québec, Revenu Québec, the Autorité des marchés financiers, the Director of Criminal and Penal Prosecutions, the Ministère de la Sécurité publique, the Ministère des Finances and the Service de police de la Ville de Montréal.

Concerted action helps maximize the impact of the operations of all partners and undertake more complex investigations using more finely-tuned techniques in order to dismantle well-organized networks.

### **❑ New initiatives to combat economic and financial crime**

#### **■ Develop expertise against financial crime**

The financial sector plays a key role in Québec's economic development. Unfortunately, in recent years, some consumers of financial products have been victimized by financial crimes.

To fight more effectively against financial crime, the government will provide \$150 000 in 2012-2013 and \$100 000 in each of the next two years to support the implementation, at Longueuil campus of the Université de Sherbrooke, a centre of expertise in fighting financial crime.

- The centre's mission will be to participate, through its research work, in the reduction of illegal economic and financial activities and the assessment of the resulting economic and social spinoffs.
- Its objective will be to improve expertise in Québec in fighting financial crime.

The centre's activities will facilitate the acquisition of knowledge in the field of prevention, detection and repression of financial crime through customized professional training programs and applied research.

The results flowing from the research carried out by this centre may serve as input for the deliberations of the ACCEF committee.

## ■ The fight against organized bank fraud

The last few years have seen a significant number of organized frauds relating to bank transactions and the cloning of payment cards. These crimes undermine the integrity of the banking system, cause losses for the banks and the government and affect consumers' confidence.

For these reasons, the government formed a committee in October 2011. This committee brings together a number of government departments and organizations as well as representatives of financial institutions and police forces.

- This initiative was lauded in Vancouver on February 16, 2012 at the meeting of financial institution security representatives that dealt with organized bank fraud and during which the Canadian Bankers Association and the financial industry reiterated their strong support for Québec's initiative in fighting organized bank fraud.

Further to the committee's work, the government is announcing the formation of a specialized task force to be set up in 2012-2013 to more thoroughly study information on bank fraud, particularly in relation to identify theft, as well as the involvement of organized crime in this phenomenon.



## ❑ Results of measures to combat economic and financial crime

The operations of the ACCEF partners have produced good results. Since April 2011:

- assessments amounting to \$23 million have been issued;
- the value of seizures of money amounts to \$4 million while that of frozen assets is \$6 million.

### ACCEF Operations

#### **GARROT**

The Garrot operation targeted a network of 35 corporations involved in false invoicing in the construction industry. The operation led to the arrest of six individuals as well as the issuing of \$5 million in tax assessments and the registration of legal hypothecs on two estates.

#### **INTENSITÉ**

The Intensité operation, which targeted the dismantling of three criminal networks, led to the arrest of six individuals in the Québec City region involved in a false invoicing scheme in the air conditioning sector. The fraud is estimated at more than \$1.8 million.

#### **DÉCULPE**

The Déculpe operation helped shut down a Ponzi scheme in which seven investors in the Bas-Saint-Laurent and Québec City regions were fleeced. The suspect presented himself to his victims as an investment advisor, although he did not hold a permit issued by the Autorité des marchés financiers to act in that capacity.

#### **ACABAR**

The Acabar operation targeted three currency exchange agencies and a jewellery store that participated actively in recycling proceeds of crime. On April 7, 2011, a sweep led to the arrest of 13 people and just over \$800 000 was seized.

Moreover, police investigations have shown that money services businesses (MSBs), in particular currency exchange agencies, cheque cashing centres and private automated teller machines may be used as agents facilitating illegal activities such as tax fraud and money laundering.

To prevent MSBs from becoming places of criminal activity, the government gave assent, on December 10, 2010, to the *Act to enact the Money-Services Businesses Act and to amend various legislative provisions*.<sup>17</sup> This legislation introduces the obligation for MSBs to obtain a permit from the Autorité des marchés financiers.

- MSBs will thus be subject to a variety of rules, including the obligation to keep a record of their transactions.
- The Act stipulates, in particular, inspection powers as well as information exchange mechanisms among the Autorité des marchés financiers, police forces and Revenu Québec.
- This legislation comes into force on April 1, 2012.

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17 S.Q. 2010, c. 40.

### 4.3 The fight against the illicit tobacco trade

Since 2001, the government has coordinated its efforts to combat the illicit trade in tobacco through the ACCES tobacco committee.

- ACCES tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Director of Criminal and Penal Prosecutions, the Ministère des Finances, police forces as well as the Canada Revenue Agency, and the Canada Border Services Agency.

The activities and investigations carried out under ACCES tobacco are designed primarily to dismantle smuggling networks and to recover the tax losses linked to the illicit trade in tobacco.

- The actions taken have led to a reduction in illegal trade. Nonetheless, tax losses are still estimated at \$225 million for 2010.

Within the past year, police forces have paid more attention to neighbourhood smuggling networks. Accordingly, seven teams of investigators cover 64 municipalities in Québec.

- Previously, ACCES tobacco investigations mainly targeted the supply of contraband products and major distribution networks, activities in which organized criminal groups are more involved.

#### ■ Report of the Commission des finances publiques

On December 9, 2010, the Commission des finances publiques, acting under section 149 of the Standing Orders of the National Assembly, adopted an order of initiative entitled: *Étude des mesures pour contrer la consommation du tabac de contrebande*.

- In view of the extent of the phenomenon and its plethora of consequences, the Commission agreed to examine the issue and consider ways to mitigate, if not eliminate it.

On October 17, 18 and 19, 2011, the Commission heard 13 groups and associations concerned by the effects of smoking and tobacco products contraband.

On February 29, 2012, the Commission tabled its report,<sup>18</sup> which includes some fifteen recommendations it believes should be implemented to effectively fight tobacco products contraband and, by the same token, curb its harmful effects on society.

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18 COMMISSION DES FINANCES PUBLIQUES, *Étude des mesures pour contrer la consommation du tabac de contrebande*, Québec, 2012. Also available online at: [www.assnat.qc.ca](http://www.assnat.qc.ca).

## Recommendations of the Commission des finances publiques

Create a joint commission involving the governments of Québec, Ontario, Canada and the United States as well as the Mohawk nation to develop an action plan dealing, among others, with:

- a “win-win” agreement among the governments and aboriginal people to stop the large-scale tax-exempt sale of tobacco to non-aboriginal people;
- improving border security in the Salaberry-de-Valleyfield region by creating a task force similar to the one in Cornwall tasked with 24-hour surveillance;
- maintaining the Canadian customs post in Cornwall;
- consolidating resources to combat smuggling, inspecting aboriginal factories that hold a permit, enforcing federal laws and closing illegal factories.

Establish a mechanism for the conservation of evidence and quick destruction of incriminating evidence after their seizure, to reduce holding time and the cost of managing such incriminating evidence.

Enable police officers to investigate under section 40.1.1 of the *Tax Administration Act* rather than exclusively under the *Criminal Code* and simplify information exchange between police officers and Revenu Québec.

Amend the *Tobacco Tax Act*<sup>1</sup> and other legislative provisions to enable immediate seizure, for a period to be determined, of the driver's licence where a vehicle containing contraband cigarettes is seized and to raise the fines the Act stipulates.

Empower inspectors of the Ministère de la Santé et des Services sociaux to control enforcement of certain provisions of the *Tobacco Tax Act*.

Extend ACCES tobacco to every region of Québec.

Implement, in cooperation with the federal government, a marking and tracking system for all tobacco products sold or distributed in Québec.

Ask the Commission de la santé et des services sociaux to reassess the *Tobacco Act*<sup>2</sup> and examine various measures to combat smoking, in particular.

- compulsory filing, by holders of the federal tobacco products manufacturing permit, of monthly reports on their activities relating to tobacco products;
- adoption of simple and appropriate tools, such as an inventory of tobacco products, to facilitate interception and seizure of contraband tobacco by Québec's various police forces and inspectors, in particular those of the municipalities;
- introduction of distinctive marking for products intended for legal sale on aboriginal reserves and territories and in duty-free shops;
- compulsory affixing of a permanent “QC” mark indicating that the tobacco products are intended for sale in Québec.

1 R.S.Q., c. I-2.

2 R.S.Q., c. T-0.01.

## ❑ **New measures acting on certain recommendations of the Commission des finances publiques**

While continuing to study the other measures proposed, the government is announcing that it is acting immediately on eight of the recommendations of the Commission des finances publiques, namely:

- continue discussions with aboriginal communities to oversee the sale of tobacco on reserves;
- improve security in the Salaberry-de-Valleyfield region and on the shores of the St. Lawrence by adding to existing staff and thus increasing pressure on smugglers;
  - this deployment will in particular help improve surveillance of this sector in cooperation with the Royal Canadian Mounted Police;
  - this region is acknowledged to be the tobacco smuggling hub of eastern Canada;
- increase the number of investigation teams assigned to neighbourhood smuggling networks to cover a larger number of municipalities;
- establish a mechanism for the conservation of evidence and quick destruction of incriminating evidence after seizure;
- increase certain fines stipulated in the *Tobacco Tax Act*;
- give police officers powers of investigation similar to those stipulated in section 40.1.1 of the *Tax Administration Act*;
- empower inspectors of the Ministère de la Santé et des Services sociaux to inspect retail points of sale regarding the application of certain provisions of the *Tobacco Tax Act* regarding product identification;
- implement a new tobacco product identification system.

### **A New Tobacco Product Identification system**

Under federal and Québec legislation, most tobacco products must carry identification marks that certify that the applicable duties and taxes on these products have been paid. To counter, among other things, the emergence of counterfeiting of tobacco products and their identification marks, the Canada Revenue Agency, in cooperation with the provinces, has implemented a new tobacco product identification system.

Accordingly, since April 1, 2011, all tobacco products on the Canadian market must be identified with the new excise stamp that contains overt and hidden security features. As far as a pack of cigarettes is concerned, this obligation, consisting in applying the new stamp directly on the pack, is incumbent on manufacturers and on importers of tobacco products and is the successor of the obligation to affix the opening strip used to tear the cellophane wrapper.

Québec has joined this new identification system so that the stamp will include features specific to its territory of jurisdiction: it will be blue with the mark "QC". The stamp will be applicable to all tobacco products, except for pipe tobacco, snuff or chewing tobacco and leaf tobacco.

The new identification system will be compulsory in Québec for all tobacco products made or imported as of July 1, 2012, except for cigars for which it will be compulsory as of October 1, 2012. Manufacturers and importers may, however, use the new identification system on a voluntary basis as of April 1, 2012.

#### **■ Other measures concerning tobacco**

The government will introduce new fees for issuing permits relating to the tobacco trade, in accordance with the Policy for the Funding of Public Services, to fund the activities of Revenu Québec relating to the oversight of this industry. Legislative and regulatory amendments will be made in this regard.

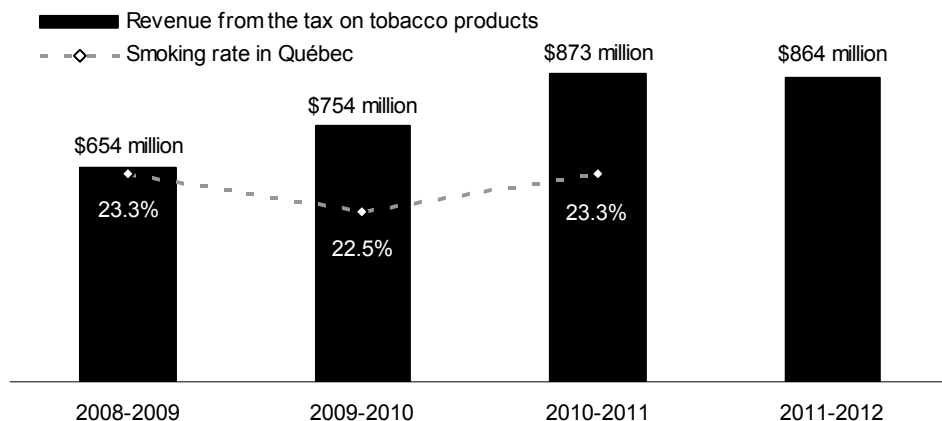
## ❑ Results of the fight against tobacco smuggling

The actions taken by ACCES tobacco have helped to increase the revenue from the specific tax on tobacco products.

Such revenue has risen by \$210 million since 2008-2009 without an appreciable increase in Québec's smoking rate.<sup>19</sup>

CHART F.3

### Change in revenue from the specific tax on tobacco products and in the smoking rate



Source: Statistics Canada and Ministère des Finances du Québec.

19 STATISTICS CANADA, Table 105-0501: Health indicators profile, annual estimates, by age group and sex, Canada, provinces, territories, health regions (2011 boundaries) and peer groups, occasional, CANSIM.

<http://www5.statcan.gc.ca/cansim/a05?id=1050501&lang=eng>

Since 2006-2007, ACCES tobacco operations have resulted in the seizure of \$86 million in smuggled products and \$7 million in cash.

- The heightened policy presence has caused smugglers to alter their behaviour since they now transport smaller quantities of tobacco, which reduces the size of seizures as seen in 2011-2012.

ACCES tobacco operations have also helped to generate \$134 million in tax recoveries and \$64 million in fines.

- The surge in fines in 2011-2012 is attributable chiefly to amendments made to the *Tobacco Tax Act* designed to adjust the amount of fines to reflect the quantity of tobacco seized.

TABLE F.9

**Results of the fight against smuggling of tobacco**  
(millions of dollars)

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012 <sup>(1)</sup>	Total
Value of seizures	8,2	11,3	15,2	23,2	22,6	12,9	<b>93,4</b>
Tax recovery <sup>(2)</sup>	45,1	38,3	18,3	17,2	8,0	6,8	<b>133,7</b>
Fines	1,7	12,1	7,1	10,3	11,2	21,4	<b>63,8</b>
<b>TOTAL</b>	<b>55,0</b>	<b>61,7</b>	<b>40,6</b>	<b>50,7</b>	<b>41,8</b>	<b>41,1</b>	<b>290,9</b>

(1) These figures concern the period from April 1 to December 31, 2011.

(2) Tax recovery excludes the amount of GST. In addition, as of 2007-2008, tax recovery is shown after deducting the provision for uncollected revenue.

Sources: Revenu Québec and Ministère de la Sécurité publique. Compilation by the Ministère des Finances du Québec.



## **4.4 Efforts to limit tax evasion in employment agencies and other providers of work**

Employment agencies are important to Québec's economy because they can quickly supply, on a temporary basis, workers that employers need.

However, the heads of some of these agencies make use of workers who are ill-informed of their rights and they engage in tax evasion schemes.

- According to the Emploi-Québec network's compilation of denunciations, the occupational fields in which employment agencies make use of tax evasion schemes most often include housekeeping, delivery, import-export, restaurants and food processing.

### **❑ Pilot project at Emploi Québec and the Commission des normes du travail**

Since 2011-2012, Emploi-Québec and the Commission des normes du travail have been more active among employment agencies and providers of work. A specialized team has been set up to carry out operations among providers of work, in particular employers operating in the food processing sector.

- Accordingly, \$2 million has been invested in this initiative to counter organized unreported work networks. This project will be renewed for 2012-2013.

### **❑ New project at Revenu Québec**

An audit of almost 2 000 files in the course of Revenu Québec's regular activities led to the recovery of \$14.8 million from April 1, 2011 to January 31, 2012.

In this context, Revenu Québec will carry out more audits in the field and head a task force in cooperation with Emploi-Québec, la Commission des normes du travail, la Commission de la santé et de la sécurité du travail and associations in this sector.

- This task force will study various ways that could be used to better target companies that make use of tax evasion schemes and to ensure better protection for workers.



## 5. THE PROVISION OF THE MINISTÈRE DES FINANCES

The fight against tax evasion in sectors where tax losses are greatest has enabled the government to recover substantial additional amounts.

— These results stem from investments by the government.

Some of the efforts made by government departments and organizations are funded by the Provision of the Ministère des Finances. In 2012-2013, the Provision will amount to \$62.3 million.

TABLE F.10

**Amounts allocated by the Provision to increase any appropriation for initiatives concerning revenues**  
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
ACCES construction	8.3	4.6	11.6	12.9	16.2
ACCES tobacco	7.6	9.8	10.6	11.1	12.7
ACCES alcohol	7.4	6.6	6.7	6.8	7.3
ACCEF	10.7	15.4	19.0	17.3	21.3
Revenu Québec	21.3	21.6	41.7	—	—
Employment agencies <sup>(1)</sup>	—	—	—	1.1	2.5
Other	—	3.7	2.0	2.2	2.4
<b>TOTAL</b>	<b>55.3</b>	<b>61.7</b>	<b>91.6</b>	<b>51.3</b>	<b>62.3</b>

(1) The accumulated surplus of the Commission des normes du travail in 2010-2011 was used in 2011-2012 to fund its activities relating to the project on employment agencies.

## ❑ Yield of projects funded by the Provision

In 2011-2012, activities to fight tax evasion funded by the Provision are expected to yield \$646 million. The yield of projects funded by the Provision includes:

- a direct yield, i.e. revenue from tax recovery;
- an indirect yield, i.e. the increase in tax revenue resulting from the dissuasive effect of operations (self-assessment), fines levied, money seized or revenue from the proceeds of crime.

The overall yield of projects funded by the Provision has always exceeded \$10 per dollar invested. Moreover, some projects funded by the Provision make a larger contribution to maintaining a fair tax system than to revenue recovery.

- Between 2010-2011 and 2011-2012, the yield per dollar invested has risen from \$11.04 to \$12.59.

TABLE F.11

### Yield of projects funded by the Provision to fight tax evasion (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012
ACCES construction	336.0	375.0	425.0	425.0
ACCES tobacco	40.0	50.0	110.0	110.0
ACCES alcohol	66.0	60.0	60.0	60.0
ACCEF	41.9	42.7	50.0	51.0
<b>Subtotal</b>	<b>483.9</b>	<b>527.7</b>	<b>645.0</b>	<b>646.0</b>
Revenu Québec – Specific projects	148.8	185.0	242.4	—
<b>Total yield</b>	<b>632.7</b>	<b>712.7</b>	<b>887.4</b>	<b>646.0</b>
Amount used from the Provision	53.8	59.5	80.4	51.3
<b>Yield per dollar invested</b>	<b>11.76</b>	<b>11.98</b>	<b>11.04</b>	<b>12.59</b>

# Section G

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# 1. THE STRENGTH OF OUR PEOPLE AND OUR RESOURCES

## 1.1 Deploying our knowledge and know-how

Québec's labour force will begin a slow decline as of 2014. This new demographic reality requires us to take all the means at our disposal to ensure the growth of our economy and the creation of wealth, on which the funding of our public services depends.

Accordingly, efforts to promote the integration into the labour market of everyone in the available labour pool must be stepped up. It is also necessary to ensure that the pool has the skills and qualifications required by the labour market. To further deploy our knowledge and know-how, the government is announcing an integrated, four-pronged series of initiatives.

- Implement a strategy for active participation by experienced workers.
- Better match training with jobs to ensure success.
- Capitalize on the contribution of young people and new graduates.
- Accelerate the labour market integration of newcomers.

The labour initiatives announced in this budget represent an investment of nearly \$140 million over three years.

TABLE G.1

### Financial impact of the measures to deploy our knowledge and know-how (millions of dollars)

Policy directions	2012-2013	2013-2014	2014-2015	Total
Strategy for active participation by experienced workers	-10.0	-34.0	-40.0	-84.0
Better match training with jobs to ensure success	-4.0	-5.0	-3.0	-12.0
Capitalize on the contribution of young people and new graduates	-3.5	-5.5	-6.5	-15.5
Accelerate the labour market integration of newcomers	-7.5	-9.7	-9.9	-27.1
<b>TOTAL</b>	<b>-25.0</b>	<b>-54.2</b>	<b>-59.4</b>	<b>-138.6</b>

### 1.1.1 A strategy for active participation by experienced workers

As is the case with the population in most Western countries, Québec's population is aging. While the proportion of individuals 55 and over represented 20% of the working-age population in the early 1970s, it rose to 35% in 2011. It is anticipated that it will be 43% in another 20 or so years.

Aging is often synonymous with withdrawal from active life. In this respect, Québec lags behind the other Canadian provinces. Whereas the labour force participation rate of the 55-69 age group is 55% elsewhere in Canada, it is only 47% in Québec. Closing this gap must become an objective, especially since certain fields are already experiencing labour shortages.

To do so, Québec must show the same zeal as in the past when it tackled a similar challenge, that of increasing the labour force participation rate of Québec women, which, at the time, was much lower than that of other Canadian women.

To address that situation, the Québec government introduced innovative programs and substantial financial support for families. As a result, the participation rate of Québec women is now similar to that observed in the other Canadian provinces.

Today, Québec must take up a new challenge, brought about this time by the more rapid aging of its population. It is imperative for Québec to tap the potential of experienced workers so that the considerable human capital they represent is turned to advantage.

Accordingly, Budget 2012-2013 provides for investments of \$84 million over three years as part of the strategy for active participation by experienced workers. The strategy will soon be tabled by the Minister of Employment and Social Solidarity.

Through these investments, the government will:

- support businesses that employ experienced workers, for example by reducing the cost associated with their employment;
- enable the optimal use of human resources by promoting the adaptation of work organization;
- facilitate business startups by workers 50 and over.

#### ☐ **Taking advantage of the full potential of our experienced workers: a societal issue**

Despite the repercussions that the aging of Québec's population will have on the economy and public finances, adapting the way we do things will enable society to benefit from the expertise and skills of experienced workers.

- People 55 and over represent a major potential labour supply. This age group now numbers 2.3 million, whereas it was comprised of a little under 1 million people 35 years ago.

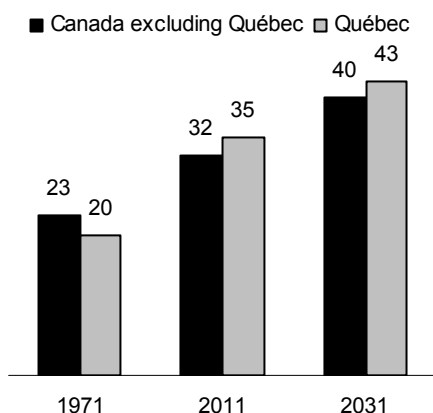


Accordingly, the government set up the Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans et plus (the Demers commission), whose principal mandate was to propose courses of action for dealing with the problems related to demographic change.

In response to the work carried out by the Commission, which tabled its report in September 2011, the government will release, in spring 2012, the particulars of its strategy for active participation by experienced workers.

CHART G.1

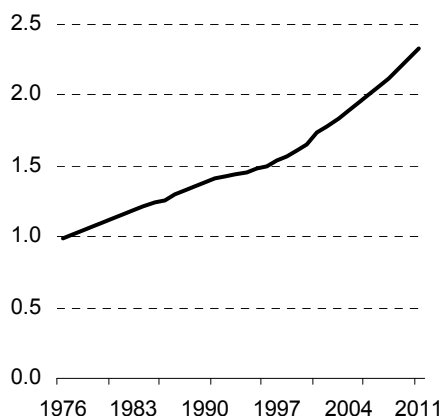
**Proportion of people 55 and over in the 15+ population in Québec**  
(per cent)



Source: Statistics Canada.

CHART G.2

**Number of people 55 and over in Québec**  
(millions of people)



Source: Statistics Canada.

## Principal recommendations of the Commission and regional tour

### Mandate

Announced in the 2010-2011 Budget and set up on July 7, 2010, the purpose of the Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans et plus was to propose actions for increasing the participation of experienced workers and improving the financial situation of retirees.

### Impacts of demographic changes and suggested courses of action

The Commission's work led to the assessment of the main effects of the demographic changes and, more specifically, of the fact that there will be fewer and fewer workers in the labour supply and that this trend will affect economic growth, the standard of living and public finances.

The Commission identified several courses of action in that regard. These were presented in order to fuel public debate and involve various groups and individuals within Québec society, with a view to finding the best solutions to the issues raised by population aging.

The report suggests courses of action to, among other things:

- make optimal use of human resources, in particular through better labour management, by facilitating continuing education and supporting experienced workers in their job searches;
- review early retirement incentives, for example by providing for adjustments to pensions paid by the Québec Pension Plan and raising the age of eligibility for early retirement under the Plan.

### Public consultations on the conclusions of the report

In early 2012, the government launched a regional tour, which provided it with an opportunity to consult many citizens, and representatives of several organizations, across Québec about the issues raised in the Commission's report.

These meetings led to a consensus on human capital as a source of wealth that must be invested in. In that regard, the participants in the consultations supported the Commission's proposals aimed, for example, at improving human resources management planning and facilitating continuing education.

A number of participants emphasized the need to conduct a public promotional campaign among businesses and experienced workers, give experienced workers access to flextime and allow them to reduce their work hours.

Access to a pension plan also emerged from the meetings as an important condition in maintaining the standard of living during retirement, as did the importance of raising people's awareness, as of secondary school, of the need to save.

For more information, the Commission's full report may be consulted at the following Internet address:

[www.mess.gouv.qc.ca/grands-dossiers/travailleurs-experimentes.asp](http://www.mess.gouv.qc.ca/grands-dossiers/travailleurs-experimentes.asp).

## ❑ Encouraging experienced workers to stay longer in the labour market

An important observation that came out of the Commission's work is that Quebecers generally retire earlier than other Canadian workers. In 2011, the average retirement age was 61 in Québec, compared to just over 62 in Canada.

Consequently, experienced workers in Québec are not as present in the labour market as they are in the other provinces.

- In 2011, the participation rate of workers 55 to 69 years of age in Québec was well under the average rate of the other Canadian provinces – 47% compared to 55%.

To mitigate the effect of population aging, means must be taken to foster greater participation in the labour force. Québec's objective must be to close the gap between it and the other Canadian provinces.

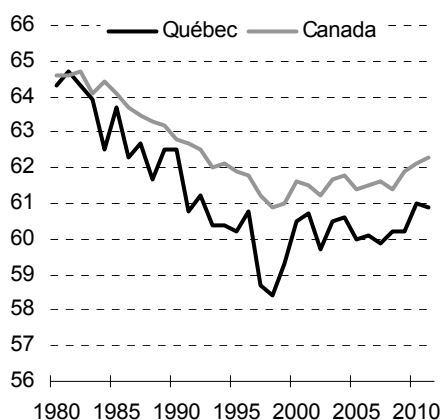
In this regard, Budget 2011-2012 announced concrete actions to encourage workers to stay active longer, namely:

- the introduction of a non-refundable tax credit for experienced workers 65 and over;
- the adjustment of pension benefits under the Québec Pension Plan (QPP), on the basis of a retiree's age.

CHART G.3

### Average retirement age

(years)

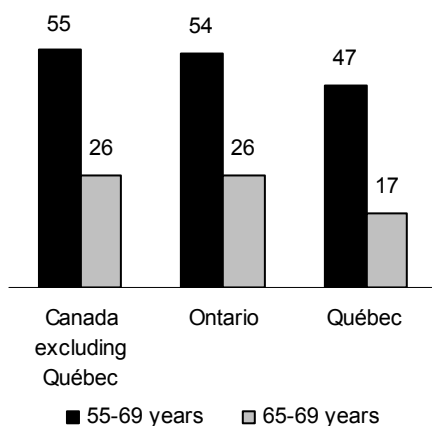


Sources: Institut de la statistique du Québec and Statistics Canada.

CHART G.4

### Participation rate of the 55-69 and 65-69 age groups in 2011

(per cent)



Source: Statistics Canada.

## **Measures announced in Budget 2011–2012 to encourage the retention of experienced workers**

### **Tax credit on \$10 000 of work income for experienced workers**

Since January 1, 2012, workers 65 and over, be they employees or self-employed, have been entitled to a non-refundable tax credit intended to offset the Québec income tax payable on the \$10 000 of work income exceeding the first \$5 000.

The credit takes into account the 6% deduction already available to workers. Consequently, for every dollar of work income exceeding \$5 000, to a maximum excess income of \$10 000, a worker 65 or over will have, in 2016, a tax credit equivalent to 15.04%. For example, a worker 65 or over with \$15 000 in work income will receive, in 2016, a tax credit of \$1 504, that is, 15.04% of \$10 000.

The implementation of the tax credit is gradual. Thus, after the first \$5 000, the tax credit will enable the elimination of the Québec income tax payable on additional work income of:

- \$3 000 in 2012;
- \$4 000 in 2013;
- \$5 000 in 2014;
- \$8 000 in 2015;
- \$10 000 as of 2016.

When fully implemented, the measure will mean a reduction of \$120 million a year in the income tax payable by experienced workers. The particulars of the measure are presented on page E.56 of the Budget Plan of Budget 2011-2012.

### **Changes to the Québec Pension Plan**

In its Budget 2011-2012, the Québec government announced that the pension amount paid by the Québec Pension Plan (QPP) would be adjusted to encourage experienced workers to stay in the labour market:

- beginning on January 1, 2013, the pension increase will be from 0.5% to 0.7% a month if the pension is requested after 65 years of age;
- beginning on January 1, 2014, the pension reduction will be gradual over three years, from 0.5% to 0.6% a month, if the pension is requested before 65 years of age.

Accordingly, as of 2013, a pension applied for at age 70 will be increased by a maximum of 42% compared to 30%, for an amount equivalent to \$16 813 a year, that is, an increase of \$1 421. Conversely, as of 2016, a pension applied for at age 60 will be reduced by a maximum of 36% compared to 30% currently, for an annual average reduction of \$272.

In other words, workers who decide to delay their retirement will receive a pension that may reach almost one and a half times the pension they would have received had they retired at age 65.

The particulars of the QPP adjustments are presented on the website of the Régie des rentes du Québec, at <http://www.rrq.gouv.qc.ca>.

## ❑ **\$84 million over three years to encourage the participation of experienced workers in the labour force**

In the 2012-2013 Budget Speech, the government is announcing the upcoming unveiling of the strategy for active participation by experienced workers, which will put forward a series of actions entailing investments of \$84 million over three years.

To support the actions planned as part of the strategy, Budget 2012-2013 provides for \$50 million in tax relief over three years to reduce the payroll tax of businesses that employ experienced workers.

The following sections also give a short description of the strategy, the particulars of which will soon be made public by the Minister of Employment and Social Solidarity.

TABLE G.2

### **Financial impact of the measures to encourage the participation of experienced workers in the labour force**

(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
<b>Supporting businesses that employ experienced workers</b>				
– Payroll tax reduction to promote the employment of workers 65 and over	—	–22.0	–28.0	<b>–50.0</b>
– Assistance for hiring experienced workers who have been laid off	–4.0	–5.0	–5.0	<b>–14.0</b>
<b>Fostering optimal use of human resources</b>	–5.0	–6.0	–6.0	<b>–17.0</b>
<b>Facilitating business startups by experienced workers</b>	–1.0	–1.0	–1.0	<b>–3.0</b>
<b>TOTAL</b>	<b>–10.0</b>	<b>–34.0</b>	<b>–40.0</b>	<b>–84.0</b>

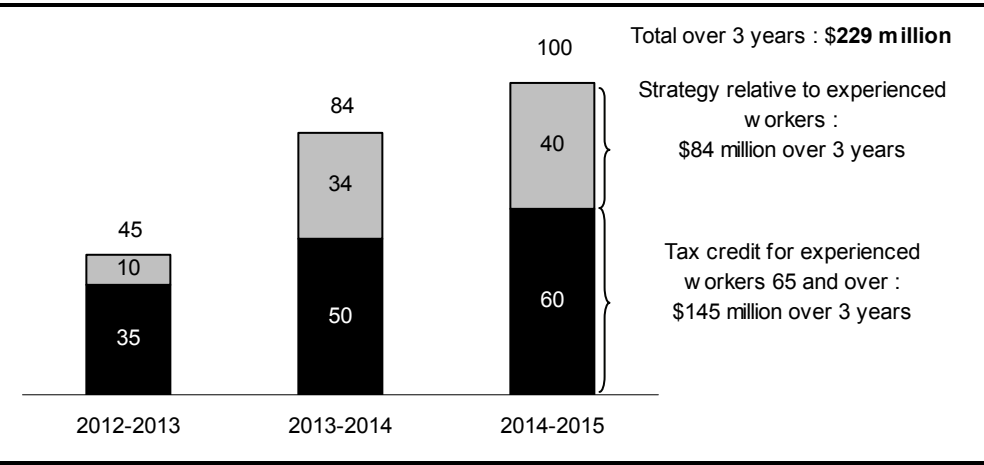
**❑ In total, an additional \$229 million over three years will be devoted to encouraging the participation of experienced workers in the labour force**

Thus, taking into account the announcement in Budget 2011-2012, \$229 million will be invested during the next three years to encourage the labour force participation of experienced workers, that is:

- \$145 million dollars by means of the tax credit for experienced workers 65 and over;
- \$84 million as part of the strategy for active participation by experienced workers, the particulars of which will soon be made public by the Minister of Employment and Social Solidarity.

CHART G.5

**Amounts allotted to encourage the employment of experienced workers – Budgets 2011-2012 and 2012-2013**  
(millions of dollars)



As of 2016-2017, \$174 million a year in tax burden reductions will be granted to encourage the employment of experienced workers:

- \$120 million, for the tax credit on work income of \$10 000 for experienced workers 65 and over;
- \$54 million, for the payroll tax reduction to promote the employment of experienced workers 65 and over.

## ❑ Supporting businesses that employ experienced workers

### ■ Payroll tax reduction to promote the employment of workers 65 and over

To promote the hiring and retention of experienced workers, Budget 2012-2013 provides for the introduction of a payroll tax reduction respecting the salary paid to an experienced worker.

- The reduction will apply at a rate of 10% and apply to employers in the private sector.
- It will thus offset a portion of the tax and incidental expenses imposed on payroll.
- The reduction will apply to the salary, in excess of \$5 000, paid to an experienced worker. The maximum reduction per experienced worker will be \$400 in 2013 and will rise gradually, reaching \$1 000 in 2016.

TABLE G.3

#### **Tax and incidental expenses on payroll<sup>(1)</sup>** (per cent, 2012)

<b>Contribution to the Health Services Fund<sup>(2)</sup></b>	<b>3.687</b>
<b>Québec incidental taxation</b>	
– Québec Pension Plan	5.025
– Occupational health and safety <sup>(3)</sup>	2.130
– Québec parental insurance plan	0.782
– Commission des normes du travail	0.080
<b>Subtotal</b>	<b>11.704</b>
– Employment insurance	2.060
<b>TOTAL</b>	<b>13.764</b>

Note: The contribution to the Workforce Skills Development and Recognition Fund is not taken into account, because businesses do not have to pay the contribution if they allot an amount representing at least 1% of their total payroll to eligible training expenditures.

(1) Neither exemptions nor maximum insurable earnings are taken into account.

(2) Average effective rate of private-sector businesses.

(3) Average rate estimated by the Commission de la santé et de la sécurité du travail.

The following table shows the principal parameters of the tax measure.

TABLE G.4

**Principal parameters of the payroll tax reduction**

<b>Eligible employers</b>	<p>All employers, with the exception of public and parapublic enterprises, which include:</p> <ul style="list-style-type: none"> <li>– the governments of Canada and Québec;</li> <li>– Québec municipalities;</li> <li>– agencies that are mandataries of the State;</li> <li>– public bodies exempt from tax performing a function of government.</li> </ul>
<b>Eligible salaries</b>	<p>Salaries earned by workers 65 and over, excluding taxable benefits related to previous employment.</p> <p>Salaries in excess of \$5 000, up to an excess salary of :</p> <ul style="list-style-type: none"> <li>– \$4 000 in 2013;</li> <li>– \$5 000 in 2014;</li> <li>– \$8 000 in 2015;</li> <li>– \$10 000 as of 2016.</li> </ul>
<b>Rate</b>	10%
<b>Application</b>	Applicable against the employer's contribution to the Health Services Fund.

■ **Nearly 30 000 employers will benefit from the payroll tax reduction**

The payroll tax reduction will benefit nearly 30 000 private-sector employers, who will obtain an average gain of \$1 800 in 2016.

TABLE G.5

**Number of employees and businesses concerned and average gain per business**  
(estimate, 2016)

Number of employees concerned	52 000
Number of employers concerned	30 000
Average gain per business (\$)	1 800



## ■ A gain of \$54 million for employers

As of 2013, employers will be able to claim a reduction of up to \$400 per worker applicable against their contribution to the Health Services Fund. When fully implemented, employers will receive a maximum reduction of \$1 000 per worker 65 or over.

To illustrate, the payroll tax reduction, when fully implemented, could mean a gain of \$5 000 for an employer employing five experienced workers.

TABLE G.6

### Illustration of the impacts of the payroll tax reduction for employers with workers 65 and over – Fully implemented

Number of experienced workers	Annual salary paid to experienced workers <sup>(1)</sup> (\$)	Payroll tax reduction (\$)		Tax and incidental expenses on salaries paid to experienced workers <sup>(3)</sup> (\$)	
		Eligible salary	Credit of 10% <sup>(2)</sup>	Before Budget 2012-2013	After Budget 2012-2013
1	21 840	10 000	1 000	3 007	2 007
2	43 680	20 000	2 000	6 015	4 015
5	109 200	50 000	5 000	15 037	10 037

(1) Salary based on \$12/hour for a 35-hour work week.

(2) To the extent that the contribution to the Health Services Fund payable by the employer is at least equivalent to the value of the payroll tax reduction.

(3) Calculated at the rate of 13.77%—the average rate of tax and incidental expenses imposed on payroll in 2012.

In 2016, the year in which the amount of the payroll tax reduction will reach its maximum value, employers will receive \$54 million in tax relief.

TABLE G.7

### Financial impact of the payroll tax reduction to promote the employment of workers 65 and over

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Payroll tax reduction	—	–22.0	–28.0	–43.0	–54.0

## ■ Assistance for hiring experienced workers who have been laid off

In its Budget 2012-2013, the government provides for the introduction of support for the hiring, integration and retention of experienced workers at risk for long-term unemployment. This support will serve to:

- encourage businesses with labour needs to turn to these workers, through the payment of a wage subsidy;
- assist workers in finding employment and offer them the training required to familiarize themselves with their new work environment.

To that end, additional funding of \$4.0 million in 2012-2013, \$5.0 million in 2013-2014 and \$5.0 million for 2014-2015 will be granted to the Ministère de l'Emploi et de la Solidarité sociale (MESS). The funding for 2012-2013 will be drawn from the Contingency Fund.

## □ Fostering optimal use of human resources

During the public consultation on workforce aging held in January and February 2012, a consensus was reached on the fact that, in the context of massive retirements, human capital is a source of wealth that must be maximized by businesses. To that end, businesses must adapt their management of human resources by:

- zeroing in on their labour needs;
- rethinking work organization.

Accordingly, Budget 2012-2013 provides for investments of \$17.0 million over three years to:

- support the adaptation of work organization in an effort to foster the retention experienced workers;
- grant additional assistance for increasing labour management planning in businesses;
- continue to raise public awareness of the impacts of population aging.

Thus, additional funding of \$5.0 million in 2012-2013, \$6.0 million in 2013-2014 and \$6.0 million for 2014-2015 will be allocated to the MESS. The funding for 2012-2013 will be drawn from the Contingency Fund.

## ❑ **Facilitating business startups by experienced workers**

Budget 2012-2013 provides for an investment of \$1.0 million a year for three years to introduce a new program intended to promote entrepreneurship among experienced workers.

This assistance offered to retirees or workers 50 and over will consist of a five-year loan guarantee, for a maximum loan of \$50 000.

To that end, additional funding of \$1.0 million a year from 2012-2013 to 2014-2015 will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation. The funding for 2012-2013 will be drawn from the Contingency Fund.

### **1.1.2 Better match training with jobs to ensure success**

The Québec economy has posted good growth in the last 20 years. This growth is attributable to three factors, namely, an increased number of workers in the economy, capital investment—in machines, tools and the new technologies necessary to produce goods and services—and the workers' efficient use of the equipment at their disposal, also known as productivity.

But it is not enough to invest in new equipment to ensure productivity growth. Workers must also know how to make optimal use of the equipment. That knowledge, which must keep pace with the arrival of new technologies, means continuing education for workers.

Continuing education is all the more necessary in that Québec will no longer be able to count on an increase in the number of workers to ensure its growth. As of 2014, the working-age population will begin to slowly decline.

So, a better-trained labour force is not a choice, but, rather, a necessity. It will be recalled that Québec can be considered a pioneer in this regard. It is the only jurisdiction in North America where businesses of a certain size<sup>1</sup> are required to invest a minimum annual amount in training equivalent to 1% of their total payroll.

This budget continues on that path by providing for investments in worker training:

- \$361 million over three years, already earmarked under the Investissement-compétences initiative of the Commission des partenaires du marché du travail (CPMT) and Emploi-Québec;
- \$9 million over three years to renew the refundable labour training tax credit;
- \$3 million over two years to better disseminate information on the labour market and available internships;
- \$60 million over three years to better match vocational and technical training with labour market needs.

In total, an amount of \$433 million will be available to better match training with jobs and improve skills development.

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<sup>1</sup> Businesses whose total payroll is over \$1 million.

TABLE G.8

**Financial impact of the measures to better match training with jobs to ensure success**  
(millions dollars)

	2012-2013	2013-2014	2014-2015	Total
Investment of \$361 million over 3 years already earmarked under the Investissement-compétences initiative by the CPMT and Emploi-Québec <sup>(1)</sup>	—	—	—	—
Renewal of the labour training tax credit	-3.0	-3.0	-3.0	-9.0
Better dissemination of information on the labour market and available internships	-1.0	-2.0	—	-3.0
\$60 million to better match vocational and technical training with labour market needs <sup>(2)</sup>	—	—	—	—
<b>TOTAL</b>	<b>-4.0</b>	<b>-5.0</b>	<b>-3.0</b>	<b>-12.0</b>

(1) This initiative is financed through the Workforce Skills Development and Recognition Fund (\$147 million) and the labour market development fund (\$214 million).

(2) Financed by the 2011-2016 Québec Infrastructures Plan.

**❑ Investment of \$361 million over three years for the Investissement-compétences initiative by the CPMT and Emploi-Québec**

In collaboration with Emploi-Québec, the CPMT launched, on February 6, 2012, the Investissement-compétences initiative, which is intended to be an instrument for mobilizing businesses and workers as to the importance of investing in labour skills and creating a genuine culture of continuing education and skills development in Québec.

Under the initiative, it will be possible to create and maintain quality, sustainable jobs geared to the future, by supporting businesses with regard to:

- consulting services and financial assistance for human capital management;
- consulting services and financial assistance for training and skills development;
- support for the transmission of key skills in the business;
- support for small and medium-sized enterprises in carrying out their training activities;
- assistance for businesses in spurring employment recovery through training tailored to their labour force.

The CPMT works in complementarity with all government actions intended to improve the skills of Québec workers.

The government wishes to underscore the CPMT's contribution regarding the Investissement-compétences initiative, which will enable \$361 million to be invested in worker training over three years.

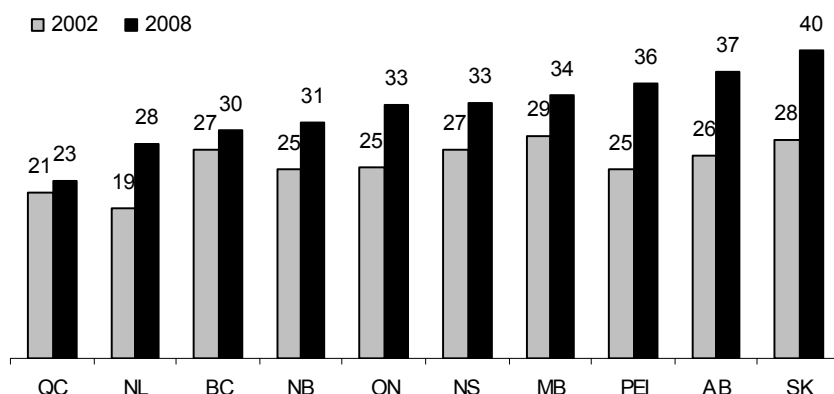
## ❑ Renewal of the tax credit for labour training in the manufacturing, forestry and mining sectors

Québec lags far behind the other Canadian provinces in regard to continuing education.

- According to the latest surveys available, Québec is at the back of the pack when it comes to continuing education.

CHART G.6

### Proportion of Canadians aged 25 to 64 having taken employment-related training (per cent)



Sources: Statistics Canada, *Adult Education and Training Survey* (2002) and *Access and Support to Education and Training Survey* (2008).

To remedy this problem, the Québec government has brought in various measures over the years to promote labour training, including the refundable tax credit for labour training.

Introduced in 2007 for a four-year period, this tax assistance made it possible to compensate businesses for part of the costs incurred during training periods provided to their employees.

- The tax credit, which ended on December 31, 2011, enabled many companies—close to 100 a year—in the manufacturing, forestry and mining sectors<sup>2</sup> to obtain substantial assistance with a view to encouraging them to provide more training to their employees.

However, these three sectors continue to face special challenges due to the rise in the Canadian dollar and competition from companies in emerging countries.

<sup>2</sup> Initially, the tax assistance targeted manufacturing companies. In Budget 2009-2010, the government announced that the tax credit would be broadened to include companies in the forestry and mining sectors.

Moreover, the anticipated labour shortage, already a reality in the mining sector, which is booming, will also likely affect these sectors.

Accordingly, labour training remains a key issue for companies in these sectors. Budget 2012-2013 therefore provides for the renewal of the refundable tax credit for labour training.

- This assistance will be applicable retroactively to January 1, 2012 and will cover labour expenditures incurred before January 1, 2016.

The following table shows the principal parameters of the tax credit.

TABLE G.9

**Principal parameters of the tax credit for labour training in the manufacturing, forestry and mining sectors**

<b>Eligible corporations</b>	Corporations working in Québec in the manufacturing, forestry and logging sectors, and those in the mining, quarrying and oil and gas extraction sectors.
<b>Eligible expenditures</b>	Training expenditures paid by the corporation for its employees (by an eligible outside trainer). The salaries paid to the employees during the training, or twice the cost for outside training, whichever is lower.
<b>Rate</b>	30%
<b>Duration</b>	Eligible expenditures must be incurred before January 1, 2016.

The renewal of the tax credit for training will benefit approximately 150 companies annually.

The impact of this measure will be \$3.0 million for each of fiscal years 2012-2013, 2013-2014 and 2014-2015.

**❑ Better dissemination by Emploi-Québec of information on the labour market and available internships**

To meet the labour needs of businesses and improve the integration of new workers into the labour market, the profile of the candidates sought must be better matched with future graduates. To that end, the dissemination of information on the labour market must be improved and the number of business internship opportunities must be increased.

This approach will enable future workers to obtain a job more rapidly. In that regard, Budget 2012-2013 provides for \$3 million over two years to:

- enhance the means of accessing and disseminating information on the labour market through more recent means of communication and the inclusion of all available information on a single Internet portal;
- create an internship bank on the Placement en ligne website, to identify all training offered in businesses.

To that end, additional funding of \$1.0 million in 2012-2013 and \$2.0 million in 2013-2014 will be allocated to the Ministère de l'Emploi et de la Solidarité sociale. The funding for 2012-2013 will be drawn from the Contingency Fund.

### **❑ Better match vocational and technical training with labour market needs**

Over the next decade, nearly 500 000 jobs requiring vocational and technical skills will need to be filled in Québec.

The continued competitiveness and development of Québec's economy depends first and foremost on adequate training for the workers of tomorrow. With a skilled, rapidly trained labour force, future shortages in the various sectors of activity can be avoided.

Moreover, the ability of our education system to turn out skilled workers will ensure, in particular, the success of the Plan Nord, a promising initiative for the economic development of Québec.

Thus, to better match vocational and technical training with labour market needs, the government will invest \$60 million in the 2011-2016 Québec Infrastructures Plan to:

- upgrade vocational and technical training facilities and equipment, particularly in:
  - the mining sector,
  - the health sector, in particular to set up nursing internship centres that use smart mannequins;
- increase vocational and technical training opportunities in Québec's regions to meet skilled labour needs, thereby enabling:
  - the creation of a training centre to meet labour needs in the construction sector;
  - the granting of new authorizations, particularly in the mining, health and industrial sectors;
  - the adaptation of mining operation training programs;

To ensure the funding of these investments, the government will invest \$60 million in the 2011-2016 Québec Infrastructures Plan.

### 1.1.3 Capitalizing on the contribution of young people and new graduates

This budget also provides for additional initiatives to facilitate the integration of young people into the labour market, namely:

- the improvement of the Youth Alternative Program;
- an increase in the tax credit for new graduates working in a remote resource region;
- funding of the Office Québec-Monde pour la jeunesse.

The measures announced in the 2012-2013 Budget Speech for capitalizing on the contribution of young people and new graduates represent a financial impact of \$15.5 million over three years.

TABLE G.10

#### Financial impact of the measures to capitalize on the contribution of young people and new graduates (millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Improvement of the Youth Alternative Program	-2.0	-4.0	-4.0	-10.0
Increase in the tax credit for new graduates working in a remote resource region	—	—	-1.0	-1.0
Funding of the Office Québec-Monde pour la jeunesse	-1.5	-1.5	-1.5	-4.5
<b>TOTAL</b>	<b>-3.5</b>	<b>-5.5</b>	<b>-6.5</b>	<b>-15.5</b>

#### ☐ Improvement of the Youth Alternative Program

##### ■ A springboard for entering the labour market

The generational dynamic of dependence on social assistance still exists among young recipients. According to data from the Ministère de l'Emploi et de la Solidarité sociale, 64% of social assistance recipients under 25 years of age are from families who receive benefits.

The government considers it important to offer an alternative to social assistance for anyone who wants to undergo a process of social and vocational integration. That is why it introduced the Youth Alternative Program in 2007.

The program is aimed at supporting young adults under 25 years of age who are eligible for a last-resort financial assistance program, with a view to encouraging them to take part in vocational integration activities. Participation in the program is voluntary.



The program relies on increased support and on an active process toward vocational self-sufficiency. The intervention plan may include activities such as:

- job searches;
- development of employability and job preparation;
- activities tailored to specific difficulties (specialized resources, for example CLSCs).

In return for the participant's commitment to undertake an integration process, the program gives entitlement, on a monthly basis, to a youth allowance of \$680.33 and \$793 respectively for a person living alone and the head of a single-parent family.

Thus, in 2012, the Youth Alternative Program offers a person living alone a monthly benefit that is \$91.33 higher than the social assistance benefit.

### ■ **An additional incentive to participate in the Youth Alternative Program**

To promote the participation of more young people in the program and increase the labour supply, Budget 2012-2013 is announcing that the youth allowance will be increased by \$30.33<sup>3</sup> a month as of July 2012.

TABLE G.11

#### **Social assistance and youth allowance benefits – 2012** (dollars per month)

	Social assistance benefit	Youth allowance <sup>(1)</sup>	Difference	Budget 2012-2013	
				Increase	New difference
Person living alone	589	680.33	91.33	30.33	121.66
Single-parent family <sup>(2)</sup>	715	793.00	78.00	30.33	108.33

(1) Weekly amount x 4.333 (4.333 = 52 weeks/12 months).

(2) With a temporary employment constraint.

### ■ **60% of young people who participate in the Youth Alternative Program leave social assistance**

In 2010-2011, an average of almost 32 000 young people under 25 years of age received monthly benefits under the Social Assistance Program or the Youth Alternative Program. Of that number, approximately 7 700 young people under 25 took part monthly in the Youth Alternative Program.

Six out of ten young people who participate in the Youth Alternative Program leave social assistance. Hence, almost 4 600 young people a year enter the labour market further to the program.

3 Corresponds to an increase of \$7 a week in the weekly youth allowance:  
\$30.33 = \$7 x 52 weeks/12 months.

To that end, and to extend support services to new participants, additional funding of \$2.0 million in 2012-2013 and \$4.0 million as of 2013-2014 will be granted to the Ministère de l'Emploi et de la Solidarité sociale. The funding required for 2012-2013 will be drawn from the Contingency Fund.

### **❑ Increased tax assistance for new graduates working in a remote resource region**

The tax system provides for a non-refundable tax credit for new graduates who choose to work in an eligible remote resource region<sup>4</sup>. The maximum tax credit for a given year is \$3 000, for a cumulative maximum of \$8 000.

The purpose of the tax credit is to encourage young graduates to live in a remote resource region in order to acquire work experience in their field of specialization and foster the retention of these young people in these regions.

Close to 85% of young graduates who take advantage of the tax credit choose to remain in an eligible remote region after the first year. After three years, nearly 65% of graduates who take advantage the tax credit still live in an eligible region.

Almost 25 000 new graduates received the tax credit in 2010. For 2011, the tax assistance granted for this measure is estimated at \$55 million. Every year, roughly another 8 000 new graduates choose to live in the regions. These qualified workers earn a total annual income of \$260 million.

TABLE G.12

#### **New-graduate retention rates for remote regions**

Year of first application	New target group for the tax credit	Retention rate of graduates in the regions (%)			
		2007	2008	2009	2010
2007	7 698	100	85	74	64
2008	7 729	—	100	84	75
2009	7 582	—	—	100	85
2010	8 482	—	—	—	100

However, the tax credit has attracted fewer young graduates with a higher-education degree. Only 47% the tax credit's target group have a college diploma or university degree. It is important for the regions concerned to be able to benefit from the high-level expertise and skills offered by young college and university graduates.

4 The remote resource regions are comprised of the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine, as well as of Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac and Mékinac RCMs, and the agglomeration of La Tuque.

## ■ Cumulative amount of the tax credit raised from \$8 000 to \$10 000 for a college diploma or university degree

To better attract and retain young people who obtain a higher-education degree, Budget 2012-2013 provides that the maximum cumulative amount of the tax credit will be raised from \$8 000 to \$10 000 for new college or university graduates who choose to settle in an eligible region.

- New graduates of vocational training provided by a secondary school-level institution will continue to receive a maximum cumulative amount of up to \$8 000 for life.

The change in the budget will eliminate the Québec income tax payable for a minimum of three years for a person with an income of \$35 000.<sup>5</sup>

TABLE G.13

### Illustration of the increased tax credit for new graduates who choose to settle in an eligible region (dollars)

	Income tax payable for a new graduate			
	1st year	2nd year	3rd year	4th year
Income tax payable before measure <sup>(1)</sup>	3 000	3 000	3 000	3 000
Impact of current tax credit	– 3 000	– 3 000	– 2 000	—
Impact of the increase	—	—	– 1 000	– 1 000
<b>Income tax payable after measure</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2 000</b>

(1) Before the application of the tax credit for new graduates working in a remote resource region.

The increase will be granted to new graduates who take up a job in the regions after the date of this budget. When fully implemented, it will enable 17 000 young college or university graduates to receive additional tax relief of \$7 million a year.

## □ Funding of the Office Québec-Monde pour la jeunesse

The Office Québec-Monde pour la jeunesse (OQMJ) is part of the Offices jeunesse internationaux du Québec, whose mission consists in fostering the professional and personal development of young Québec adults in an international context.

The OQMJ was created in 2009 to foster the development of relations between the youth of Québec and the youth of territories or countries not covered by the other Québec youth offices (Office franco-québécois pour la jeunesse, Office Québec-Amériques pour la jeunesse and Office Québec Wallonie Bruxelles pour la jeunesse).

To that end, the OQMJ establishes contacts with public or private organizations abroad for the purpose of developing, in partnership with the latter, exchange and cooperation programs that are accessible to young people of all backgrounds thanks to financial assistance measures.

5 Based on the income tax payable for 2012 for a person living alone with an income of nearly \$35 000.

To support the activities of the OQMJ, funding of \$1.5 million a year will be granted to the Ministère des Relations internationales in 2012-2013, 2013-2014 and 2014-2015. The amounts for 2012-2013 are included in the expenditure budget of the Ministère des Relations internationales.

#### **1.1.4 Accelerating the labour market integration of newcomers**

Immigration is one of the principal means adopted by Québec to meet the challenges related to the aging of the population and to mitigate the scarcity of labour.

In 2011, Québec welcomed some 52 000 immigrants, and more than 75% of the newcomers aged 15 and over intended to enter the labour market.

However, the situation of newcomers with respect to unemployment is much more difficult than that of Quebecers as a whole. In 2011, the unemployment rate of newcomers to Québec who had been here for less than five years was 19.7%, a rate much higher than that of the labour force in general.

Despite the efforts made, many newcomers seem to have a harder time entering the labour market, even though, overall, immigrants have a higher level of education than do, on average, people born in Québec.

Economic indicators show that the unemployment rate of immigrants who arrived in Québecs over ten years ago is comparable to that of the rest of Quebecers. The objective is therefore to take all the means necessary to cut the time required to integrate newcomers so that they can hold a job as soon as possible.

To enable Québec to derive greater benefit from the contribution of immigrants, additional effort must be made to develop the employability of newcomers and accelerate their integration into society by enabling them to more quickly undertake an initial work experience directly related to their field.

#### **❑ Investments representing \$27 million**

To promote better integration of newcomers into the labour market in all regions of Québec, Budget 2012-2013 provides for the implementation and enhancement of a series of measures for more rapid and efficient selection, and for assistance for newcomers throughout their job search process. These enhancements are also aimed at reaching employers in order to make initial contact and establish connections. The budget provides for six measures.

- Better handling of immigration.
- Support for retraining for immigrants.
- Introduction of the Mon premier emploi au Québec program.
- Financial support for the Interconnection program of the Board of Trade of Metropolitan Montreal and the regional deployment of the program.

- Enhancement of the Employment Integration Program for Immigrants and Visible Minorities (PRIIME).
- New internship component under the Passerelle pour l'emploi en région program.

The additional investments to facilitate the integration of newcomers represent over \$27 million over three years and affect all stages in the employment integration process for newcomers.

TABLE G.14

**Financial impact of the labour market integration measures for newcomers**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Better handling of immigration	—	—	—	—
Supporting retraining for immigrants	-0.8	-1.0	-1.2	-3.0
Introduction of the Mon premier emploi au Québec program: assistance for newcomers	-2.0	-3.0	-3.0	-8.0
Financial support for the Interconnection program of the Board of Trade of Metropolitan Montreal				
— Enhancement – Metropolitan Montreal Interconnection component	-1.5	-1.5	-1.5	-4.5
— New regions Interconnection component	-0.7	-0.7	-0.7	-2.1
Enhancement of the Employment Integration Program for Immigrants and Visible Minorities (PRIIME)	-2.0	-3.0	-3.0	-8.0
New internships component under the Passerelle pour l'emploi en région program	-0.5	-0.5	-0.5	-1.5
<b>TOTAL</b>	<b>-7.5</b>	<b>-9.7</b>	<b>-9.9</b>	<b>-27.1</b>

**❑ Raising to more than 100 000 the number of interventions a year on behalf of immigrants**

As a whole, the initiatives in Budget 2012-2013 require the carrying out of some 15 000 additional interventions, bringing to over 100 000 the annual intervention target for immigrants.

The integration of immigrants is the responsibility of all government and socioeconomic players in Québec. Accordingly, the participation of all partners—Emploi-Québec, the Ministère de l'Immigration et des Communautés culturelles (MICC), the chambers of commerce network in the regions concerned, and other departments and agencies concerned by the integration of immigrants—will be solicited.

For example, the MICC will direct newcomers looking for work to Emploi-Québec, so that they can receive services from local employment centres, the Board of Trade of Metropolitan Montreal or any other resource more quickly.

## ❑ **Better handling of immigration**

### ■ **A more efficient selection process**

In recent years, the government has devoted much effort to improving the selection of skilled immigrants workers to make it quicker and more efficient. To remain competitive and continue to attract the best candidates, Québec must continue to modernize its immigration system.

The recent increase in the time required to process applications for immigration to Québec hinders that objective by reducing the government's ability to adapt selection to labour market needs. In that regard, the government intends to take the measures necessary to better manage immigration applications and, consequently, better meet Québec's needs.

To that end, Québec will improve the processing of immigration applications by reviewing its work practices with a view to higher productivity, and will add more resources to further increase the number of applications handled. By 2016, processing time will be reduced to less than one year. Moreover, Québec will pass a legislative amendment enabling it select people on the basis of its processing capacity and the needs of Québec.

Thus, while maintaining its objectives as to the number of people admitted annually, this approach will enable Québec to speed up the entry of skilled immigrants, whose expertise will not be diminished by excessively long processing times.

### ■ **Adjustment of fees**

As of April 1, 2012, the fee payable for an application for a Québec selection certificate for a skilled worker will rise from \$406 to \$750, which reflects the actual cost and will enable, among other things, additional employees to be hired by the Ministère de l'Immigration et des Communautés culturelles. This fee will then be indexed according to the terms and conditions provided for in the government policy on the funding of public services.

Fee changes will be made in the relevant statutes and regulations.

## ❑ **Supporting retraining for immigrants**

In 2008, the Québec government took on the mission of facilitating the integration of skilled workers trained outside Québec.

Among the efforts deployed, nearly \$3 million is granted annually to:

- develop retraining programs;
- offer retraining prescribed by the professional orders.

Thus, newcomers to Québec can work in their field, while meeting the requirements established by their professional order.

However, for the past few years, the demand for retraining has increased, primarily in nursing, where the labour needs are great.

To meet this new demand, the Ministère de l'Éducation, du Loisir et du Sport will receive additional funding that will rise gradually from \$0.8 million in 2012-2013 to \$1.2 million in 2014-2015. The funding required for 2012-2013 will be drawn from the Contingency Fund.

With this additional revenue, the number of people trained annually will increase by 60% in the next five years.

### **❑ The Mon premier emploi au Québec program to speed up the integration of newcomers**

The government has pledged to speed up the social and vocational integration of new immigrants and increase their employment rate. To that end, it intends to improve integration services for newcomers and do everything necessary to enhance the efficacy, efficiency and consistency of all government services for immigrants, with a view to accelerating and facilitating their integration.

To enable newcomers to integrate the labour market faster, Budget 2012-2013 provides for the introduction of the Mon premier emploi au Québec program, which will be offered by Emploi-Québec.

The program will aim to assist newcomers sooner in order to increase their chances of integrating the labour market. Local employment centres specialized in immigrant services will meet with them.

Each person's labour market integration needs will be evaluated within the first months after his or her arrival, for quick referral to the appropriate services offered by the government or by outside resources specialized in services for immigrants.

The program will reach close to 10 000 additional newcomers, nearly 10% of whom will, among other things, have access to training measures.

To that end, additional funding of \$2.0 million in 2012-2013 and \$3.0 million a year for the following two years will be granted to the Ministère de l'Emploi et de la Solidarité sociale for the Mon premier emploi au Québec program. The funding required for 2012-2013 will be drawn from the Contingency Fund.

### **❑ Interconnection: connecting with businesses throughout Québec**

The Interconnection program of the Board of Trade of Metropolitan Montreal is an initiative that has shown itself to be wholly relevant to the professional integration of immigrants into Montréal.

The program aims to put employers in Montréal in contact with skilled newcomers. Administered by the Board of Trade of Metropolitan Montreal in partnership with Emploi-Québec, it aims to facilitate and speed up the labour market integration of skilled immigrants.

More specifically, the program enables participants to establish valuable contact with employers through internships in companies, professional meetings and networking activities. Through this initiative, over 60% of participants find work in their field or undergo training less than a year after beginning the program.

## ■ **Enhancement of the Montréal component**

Budget 2012-2013 provides for an investment of \$1.5 million a year over three years for the Interconnection program, in order to facilitate the integration of skilled newcomers into the metropolitan Montréal labour market.

The additional investments will, among other things, allow for longer internships, improved networking activities and the organization of job fairs and other employment-related activities, as requested by several employers.

The planned amounts will enable some 3 000 professional networking activities to be carried out, thereby creating opportunities for exchanging and networking between employers and newcomers.

To that end, additional funding of \$1.5 million a year will be allocated to the Ministère de l'Emploi et de la Solidarité sociale over three years, as of 2012-2013, for the Interconnection program. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## ■ **Creation of three new Interconnection centres in the regions**

On the basis of the expertise developed by the Board of Trade of Metropolitan Montreal, the government is announcing its intention to create three new centres under the Interconnection program, in partnership with the boards of trade in the regions of Québec, Gatineau and Sherbrooke. These regional centres will enable newcomers to Montréal to more readily establish direct contact with companies in the regions.

In light of the results obtained, other regional centres could be developed, in particular to meet additional labour needs. For example, regions such as Nord-du-Québec, Côte-Nord and Saguenay–Lac-Saint-Jean could be selected under the deployment of the Plan Nord.

Regional partners will be responsible for reaching to employers to obtain their participation in the activities organized on their territory. They will see to the reception of the participants in their region and to the smooth running of the activities. They will organize visits of companies and interviews with recognized employers.

These regional centres will benefit from the experience of the Board of Trade of Metropolitan Montreal, which will see to it that its bank of candidates is made available to the regions and that newcomers to Montréal discover the job opportunities in the regions.

To that end, additional funding of \$700 000 a year will be granted over three years to the Ministère de l'Emploi et de la Solidarité sociale, as of 2012-2013, for the Interconnection program. The funding required for 2012-2013 will be drawn from the Contingency Fund.



## ❑ **Facilitating the acquisition of a first work experience in Québec**

The lack of work experience in Québec is a major obstacle for newcomers. Even if they acquired experience abroad, they have difficulty having it recognized by Québec employers.

To deal with this situation, the government is enhancing the measures that offer newcomers the opportunity to acquire their first work experience in Québec.

### ■ **Enhancement of the Employment Integration Program for Immigrants and Visible Minorities (PRIIME)**

The PRIIME program is a measure to encourage employers to support the integration of immigrants and visible minorities into the workplace during their first work experience in North America in their field.

Under the program, the employer receives a subsidy covering up to 50% of the worker's salary, without exceeding the equivalent of the minimum wage in effect. The subsidy is for 30 weeks or less and is determined with the employer based on the job requirements.

Through the program, jobs were provided to over 1 200 newcomers in 2010-2011.

To increase the number of people with a job, Budget 2012-2013 provides for an enhancement of the PRIIME program in the amount of \$2 million in 2012-2013 and \$3 million the following two years.

To that end, additional funding will be granted to the Ministère de l'Emploi et de la Solidarité sociale over three years, as of 2012-2013, for the PRIIME program. The funding for 2012-2013 will be drawn from the Contingency Fund.

The enhancement of the program will result in close to 1 000 new participants over a three-year period.

### ■ **New component under the Passerelle pour l'emploi en région program**

The Passerelle pour l'emploi en région program helps newcomers look for work in the regions, in particular by reimbursing transition costs associated with obtaining a new job, such as expenses incurred to travel to an interview or move to a region. To be eligible, newcomers must take part in a full-time employment process.

To prompt more newcomers to work in the regions, Budget 2012-2013 provides for the implementation of an internship component under the Passerelle pour l'emploi en région program.

The new component will offer financial assistance to immigrants who have been in Québec for less than five years and who participate in an internship in a region. The assistance will cover travel and accommodation expenses. The enhancement could reach up to \$600 a week for a maximum of four weeks.

- As is currently the case under the Passerelle pour l'emploi en région program, 50% of accommodation expenses will be covered, to a maximum of \$60 a night, for a maximum of \$420 a week. In addition, assistance of \$180 a week will be allocated for travel and meal expenses.

This enhancement of the program is part of the efforts to develop regional centres under the Interconnection program. The current measure will be reviewed to ensure a link with the networks developed by the Interconnection program centres.

The envelope of the Passerelle pour l'emploi en région program will therefore be increased by \$0.5 million annually, in order to reach more than 400 participants a year.

To that end, additional funding of \$0.5 million a year will be granted to the Ministère de l'Immigration et des Communautés culturelles over three years, as of fiscal year 2012-2013. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## **1.2 Responsible development of natural resources**

In Budget 2012-2013, the government continues to put in place the various levers that will enable Québec's multiple natural resources to be used and developed for the benefit of all Quebecers.

The initiatives announced are major ones. Thus, every citizen will be assured that our society derives full benefit from the resources on our territory. The initiatives focus on the following five areas:

- The government is creating Ressources Québec, which has an initial budget of nearly \$250 million. A four-pronged strategy is being implemented in regard to the mining sector, underpinned by, among other things, an equity portfolio increased to \$1 billion. Ressource Québec's mandate will also include the hydrocarbon sector.
- In the mining sector, major changes were made further to the revision of the mining duties regime in Budget 2010-2011. Although the revision has already begun to yield results, other initiatives are announced to maximize the economic benefits of optimal development of mineral resources, in keeping with sustainable development and for the benefit of all Quebecers.
- In the forestry sector, the government is continuing and bolstering its action through a sustainable forest management strategy for the benefit of all Quebecers. The government is continuing to implement the new forest regime, the initial effects of which are already being felt. Major incentives are being announced in regard to secondary and tertiary processing of forest products with the creation of the Fonds Valorisation Bois and the implementation of measures to promote wood construction.
- While Québec's potential in the hydrocarbon sector has yet to prove itself, the government wants to immediately address the issues involved in the exploration and development of our hydrocarbons. The government is announcing the introduction of a new licence and lease regime, as well as a new royalties regime.
- Lastly, the Plan Nord is a concrete illustration of the policy directions prioritized by the government in developing our resources. As the deployment of the Plan Nord continues and ramps up, the government is presenting the initial results, in keeping with its commitments, and announcing initiatives to support the growth of local municipalities and communities experiencing the mining boom.

Together, these initiatives will have a total financial impact of almost \$75.8 million over the next three years. They are presented in detail in the budget paper entitled *Québec and Its Natural Resources – Optimum Development*.

TABLE G.15

### Financial impact of the initiatives for responsible development of natural resources

(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Equity participation in resource companies	-3.8	-8.3	6.6	-5.5
Mines: a rewarding duties regime, more ore processing in Québec	-1.2	-3.2	-5.2	-9.6
Forests: a sustainable forest management strategy	-4.7	-6.6	-7.5	-18.8
Hydrocarbons: a review of the royalties regimes, a new licence and lease regime	-2.0	-2.0	-1.0	-5.0
Plan Nord: a comprehensive territorial vision	-11.0	-12.0	-13.9	-36.9
<b>TOTAL</b>	<b>-22.7</b>	<b>-32.1</b>	<b>-21.0</b>	<b>-75.8</b>

## 1.3 Fostering the growth of our businesses

Through their economic activity and the jobs they create, Québec businesses contribute to the prosperity of Québec.

Québec can count on a diversified industrial fabric and on businesses that have shown they can withstand tough times. Québec can also count on entrepreneurs who know how to showcase the creativity of Quebecers with their goods and services.

Faced with international competition and changes in consumer habits, businesses must continue their investment efforts, penetrate new markets, look for new productivity gains and devise new management practices.

Thus, the government is announcing new measures to:

- support the manufacturing sector;
- increase the capital of Québec businesses;
- stimulate our exports;
- promote the development of cooperatives;
- develop the financial sector;
- increase the competitiveness of the biofood sector.

TABLE G.16

**Measures to foster the growth of Québec businesses**  
(millions of dollars)

	Financial impact				New capital available
	2012-2013	2013-2014	2014-2015	Total	
Supporting the manufacturing sector	-5.5	-3.0	-2.0	-10.5	10.5
Increasing the capital of Québec businesses	-8.0	-15.1	-21.4	-44.5	483.0 <sup>(1)</sup>
Stimulating our exports	-6.7	-10.8	-17.4	-34.9	34.9
Fostering the development of cooperatives	-1.2	-2.2	-2.2	-5.6	48.1
Developing the financial sector	-1.2	-2.1	-3.1	-6.4	6.4
Increasing the competitiveness of the biofood sector	-10.0	-12.0	-12.0	-34.0	34.0
<b>TOTAL</b>	<b>-32.6</b>	<b>-45.2</b>	<b>-58.1</b>	<b>-135.9</b>	<b>616.9</b>

(1) These amounts include the partners' shares.

## Budget 2012-2013: \$1.3 billion for our businesses

The package of initiatives in Budget 2012-2013 will put close to \$1.3 billion at the disposal of Québec businesses. With these amounts, it will be possible to support their development and better position them to penetrate new markets.

### Initiatives in Budget 2012-2013

(millions of dollars)

	Capital
<b>Responsible development of natural resources</b>	
Capital mines hydrocarbures	250.0
New capitalization of Ressources Québec	250.0
Secondary and tertiary wood processing investment fund	170.0
<b>Fostering the growth of our businesses</b>	
Conversion of Société Innovatech Québec et Chaudières-Appalaches	180.0
Increase in Fondation's issuance limit	150.0
Fonds de co-investissement COOP	30.0
Programs to facilitate the capitalization of social economy companies	13.1
<b>Promoting our tourist attractions</b>	
Tax credit to foster the modernization of the tourist accommodation offering	33.0
Support for tourist attraction development	<b>85.0</b>
<b>Partnership for the development of Québec</b>	
Fondation du maire de Montréal	15.0
Fonds de développement Emploi-Montréal	3.0
<b>Consolidating our leadership in sustainable development</b>	
Clean technology development fund	100.0
<b>TOTAL</b>	<b>1 279.1</b>

### 1.3.1 Supporting the manufacturing sector

#### ❑ An important contribution to the Québec economy

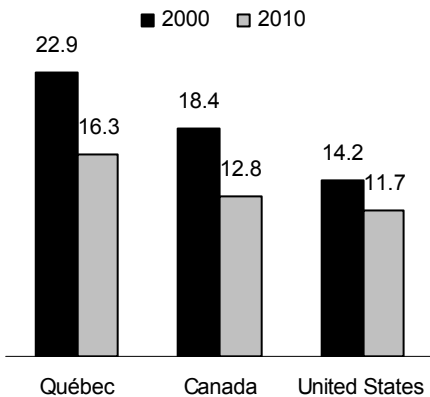
Over the past decade, the relative weight of the manufacturing sector has declined in Québec and nearly 170 000 jobs have been lost. This situation is explained by various factors, such as the rise in the Canadian dollar and stiff foreign competition from, in particular, emerging countries.

However, the Québec manufacturing sector still holds an important place in production and employment in comparison to Canada and the United States.

- In 2010, the sector accounted for 16.3% of GDP and 12.2% of employment in Québec.
- In Canada, the manufacturing sector now represents only 12.8% of GDP and 10.0% of jobs. These ratios were respectively 11.7% and 8.9% in the United States.
- In regard to exports, the manufacturing sector is also a key sector for Québec. Its exports account for over 90% of Québec's international exports of goods.
- Moreover, the average weekly remuneration in the sector is 14.8% higher than that of the economy as a whole.

CHART G.7

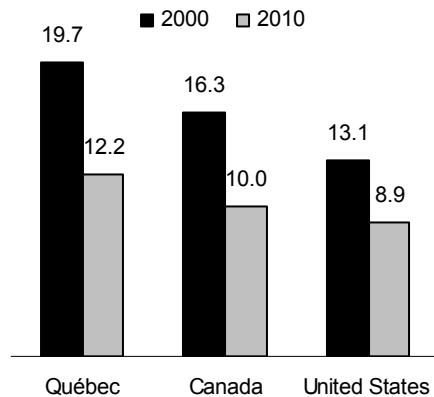
#### Manufacturing production (percentage of GDP)



Sources: Statistics Canada, Institut de la statistique du Québec and ISH Global Insight.

CHART G.8

#### Manufacturing employment (percentage of total employment)



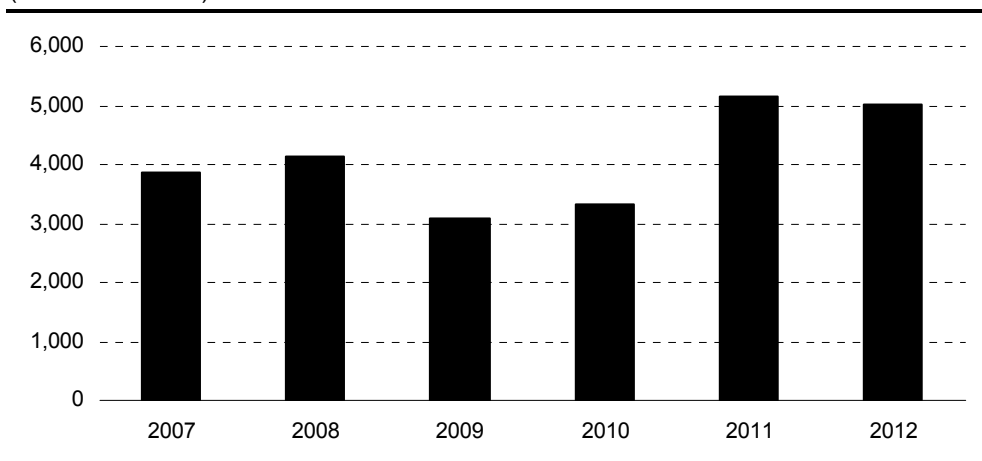
Sources: Statistics Canada (SEPH) and ISH Global Insight.

In 2011, investments in the manufacturing sector reached a five-year high of \$5 billion. This level should be maintained in 2012.

- Investments in the Ontario and Canadian manufacturing sectors will remain below their 2007 level in 2012. By comparison, investments in the Québec manufacturing sector will exceed the 2007 level by more than \$1 billion.

CHART G.9

**Investment in the Québec manufacturing sector**  
(millions of dollars)



Source: Statistics Canada.

## ❑ Strengths of Québec's manufacturing sector

Québec's manufacturing sector has several assets at its disposal for handling international competition and remaining an engine of economic growth in Québec.

To start with, Québec's manufacturing structure is diversified compared with the rest of Canada.

- According to a study by Desjardins,<sup>6</sup> four subsectors—transportation equipment, food manufacturing, primary processing of metals, and the paper and allied products industry—contribute to half of actual sales in Québec.
- By comparison, in Ontario, only two subsectors—transportation equipment and food manufacturing—account for approximately half of the actual value of shipments.

6 DESJARDINS, ÉTUDES ÉCONOMIQUES, « Le tissu manufacturier québécois : un motif changeant », *Perspective – Revue d'analyse économique*, vol. 22, winter 2012.

In addition, linkage between SMEs and large companies is the foundation of the Québec economy. According to the most recent study of the Institut de la statistique du Québec, the Québec manufacturing sector was comprised, in 2009, of some 21 150 establishments, of which 1 200 employed over 200 people.

Moreover, according to the Desjardins study, the long-term survival rate of manufacturing companies is higher than for companies as a whole (28.4% versus 21.6% after nine years).

Lastly, many Québec businesses show resilience in the face of competition, and others reinvent themselves to develop new, high value-added markets. The furniture sector and the fashion and clothing sector are conclusive examples.

### ■ Challenges of the manufacturing sector

Exports abroad are a decisive factor in the performance of the manufacturing sector. More than one third of revenues from the sale of Québec-made goods is derived from exports to foreign markets.

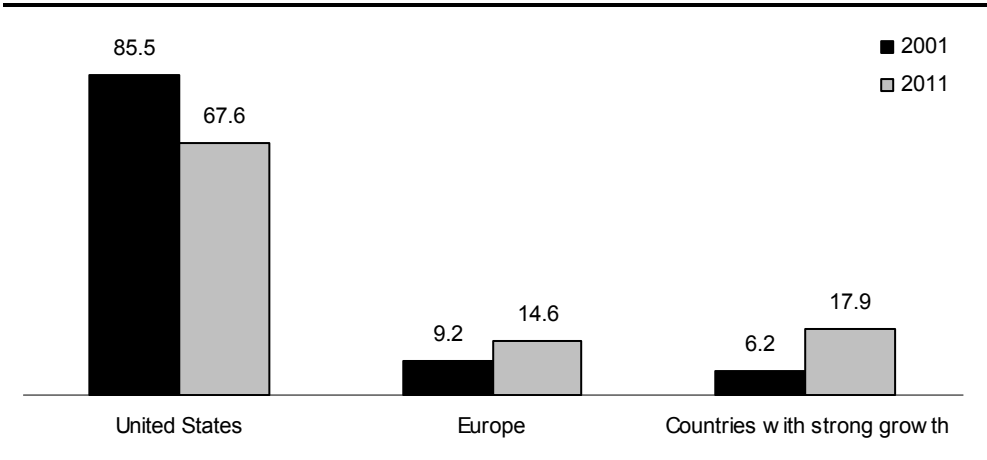
In fact, the government took many initiatives to support businesses in their efforts abroad, with a view to opening up new markets.

These actions have paid off:

- the share of exports to Europe rose from 9.2% to 14.6% in 10 years;
- that of exports to other countries, for example those with strong growth, such as China, Mexico, South Korea, Brazil and India, also increased, from 6.2% to 17.9%.

CHART G.10

### Change in the share of exports, by destination (percentage of international goods exports)



Sources: Institut de la statistique du Québec and Ministère des Finances.



However, government actions to support businesses in their export efforts must be continued and stepped up. Some businesses require sustained, adapted support, which the new Export Program addresses.

Bolstering productivity by integrating new technologies and new business practices will also be a crucial factor in the success of our manufacturing companies.

In that regard, a number of measures have been taken since 2003 to act on the determinants of productivity, namely, private and public investment, research and development, and labour.

## Government actions promoting productivity

### Support for investment

To promote investment and ease the debt burden, tax relief totalling more than \$2 billion was granted to businesses. In particular, the tax on capital was eliminated and an investment tax credit was introduced.

Measures to increase the cash resources and capitalization of businesses were also brought in.

Between 2007-2008 and 2010-2011, \$27 billion was invested under the Québec Infrastructures Plan (QIP). The 2011-2016 QIP will enable additional investments of \$44.2 billion.

Investments of \$900 million were announced as part of the Québec digital strategy, with a view to optimizing or extending the existing fibre-optic network to a larger part of Québec.

### Support for research and innovation

The 2007-2010 Québec Research and Innovation Strategy (QRIS) was renewed and enhanced in Budget 2010-2011. The 2010-2013 QRIS provides for investments of nearly \$1.2 billion, broken down as follows:

- \$617.5 million for the renewal of the measures and the green aircraft, electric bus and green chemistry catalyst projects;
- \$342.4 million for investments in research infrastructure;
- \$80.0 million for the renewal of tax expenditures;
- \$125.0 million for seeding funds.

Once the strategy is fully implemented, over \$2.3 million will have been injected into research and innovation.

### Support for labour training

A number of efforts have been made to promote the training and skills development of the Québec labour force.

- Emploi-Québec plays a leading role in that regard, in particular with the tools at its disposal in the Employment Pact and the Employment Pact Plus.
- More recently, the government announced the Investissement-compétences initiative with a \$361-million envelope over three years. Through that initiative, it will be possible to, among other things, support job creation and labour development in the territory of the Plan Nord.
- In addition, Québec has a tax credit for labour training in the manufacturing, forestry and mining sectors.
- Moreover, since 2007, Québec has implemented the *Act to promote workforce skills development and recognition* (R.S.Q., c. D-8.3) and create the Workforce Skills Development and Recognition Fund.

The vitality of the manufacturing sector also depends on the entrepreneurial force of Quebecers.

- In this regard, the 2011-2014 Québec Entrepreneurship Strategy provides for additional investments of some \$450 million over the next three years.

Québec Entrepreneurship Strategy
<p>On November 15, 2011, to stimulate, and develop a culture of, entrepreneurship, the government launched the very first Québec Entrepreneurship Strategy.<sup>1</sup></p> <p>Based on a mobilizing and organizing vision for Québec's future, the strategy is underpinned by various areas of intervention to support business as an engine of economic growth.</p> <p>The new strategy provides concrete support for business creation, growth and succession.</p> <p>More specifically, since a large number of businesses must rise to the challenge of their succession to the next generation, the strategy proposes specific assistance for the entrepreneurs concerned.</p> <p>Successful business succession depends on a number of factors, including planning that takes into account not only the human aspect, but also the financial and tax aspects.</p> <p>In this respect, the government received various representations relative to the tax rules governing family business succession and remains open to examining any solution that does not jeopardize the integrity of the tax system.</p>

1 Ministère du Développement économique, de l'Innovation et de l'Exportation, *Foncez! Tout le Québec vous admire – Stratégie québécoise de l'entrepreneuriat*, November 2011.

## ■ Measures for the manufacturing sector

The still vulnerable situation of the Québec manufacturing sector compels the Québec government to do more by taking concrete action. Thus, Budget 2012-2013 provides for measures to:

- increase productivity through the use of information and communications technologies (ICTs): the ESSOR 2.0 and PME 2.0 measures;
- support the fashion and clothing sector;
- improve service delivery to businesses;
- set up a new sector-based industrial research group in the manufacturing sector;
- ensure Québec's leadership in the life sciences.

TABLE G.17

**Financial impact – Measures to support the manufacturing sector**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
ESSOR 2.0	—	—	—	—
PME 2.0	-2.0	-2.0	-2.0	-6.0
Montréal, city of fashion and creativity	-2.5	—	—	-2.5
Improving the delivery of services to businesses	-1.0	-1.0	—	-2.0
New sector-based industrial research group	—	—	—	—
Québec, leader in the life sciences	—	—	—	—
<b>TOTAL</b>	<b>-5.5</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-10.5</b>

**❑ Fostering the integration of information and communications technologies (ICTs) into manufacturing SMEs**

Investment in ICTs is recognized as one of the principal engines of business competitiveness and growth.

ICT investments are a crucial business decision. Technology choices are complex and can entail financial risks for SMEs, which often do not have the required ICT expertise.

In addition, it is not enough to purchase hardware and equipment to benefit from ICTs. An organizational culture geared toward ICT-driven innovation must also be developed. Studies conducted since 2009 by the Centre francophone d'informatisation des organisations and the Centre for Productivity and Prosperity of HEC Montréal have shown that to produce the anticipated productivity benefits, ICT investments should be accompanied by complementary investments in human capital and organizational change.

**■ Essential, sustained government support**

In recent years, the Québec government has implemented a number of measures to develop computer solutions tailored to the needs of businesses, cut ICT investment costs and give access to an effective digital network. These measures include:

- the introduction of a refundable tax credit for the development of e-business;
- the increase from 55% to 100% in the capital cost allowance rate for computer equipment (computers, software, systems);
- investments of \$900 million to develop high-speed infrastructure under the Québec digital strategy;
- the implementation of a catalyst project to develop new dematerialized ICT (cloud computing) solutions for businesses.

### Cloud computing

This concept enables businesses to access numerous online computer services, through rental, without owning their own configurable computing capacities (networks, servers, storage and software applications).

From a practical standpoint, this type of solution can offer advantages for SMEs with limited resources. In particular, cloud computing:

- reduces the capital costs currently associated with buying hardware, personalized solutions and software updates;
- overcomes the lack of internal technical and financial resources to maintain the computer system and store data.

The Québec government is not alone in supporting ICT development and investment.

### Other initiatives

#### Canada

The Business Development Bank of Canada announced that it will make \$200 million available to entrepreneurs to help them obtain information and communications technologies (ICTs). The funds earmarked for this initiative will be distributed in the form of loans.

In addition, the federal government announced an investment of \$80 million over three years, beginning with fiscal year 2011-2012, so that SMEs adopt ICTs more rapidly. This program will encourage community colleges to cooperate with SMEs by offering them consulting services and expertise as needed.

#### France – TIC & PME 2015

The TIC & PME 2015 action plan aims to bring digital technologies to SMEs for their exchanges with their trade partners in particular. TIC & PME 2015 continues the actions undertaken by the TIC & PME 2010 action plan, launched in 2005, which enabled some 20 sectors in France's economic fabric to develop exchange standards, computer tools and assistance methods specific to SMEs.

The projects are aimed at, among other things, improving logistics processes and traceability procedures.

## New component: ESSOR 2.0

Annual ICT investment per worker is 30% to 40% lower<sup>7</sup> in Canada than in the United States. Considering the share of ICTs in business investment, of 15 OECD countries, Canada is barely in the middle of the pack, ranking in the lower-average group.

Moreover, compared to the situation elsewhere in Canada, Québec lags in investment in the ICT sector. Between 2000 and 2007, annual growth in such investments for Québec's economy as a whole was 1.2 percentage points below the Canadian average (8.4% compared to 9.6%)<sup>8</sup>.

Manufacturing SMEs must take the digital shift if they wish to remain competitive. To that end, they must adopt the best management practices to:

- institute integrated management of their internal production functions, for example through automatic sharing in real time of information between themselves, their prime contractors, their subcontractors and even their clients;
- share with their business partners information on developments in deliveries, stocks, production or demand;
- adopt Web solutions to reach clients around the world;
- innovate to develop new products and introduce new production methods and new business models.

To support SMEs in acquiring the equipment necessary for the digital shift, Budget 2012-2013 provides for the creation of a new component, ESSOR 2.0, within the ESSOR program. The latter will be offered to businesses that embark on a structured ICT process and a plan to integrate ICTs. The investments must lead to significant advances in productivity and logistics.

The new ESSOR 2.0 component will be able to offer manufacturing SMEs more financial assistance for their ICT integration projects. The assistance will be in the form of:

- repayable loans for the purchase of computers and servers, software and packages;
- repayable loans for the rental of software, packages and cloud platforms;
- non-refundable contributions for expenditures related to consulting services for the development of detailed ICT integration plans and the resulting organizational changes.

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7 Council of Canadian Academies, *Catalyzing Canada's Digital Economy* (2010).

8 HEC Montréal, Centre for Productivity and Prosperity, *Productivité et technologies de l'information*, September 2009.

Implemented on a temporary basis, the new ESSOR 2.0 component will be in effect for the next three years. The government will allocate \$6 million over three years to the component. These amounts will be financed through those available in the ESSOR program.

### ■ **Creation of the PME 2.0 program**

In addition to ensuring access to appropriate financing, the government can play a decisive role in developing tools to facilitate ICT integration in SMEs.

According to a recent survey of the Centre francophone d'informatisation des organisations (CEFRIO),<sup>9</sup> the heads of Québec and Canadian SMEs identified solutions for promoting the adoption of ICTs, in particular through:

- an ICT adoption kit or guide (54.2%);
- examples of success stories or best practices (52.0%);
- training, conferences or workshops on the subject (50.7%);
- information on the profitability of the investment (47.3%).

To meet the needs of SMEs and facilitate optimal ICT integration, the PME 2.0 measure will be implemented and developed by the Ministère du Développement économique, de l'Innovation et de l'Exportation and partners such as CEFRIO.

Some 30 SMEs in the fashion and aerospace sectors will take part in PME 2.0, in conjunction with a pilot project. The experience thus acquired will enable the development of tools to facilitate ICT integration in all manufacturing industries.

The SMEs participating in the pilot project will be assisted throughout the ICT integration process. The support will cover:

- the preparation of an action plan for each SME. The plan will be based on the analysis of the needs specific to the sector and each SME;
- the implementation of the ICT integration process through the deployment of turnkey services. Special attention will be paid to improving logistics.

Subsequently, tools and guides will be developed to share the results of the pilot projects with all Québec manufacturing SMEs.

Thus, to implement the PME 2.0 program, additional funding of \$2.0 million in 2012-2013, 2013-2014 and 2014-2015 will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

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9 CEFRIO, *NetPME 2011 – L'utilisation des TIC par les PME canadiennes et québécoises*, October 2011.

## Description of the pilot projects: Mode 2.0 and Aéro 2.0

### Mode 2.0

Québec is a major player in the fashion and clothing sector in Canada.

- Montréal is home to the vast majority of businesses in the sector and is among the three largest clothing production centres in North America.

The industry is currently going through a period of major change to its business models.

These changes force Québec businesses to reinvent themselves. In fact, better ICT integration is among the solutions opted for by competitive businesses. This puts additional pressure on the sector to rapidly adopt ICTs throughout the production and management process.

### Aéro 2.0

The Québec aerospace industry is comprised of prime contractors and equipment manufacturers that rely on a vast network of suppliers, including approximately 200 subcontractors of specialized goods and services in Québec. These prime contractors and equipment manufacturers are world leaders in ICT adoption.

SMEs acting as subcontractors must also make generalized and efficient use of the information technologies and communications systems to meet the requirements of prime contractors.

To help SMEs in the aerospace manufacturing sector remain competitive, the pilot project Aéro 2.0 proposes to assist them in efficiently integrating ICTs into their operations.

This program is complementary to Aéro Montréal's MACH initiative, which aims to enhance supply-chain performance by strengthening the chain's individual links between the major prime contractors, the subcontractor businesses and the product suppliers.



## ❑ Montréal, city of fashion and creativity

The fashion and clothing industry is a driving force of the Québec economy, especially for Montréal, where most of the industry's businesses are concentrated.

- According to the Ministère du Développement économique, de l'Innovation et de l'Exportation, the industry employed more than 38 000 people in Québec in 2009, including approximately 50% in the manufacturing sector, the remaining jobs being in design, marketing and logistics.
- The city of Montréal is one of the three largest production centres in North America, with Los Angeles and New York.

Although it has many assets, the Québec fashion and clothing industry has had to face numerous challenges. These were exacerbated when all import quotas were abolished in 2005. The main challenges are:

- the drop in its exports, due in particular to a strong Canadian dollar;
- stiff foreign competition, particularly from emerging countries;
- the breakthrough of foreign retail trade chains in the Québec market.

Thus, like other fashion and clothing industries around the world, the Québec industry had to reinvent itself by turning its activities to niche products, small-batch production and smart clothing with special properties, such as hydration or thermoregulation.

Similarly, it adopted new business models to cope with international competition, through organizational innovation and the optimization of its value chain. In fact, according to Desjardins,<sup>10</sup> the Québec fashion and clothing industry is an example of an industry that turned the changing manufacturing sector to advantage.

Considering the efforts deployed and the advances made by the fashion and clothing sector in Québec, the government intends to continue its support to the sector. Since the amounts set aside in the Québec Fashion and Clothing Industry Strategy have been used up, additional funds will be necessary.

In that regard, in Budget 2012-2013, the government is reiterating its support for fashion events showcasing the talent of our Québec creators and designers, and the exceptional work of the Montréal Fashion Bureau. In so doing, it pledges to support new initiatives to revive exports, develop a new strategy for the industry and promote the use of information and communications technologies.

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10 DESJARDINS ÉTUDES ÉCONOMIQUES, *op. cit.*

Overall, the measures in Budget 2012-2013 respecting the fashion and clothing industry will enable interventions of \$9.5 million over three years.

TABLE G.18

**Measures to make Montréal a city of fashion and creativity**  
(millions of dollars)

	Financial impact				Envelope over 3 years
	2012-2013	2013-2014	2014-2015	Total	
Financial support for fashion events and the Montréal Fashion Bureau	-2.0	—	—	-2.0	2.0
Launch of an offensive on markets outside Québec	—	—	—	—	4.0
Creation of a working group	-0.5	—	—	-0.5	0.5
ICT integration – PME 2.0 <sup>(1)</sup>	—	—	—	—	3.0
<b>TOTAL</b>	<b>-2.5</b>	<b>—</b>	<b>—</b>	<b>-2.5</b>	<b>9.5</b>

(1) The financial impact of this component is accounted for as part of the PME 2.0 measure.

■ **\$2 million in financial assistance for fashion events and the Montréal Fashion Bureau**

Recognition of a fashion and clothing industry and its artisans is necessarily dependent on the development and visibility of an urban centre. In that sense, the holding of both local and international fashion and promotional events is an essential for the growth of a fashion city.

In that regard, major developmental initiatives have been put in place:

- Montréal Fashion Week, the Montréal Fashion & Design Festival and North American Fur & Fashion Exposition Montréal are significant factors in the recognition of Montréal as a city of fashion and creativity.
- Since its creation in 2009, the Montréal Fashion Bureau has played a key role in heightening the visibility of Montréal fashion, by participating in the carrying out of numerous promotional initiatives.

These initiatives were beneficial, because, in 2011, Montréal became one of the top 50 international fashion cities, according to the Global Language Monitor.

To continue the work of organizations dedicated to the fashion and clothing sector, the government intends to maintain its support for catalyst initiatives for all industry players. The initiatives will help promote Montréal's assets and showcase all stakeholders in the fashion and clothing industry.

Accordingly, Budget 2012-2013 provides for the maintenance of the financial support for existing events, as well as for support for new activities that contribute to Montréal's visibility as a fashion city. In addition, funding is earmarked for the consolidation and enhancement of the Montréal Fashion Bureau's promotional activities.

To that end, additional funding of \$2 million will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation in 2012-2013. The funding required for this year will be drawn from the Contingency Fund.

### Local and international success stories

Montréal and its fashion and clothing industry can rely on numerous initiatives to ensure their visibility both locally and internationally.

#### Local success stories

- Deployment of the Montréal Fashion Bureau's "Montréal Style Libre" marketing strategy, which led to the development of the red pin visual concept for identifying the boutiques and workshops of Montréal creators, followed by the silver pin for identifying Montréal retailers.
- Partnerships between designers and retailers to create special collections, such as Denis Gagnon for Bedo, Philippe Dubuc for Simons and Marie St-Pierre for Reitmans.
- Multidisciplinary collaborations, including that of Jean-Claude Poitras with Première Moisson, Denis Gagnon with Lancôme, Marie St-Pierre with Hotel Le Germain Montreal, and Simon Chang with Air Transat.
- Hosting of international fashion exhibitions, such as that of Jean-Paul Gaultier at the Montreal Museum of Fine Arts.
- Introduction of a program to assist international journalists.

#### International success stories

- Presentation of the Noël à Québec event at the Galeries Lafayette in Berlin.
- Holding of the Fashion & Opera event in New York and Los Angeles, signed Groupe Sensation Mode.
- Association with the Who's Next show in Paris and Japan Fashion Week in Tokyo.

## ■ Launching of an offensive on markets outside Québec

Québec companies interested in developing opportunities on international markets, for example by participating in international events and trade shows and deploying a strategy for establishing a brand abroad, can take advantage of Export Québec's assistance service. These initiatives are in fact necessary to raise the profile of our creators and companies. As a result, they help position Montréal on the international stage as a city of fashion and creativity.

With a view to pursuing these developmental initiatives, an envelope of \$4 million over three years will be set aside specifically for the fashion and clothing sector under the Export Program of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

This assistance will make it possible to:

- pursue activities for the promotion and development of markets outside Québec;
- renew and enhance, in 2012, the Acheteurs operation, which consists in hosting foreign buyers during Montréal Fashion Week;
- support several promotional activities on the U.S. market, which remains very important to this sector, but also in Europe, Japan and South America.

### ■ **Creation of a working group**

In 2008, the Table de concertation dans le secteur de la mode et du vêtement was created to foster concerted action and synergy in the fashion and clothing sector and implement developmental projects for the industry as a whole.

- Through its work, the round table identified the issues facing the industry, particularly in regard to labour, exports and product marketing.

The Québec fashion and clothing industry must now work together to maintain the progress made, but also to adopt the means for moving forward and showcasing the full potential of its artisans, creators, designers and manufacturers. To that end, the government is announcing the creation of a working group co-chaired by Elliot Lifson, Vice-Chairman of Peerless Clothing Inc., and Anna Martini, President of Groupe Dynamite inc., who will be joined by representatives from the fashion and clothing sector. The working group will be supported by the Ministère du Développement économique, de l'Innovation et de l'Exportation, which will see to administrative work.

The working group's mandate is as follows:

- analyze the current position of the Québec fashion and clothing sector and determine the most promising avenues, particularly as regards the adoption of new technologies;
- propose recommendations on concrete actions to support Québec creators and companies, with a view to better positioning them in high value-added niches;
- propose an action plan that will enable a synergy and linkages to be created between the stakeholders, for example between creators, companies and the research community;
- develop a brand strategy for Montréal as a fashion capital.

The working group will submit its report to the Minister of Economic Development, Innovation and Export Trade by January 15, 2013.

To set up this working group, additional funding of \$500 000 will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation in 2012-2013. The funding required will be drawn from the Contingency Fund.

## ■ **Integration of information technologies into the fashion and clothing sector**

The fashion and clothing industry, like many other industries, does not use ICTs much. The PME 2.0 measure will therefore target the fashion and clothing industry. The measure will provide assistance and support to businesses for ICT integration. For example, projects should enable the development of e-commerce solutions or the implementation of best practices in regard to logistics.

## □ **Improving the delivery of services to businesses**

On January 16, 2012, the Minister of Economic Development, Innovation and Export Trade made public the report of the working group on regulatory and administrative streamlining.

- The mandate of the working group, which was chaired by Michel Audet, former finance minister and former economic development, innovation and export trade minister, consisted in proposing concrete measures to ease the regulatory and administrative burden of companies, particularly SMEs.
- The work showed that the regulatory and administrative burden was still a heavy one for Québec companies operating in increasingly competitive markets.

To improve the competitiveness of companies, such as those in the manufacturing sector, the government wants to continue its efforts to create an even simpler and more efficient business environment, especially as regards the delivery of e-services, which can significantly reduce red tap.

Additional funding of \$1.0 million for each of fiscal years 2012-2013 and 2013-2014 will be granted to the Secrétariat du Conseil du trésor (Services Québec) for the improvement of e-service delivery. The funding required for 2012-2013 will be drawn from the Contingency Fund.

This financial contribution will lead to, among other things:

- standardization of the information on the following portals: "My File" on the Businesses page, the "authentication service of the Québec government, clicSÉQUR" and "Online services" of the Registraire des entreprises;
- improve the clicSÉQUR service to facilitate management of access rights and levels;
- develop an integrated form, for business address changes;
- develop other functions: filing of supporting documents, pre-completion of forms, and tracking of the processing of requests.

## ❑ **A new sector-based industrial research group**

The 2010-2013 Québec Research and Innovation Strategy currently supports six sector-based industrial research groups. The purpose of these groups is to bring together businesses and public research institutions to carry out common R&D projects.

The government provided for the addition of a new sector-based group. In Budget 2012-2013, the government is announcing a group in the manufacturing sector: FABRIQ.

- This group has as its mission to increase the competitiveness of the Québec metal processing sector. FABRIQ will bolster innovation in the design and forming of metal products, as well as in the development of new materials and processes.

Thus, the government, through the Ministère du Développement économique, de l'Innovation et de l'Exportation will allot \$6.75 million over three years to the implementation of the FABRIQ project. These amounts will be drawn from those provided for under the Québec Research and Innovation Strategy.

## ❑ **Ensuring Québec's leadership in the life sciences**

The life sciences sector constitutes a source of wealth for Québec. It counts 350 businesses that employ almost 26 400 people. In fact, Québec has several large pharmaceutical companies that are among the most innovative in the world.

This situation is not unrelated to the research and development advantages in Québec.

- Companies can carry out all stages in the creation of a new medication, from the fundamental research phase to commercialization.
- Montréal is home to several top-notch public research centres and four faculties of medicine with their hospital research centres.
- The Québec labour force is skilled and the government provides significant support.

However, in Québec, as elsewhere, the life sciences sector must change its business model.

To ensure that Québec can continue to assume its leadership on the Canadian and international stage, the government is announcing the holding of a life sciences forum to which all industry partners will be invited.

The particulars of the consultation will be announced by the Minister of Economic Development, Innovation and Export Trade at a later date.

### 1.3.2 Increasing the capital of Québec businesses

Wealth creation requires workers, entrepreneurs and capital. Entrepreneurs must be able to count on quality labour and sufficient capital to ensure their development. As a result, venture capital funds, development funds and public funding are important financing means for the growth of Québec businesses.

To increase the capital available to Québec businesses, Budget 2012-2013 provides for:

- the conversion of Société Innovatech Québec et Chaudière-Appalaches (SIQCA) into a mixed public-private capital corporation, in partnership with Capital régional et coopératif Desjardins (CRCD);
- raising Fondation's annual issuance limit to foster its growth;
- the introduction of a new tax credit pertaining to the costs of issuing shares as part of an initial public offering (IPO) under the stock savings plan II (SSP II);
- \$3 million in additional capitalization for the Fonds de développement Emploi-Montréal.

These initiatives will make \$483 million in capital available to Québec businesses. A financial impact of \$44.5 million is provided for over the next three years.

TABLE G.19

#### Measures to increase capital for Québec businesses

(millions of dollars)

	Financial impact				Available capital
	2012-2013	2013-2014	2014-2015	Total	
Conversion of SIQCA	—	—	—	—	180.0
Increase in Fondation's annual issuance limit	-6.3	-12.5	-18.8	-37.6	150.0
Introduction of a new tax credit pertaining to the cost of issuing shares as part of an IPO under the SSP II	-0.8	-2.6	-2.6	-6.0	150.0
Additional capitalization of \$3 million for the Fonds de développement Emploi-Montréal	-0.9	—	—	-0.9	3.0
<b>TOTAL</b>	<b>-8.0</b>	<b>-15.1</b>	<b>-21.4</b>	<b>-44.5</b>	<b>483.0</b>

## ❑ **Conversion of Société Innovatech Québec et Chaudière-Appalaches**

In recent years, the government undertook to privatize or reconvert its four Innovatech corporations.

- In 2005, the government sold the portfolio of Société Innovatech du Grand Montréal to Collier Capital.
- In 2005 and 2008, in partnership with CRCD, Société Innovatech Régions ressources and Société Innovatech du sud du Québec were converted into a mixed public-private capital corporation (Desjardins-Innovatech s.e.c.). The partnership led to the injection of \$50 million in new capital through CRCD.

Today, only SIQCA has yet to be reconverted or privatized.

In its Québec Entrepreneurship Strategy, the Ministère du Développement économique, de l'Innovation et de l'Exportation provided for SIQCA's reconversion by the end of fiscal year 2011-2012. To that end, the Québec government, in association with CRCD, will reconvert SIQCA into a mixed public-private capital corporation via Desjardins-Innovatech.

Under the terms of that association, the management of SIQCA's full portfolio will be assured by Desjardins-Innovatech SEC, to which the cash resources will also be transferred. The latter already manages the portfolios of Société Innovatech du sud du Québec and Société Innovatech Régions ressources.

Moreover, CRCD will inject an additional \$20 million into Desjardins-Innovatech SEC, in order to support businesses in the existing portfolio and provide financing for new projects.

Further to SIQCA's reconversion, amounts totalling over \$80 million will be available for investment in new projects. This amount will be augmented by an additional contribution of up to \$100 million from other partners, which will put \$180 million at the disposal of Québec's technology businesses.

These amounts will:

- help implement a new technology accelerator in the city of Québec, to support the development of the best technology businesses in the Capitale-Nationale region and eastern Québec, so that they are more competitive on the international market;
- create the Québec technology fund to support the best businesses that have gone through the technology accelerator;
- create a co-investment fund in association with the Anges-Québec network, to support innovative businesses in the early commercialization phase;
- establish a specialized technology venture capital fund in partnership with an European venture capital fund.



In regard to the latter fund, a partnership has been concluded with the French group CM-CIC Capital Finance. The group will inject \$30 million into the new technology venture capital fund and Desjardins-Innovatech s.e.c. will provide \$20 million, for a minimum initial capitalization of \$50 million. Capital funding of \$50 million from other partners could also be added in the coming year. This partnership will benefit Québec technology businesses while opening doors for them in Europe.

These initiatives as a whole will benefit businesses in all regions of Québec and, more particularly, those in the Capitale-Nationale region.

Investissement Québec will be mandated to track government investments in Desjardins-Innovatech SEC.

### **❑ Increase in Fondation's issuance limit**

The mission of Fondation, the Fonds de développement de la CSN pour la coopération et l'Évolution de l'emploi, is to make access to retirement savings easier, contribute to maintaining or creating jobs and stimulate Québec's economy by investments in Québec SMEs.

More particularly, Fondation invests in social economy companies and companies engaged in a participative management process. Fondation also supports companies that demonstrate concern for the environment and sustainable development.

To facilitate the capitalization of Fondation and enable it to invest more in Québec businesses, initiatives were provided for in Budget 2009-2010. For example, on June 1, 2009, the rate of the non-refundable tax credit respecting a labour-sponsored fund was raised from 15% to 25% for acquisitions of Fondation shares, up to a capitalization of \$1.25 billion. During that period, Fondation's annual issues were capped at \$150 million per year.

As at November 30, 2011, Fondation had 109 829 shareholders and its net assets stood at \$874.8 million.

### **■ Gradual increase in the annual issuance limit over three years**

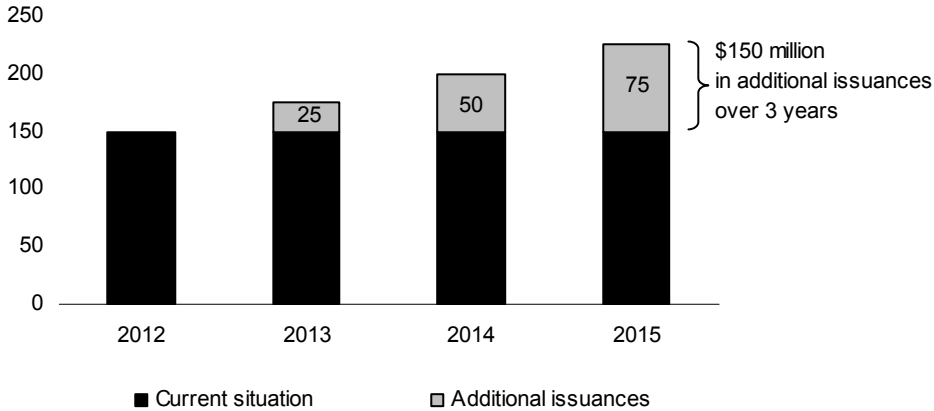
To enable Fondation to reach an optimal level of capitalization more rapidly, Budget 2012-2013 provides for a gradual increase in the annual issuance limit over the next three years.

Thus, the annual issuance limit will be increased by \$25 million a year over three years, reaching \$175 million in 2013, \$200 million in 2014 and \$225 million in 2015.

The gradual increase should enable Fondation to free up additional cash resources of \$150 million to support the development of Québec SMEs. At least 60% of that amount, that is, \$90 million, will be invested annually in Québec companies in compliance with Fondation's investment requirement.

CHART G.11

**Impact of the increase in Fondation's annual issuance limit**  
(millions of dollars)



Note: The years correspond to the financial years of Fondation.

Fondation should thus reach \$1.25 billion in capitalization as of 2015. Consequently, the non-refundable tax credit rate will be brought back to 15% and, as of June 1, 2015, the issuance limit will be lifted.

The financial impact of this measure will be \$6.3 million in 2012-2013, \$12.5 million in 2013-2014 and \$18.8 million in 2014-2015.

**❑ Introduction of a new tax credit pertaining to the costs of issuing shares as part of an initial public offering (IPO) under the stock savings plan II**

In 2005, the government brought in the stock savings plan II (SSP II) to stimulate and facilitate public financing for small Québec businesses. Under the plan, individuals who invest in eligible businesses can deduct from their taxable income 100% of the cost of the shares they acquire.

TABLE G.20

**Principal parameters of the SSP II**

<b>Qualified corporations</b>	<ul style="list-style-type: none"><li>– Québec corporations with assets under \$200 million</li><li>– Capital pool companies</li><li>– Investment funds</li></ul>
<b>Qualifying securities</b>	<ul style="list-style-type: none"><li>– Newly issued common shares with voting rights</li><li>– Securities issued by qualified investment funds</li></ul>
<b>Tax incentive</b>	<ul style="list-style-type: none"><li>– Deduction for individuals: 100% of cost of acquisition</li></ul>
<b>Minimum holding period</b>	<ul style="list-style-type: none"><li>– 2 years</li></ul>
<b>Application period</b>	<ul style="list-style-type: none"><li>– Until December 31, 2014</li></ul>

The plan does not constitute direct assistance to businesses. The advantage offered by the SSP II is directed toward investors to encourage them to acquire shares in the corporations covered by the plan.

An initial public offering (IPO) is a considerable expense for corporations, which can be a deterrent to accessing public capital markets for the first time. Thus, to help businesses cover the higher costs of an IPO compared to subsequent share issues, the government is announcing the introduction of a new tax credit pertaining to the costs of issuing shares as part of an IPO under the SSP II.

Accordingly, for the application period of the SSP II, an eligible business will be entitled to a refundable tax credit equivalent to 30% of the eligible issue costs incurred as part of an IPO. Eligible costs will be limited to 15% of the gross proceeds of the share issue without exceeding \$3 million.

TABLE G.21

**Principal parameters of the new tax credit pertaining to the costs of issuing shares as part of an IPO under the SSP II**

<b>Qualified corporations</b>	– Qualified corporations for the purposes of the SSP II
<b>Eligible costs</b>	– Share issue costs incurred as part of an IPO under the SSP II <ul style="list-style-type: none"> <li>▪ legal expenses related to the development of a prospectus</li> <li>▪ accounting fees related to the filing of reports</li> <li>▪ brokerage expenses (fees or commissions)</li> </ul>
<b>Application details</b>	– Refundable tax credit – Tax credit rate: 30% – Eligible issue costs limited to 15% of the gross issue proceeds without exceeding \$3 million

As a result of the new tax credit pertaining to share issue costs, combined with the advantages offered by the SSP II, Québec growth businesses will be stimulated to make IPOs. The cost of the measure is evaluated at \$6.0 million dollars for the next three years.

## **❑ Fonds de développement Emploi-Montréal**

The Fonds de développement Emploi-Montréal inc. (FDEM) is a development capital fund set up jointly by the Corporations de développement économique et communautaire montréalaises (CDEC), the Fonds de solidarité FTQ, Investissement Québec and Ville de Montréal.

The FDEM complements the financing tools offered by financial institutions and government bodies. For example, it offers financing tools to businesses in the form of startup loans, but also technical support to CDEC and consulting services to social economy companies.

Since 1997, the FDEM has been decapitalized, despite positive results for the investments made. This situation has a direct impact on businesses' access to financing and on the other services offered by the FDEM.

To help recapitalize the FDEM, Budget 2012-2013 provides for the granting of an interest-free loan of \$3 million for a period of five years. For its part, the Fonds de solidarité FTQ will restructure its interest in the FDEM to enable it to invest more capital in businesses.

- The government's contribution will be drawn from the Economic Development Fund of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

With the increase in its envelope, the FDEM will be able to continue its action on behalf of economic development and entrepreneurship in Montréal.

To that end, additional funding of \$900 000 will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation in 2012-2013. The funding will be drawn from the Contingency Fund.

The Ministère du Développement économique, de l'Innovation et de l'Exportation will announce the details of the measure at a later date.

### **1.3.3 Stimulating our exports**

Exports account for 45% of GDP, making them one of the main drivers of the Québec economy. Budget 2011-2012 was an opportunity not only to implement measures to increase government support for export businesses, but also to enhance the efficacy of the tools and aids at their disposal.

Budget 2012-2013 proposes the following new measures, totalling \$34.9 million over three years, to continue government efforts regarding Québec exports:

- enable Export Québec to support new sectors, namely, the manufacturing, fashion and clothing, forestry and biofood sectors;
- multiply business opportunities through the network of Québec offices abroad;
- introduce a refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies;
- ensure the leadership of the Centre de la francophonie des Amériques;
- make adjustments to the tax credit for the production of multimedia titles.

TABLE G.22

**Financial impact of the measures to support exports**  
 (millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Export Québec: inclusion of new sectors (manufacturing, fashion and clothing, forestry and biofood)	-2.0	-2.0	-2.0	<b>-6.0</b>
Multiplying business opportunities through the network of Québec offices abroad	-1.5	-1.5	-1.5	<b>-4.5</b>
Tax credit pertaining to the diversification of markets of Québec manufacturing companies	-1.5	-5.0	-11.0	<b>-17.5</b>
Centre de la francophonie des Amériques	-1.0	-1.0	-1.0	<b>-3.0</b>
Adjustments to the tax credit for the production of multimedia titles <sup>(1)</sup>	-0.7	-1.3	-1.9	<b>-3.9</b>
<b>TOTAL</b>	<b>-6.7</b>	<b>-10.8</b>	<b>-17.4</b>	<b>-34.9</b>

(1) The particulars of this measure are presented in the document *Additional Information on the Budgetary Measures of Budget 2012-2013*.

### ❑ **Export Québec: inclusion of the manufacturing, fashion and clothing, forestry and biofood sectors**

Export Québec, whose creation was announced in Budget 2011-2012, is a unit composed of specialists at the Ministère du Développement économique, de l'Innovation et de l'Exportation. The unit's mission is to help Québec businesses develop, consolidate or diversify their markets outside Québec.

In conjunction with the creation of Export Québec, the financial assistance measures for businesses were enhanced and merged with the introduction of the new Export Program.

When it was officially launched on November 8, 2011, Export Québec was allocated an envelope of \$60 million over three years to support businesses in, among other things:

- conducting market studies outside Québec and preparing and implementing international business plans;
- recruiting international business specialists.

Export Québec also enables Québec businesses to become known in 26 business centres in 21 countries through an incubator network. That service is provided under an agreement with Entreprise Rhône-Alpes International.

- To date, many Québec businesses have taken steps toward the establishment of a place of business in one of the incubators.

In addition, the network of Québec offices abroad gives Québec businesses access to some 50 cities in the world. The offices host and support Québec businesses during international trade missions. They also promote on the world stage in addition to facilitating business linkages.

■ **New measures to support certain sectors on foreign markets**

With Export Québec's support, the government can propose support measures mesures tailored to the business objectives and the capacity of companies.

Thus, Export Québec participates in the Québec Entrepreneurship Strategy, by setting aside \$13 million of its envelope to provide personalized support to SMEs over the next two years.

The government intends to continue on this path, by stepping up Export Québec's action in sectors whose growth in the coming years will be closely tied to opening up new markets.

■ **Support for a special agreement between Export Québec and Manufacturiers et exportateurs du Québec**

The survival of many businesses in the manufacturing sector very often depends on taking advantage of openings on outside markets. Manufacturing businesses are faced with extremely stiff competition from emerging countries, where wages are lower, and from developed countries, such as Germany, with an extremely efficient industrial structure.

Manufacturiers et exportateurs du Québec has resources enabling it to help companies in the manufacturing sector capitalize on business opportunities abroad.

<b>Manufacturiers et exportateurs du Québec</b>
<p>Manufacturiers et exportateurs du Québec, a non-profit organization, is an association with a mission to:</p> <ul style="list-style-type: none"><li>– improve the business environment;</li><li>– help manufacturing and export companies to become more competitive on local and international markets, through its leadership, expertise and network, and the strength of its members.</li></ul> <p>Manufacturiers et exportateurs du Québec is a division of Canadian Manufacturers and Exporters, the largest business and industrial association in Canada, founded in 1871.</p>

Source: Manufacturiers et exportateurs du Québec.

Thus, Budget 2012-2013 provides for the allocation of \$600 000 over three years to a special agreement between Export Québec and Manufacturiers et exportateurs du Québec, for the purpose of:

- developing specific export processes for businesses with a high potential for internationalization;
- continuous sharing of strategic information on the needs of manufacturing companies and their financial situation;
- undertaking projects to assist companies in target markets.

The agreement will enable companies to showcase their know-how regarding, for example, the quality of their labour force, their ability to innovate and their creativity.

This measure will be financed out of the funding of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

### ■ Support for the fashion and clothing sector

As soon as it was founded, Export Québec began supporting Québec businesses in the fashion and clothing sector, and assisting them in their international development efforts.

Budget 2012-2013 provides for an envelope of \$2 million in 2012-2013 and \$1 million for 2013-2014 and 2014-2015 under the Export Program of the Ministère du Développement économique, de l'Innovation et de l'Exportation. Among other things, the envelope will enable Export Québec to step up its support for businesses in the fashion and clothing sector that wish to make inroads abroad by participating in events and developing promotional activities to showcase their creations. Export Québec will be able to draw on the best business practices in this sector.

#### **Successful businesses in markets outside Québec**

Wazana Clothing, whose products Second Denim and Second Clothing are available in over 850 sales outlets in North America alone, penetrated the U.S. and European markets foreign distributors met with, for example, on trade missions abroad.

Aldo Group, a Québec company whose head office is in the borough of Saint-Laurent in Montréal, is present in over 70 countries with 1 600 boutiques and seven banners (Aldo, Aldo accessories, Globo, Little Burgundy, Pegabo, Spring and Locale). Its products are also carried in certain luxury department stores. The deployment of a brand strategy abroad, combined with the opening of its own network of retail companies, has made the company one of the largest on the world stage in the shoe and accessories category, with an estimated sales figure of \$1.5 billion.

This measure will be financed out of the funding of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

## ■ **Support for the forestry sector**

The Québec forestry industry is going through a difficult period in which it must diversify both its products and markets.

At present, its exports head primarily to the United States. A large share of its products is intended for the construction sector—a sector that has been at the centre of this country's economic problems since 2007. The newspaper and printing paper market is tributary to the slow but steady decline in newspaper circulation through the Western world.

To address the challenges facing the forestry sector, the Ministère du Développement économique, de l'Innovation et de l'Exportation and the Ministère des Ressources naturelles et de la Faune will collaborate on an export strategy for Québec wood products, in particular engineered wood and high value-added products.

Export Québec will play an important role supporting the marketing of wood products through the tools, expertise and networks it has developed.

To that end, additional funding of \$1.0 million a year in 2012-2013, 2013-2014 and 2014-2015 will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## ■ **Support for the biofood sector**

Growth of the food processing sector depends in large part on markets outside Québec. The industry's exports are currently concentrated in a handful of countries, including the United States. To promote Québec products abroad, Export Québec will be mandated to develop an export strategy in collaboration with the Ministère de l'Agricultures, des Pêcheries et de l'Alimentation.

The strategy must take into account the specific characteristics of businesses in the food processing sector and complement the objectives of MAPAQ's strategy for prospecting and developing markets outside Québec.

To that end, additional funding of \$1.0 million in 2012-2013, 2013-2014 and 2014-2015 will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## □ **Multiplying business opportunities through the network of Québec offices abroad**

The 2008 economic crisis obliged Québec to not only firm up its position on its traditional export markets, but also to improve its positioning on new markets, especially in emerging countries.

With that in mind, the Québec government announced, in Budget 2011-2012, the implementation of various measures to develop and diversify the exports of Québec businesses.



- For example, additional amounts were allocated to the Ministère des Relations internationales (MRI) in order to increase Québec's presence in the emerging countries, namely, Brazil, Russia, India and China, through its network of offices abroad.

Now it is important to consolidate the progress made and continue the efforts deployed on Québec's main export markets, namely, the United States, Europe and Asia.

To ensure adequate support for Québec businesses interested in bolstering their presence on, or penetrating, the U.S., European and Asian markets, the budget of the Ministère des Relations internationales will be increased by \$1.5 million. This amount will serve to organize major events to promote Québec that are in keeping with government priorities such as the Plan Nord, as well as strategies for the United States, Europe and Asia.

To that end, additional funding of \$1.5 million will be allocated to the Ministère des Relations internationales in 2012-2013, 2013-2014 and 2014-2015. The amounts for 2012-2013 will be included in the department's expenditure budget.

### **❑ Introduction of a refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies**

Many Québec SMEs must make their products comply with certain standards applicable in the markets they wish to serve.

The costs associated with complying with these standards can be high, especially for SMEs in the manufacturing sector. As a result, these costs could discourage the companies from expanding into new markets, even if the markets could have a positive impact on their activities.

- In this respect, it is generally recognized that corporations that diversify their markets grow more rapidly, are more profitable and have a higher survival rate than corporations that restrict themselves to the domestic market.

To support manufacturing SMEs required to comply with the standards applicable in their target markets, Budget 2012-2013 provides for the introduction of a tax credit to reduce the costs related to complying with certain standards imposed by foreign jurisdictions. In addition to encouraging SMEs to make goods manufactured in Québec comply with the regulations in force in another jurisdiction, this measure will promote their expansion.

This measure is part of the objectives pursued by the Québec Entrepreneurship Strategy, one of the aspects of which is market development.

The tax credit will be administered by Investissement Québec. In managing the credit, the body will be responsible for issuing certificates attesting that the corporation carries out activities eligible for the tax assistance.

This assistance will apply to eligible expenditures incurred after the day of Budget 2012-2013 and before January 1, 2016.

The following table shows the principal parameters of the tax credit.

TABLE G.23

**Principal parameters of the refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies**

<b>Eligible corporations</b>	Manufacturing corporations operating a business in Québec and holding a qualification certificate issued by Investissement Québec confirming that the corporation: <ul style="list-style-type: none"> <li>– has assets under \$50 million;</li> <li>– carries out eligible activities<sup>(1)</sup> in a proportion of 75% or more.</li> </ul>
<b>Eligible expenditures</b>	Expenses incurred by corporations seeking to comply with existing standards in jurisdictions outside Québec with respect to activities carried out in Québec: <ul style="list-style-type: none"> <li>– expenses of accreditation bodies;</li> <li>– fees of outside, arm's-length consultants (Québec or foreign consultants).</li> </ul>
<b>Rates</b>	30% of eligible expenditures incurred by corporations. <ul style="list-style-type: none"> <li>– \$150 000 limit per corporation on eligible expenditures for the duration of the application of the tax credit.</li> </ul>
<b>Duration</b>	Expenditures must be incurred after the day of Budget 2012-2013 and before January 1, 2016.

(1) Activities belonging to the following codes of the North American Industry Classification System (NAICS-2012): 321215 (structural wood product manufacturing), 321216 (particle board and fibreboard mills), 321911 (wood window and door manufacturing), 321919 (other millwork), 326122 (plastic pipe and pipe fitting manufacturing), 326196 (plastic window and door manufacturing), 326220 (rubber and plastic hose and belting manufacturing), 331210 (iron and steel pipes and tubes manufacturing from purchased steel), 332311 (prefabricated metal building and component manufacturing), 332319 (other plate work and fabricated structural product manufacturing), 332321 (metal window and door manufacturing), 332410 (power boiler and heat exchanger manufacturing), 332420 (metal tank manufacturing), 332910 (metal valve manufacturing), 3334 (ventilation, heating, air-conditioning and commercial refrigeration equipment manufacturing), 333920 (material handling equipment manufacturing), 335920 (communication and energy wire and cable manufacturing), 335930 (wiring device manufacturing).

About 750 SMEs in the manufacturing sector will be able to take advantage of this tax assistance. The financial impact of the measure will be \$1.5 million in 2012-2013, \$5.0 million in 2013-2014 and \$11.0 million in 2014-2015.

## ❑ Centre de la francophonie des Amériques

Since its inauguration in 2008, the Centre de la francophonie des Amériques has helped promote and develop La Francophonie as a beacon in a context of cultural diversity, by concentrating on strengthening and enriching relations between Francophones and Francophiles in Québec, Canada and the Americas.

With the tabling of Budget 2012-2013, the government is renewing its support for the Centre de la francophonie des Amériques, in order to ensure its leadership in the Americas and enable it to adequately carry out its mission.

To that end, additional funding of \$1.0 million in 2012-2013, 2013-2014 and 2014-2015 will be granted to the Ministère du Conseil exécutif. The funding for 2012-2013 will be drawn from the Contingency Fund.

### 1.3.4 Fostering the development of cooperatives

#### ❑ Growth of the cooperative movement

For over a century, cooperatives and mutuals have contributed to Québec's economic growth. Alphonse Desjardins, who founded the first caisse populaire in Lévis in 1900, was a pioneer of the cooperative movement in Canada. Today, the Fédération des caisses Desjardins du Québec is one of the largest Canadian financial groups.

Over time, the activities of the cooperative movement diversified. The cooperative formula adapted to the socioeconomic context in order to foster the emergence of businesses meeting a variety of needs.

#### The cooperative movement in Québec

A cooperative is a legal person in which persons or partnerships having economic, social or cultural needs in common unite for the prosecution of an enterprise according to the rules of cooperative action to meet those needs.

Power is exercised democratically by the members: one member, one vote.

Québec has close to 3 300 active cooperatives and mutuals. Cooperatives are present in numerous sectors of activity: from financial services and insurance, to health care in schools, to the manufacturing, agrifood, food and housing sectors.

There are two types of cooperatives: non-financial cooperatives, governed by the *Cooperatives Act*, and financial cooperatives, which include mutual insurance companies.

The cooperative formula is attracting interest worldwide. The United Nations General Assembly named 2012 “International Year of Cooperatives” to underscore the exceptional contribution of cooperatives to economic development and social innovation around the world.

#### ❑ Non-financial cooperatives

In December 2011, nearly 2 840 non-financial cooperatives were operating in many sectors of the Québec economy.

- The housing sector accounted for over 45% of active cooperatives in 2011. Moreover, a substantial number of cooperatives make up the professional and technical sectors (246), the agriculture and fisheries sector (239), the health and social services sector (152) and the food sector (143).

In 2009, cooperatives had a sales figure of \$11.5 billion and employed almost 44 200 people.<sup>11</sup>

- Nearly 70% of jobs in cooperatives are outside the major centres and concentrated more in rural and semi-urban zones, such as the resource regions.

11 These data are obtained from annual reports sent to the Ministère du Développement économique, de l'Innovation et de l'Exportation by 2 302 coopératives, in accordance with the *Cooperatives Act*.

## ❑ Potential of the cooperative formula for Québec

The 2008 financial crisis and the ensuing recession revealed the resilience of cooperatives.

- In Québec, cooperatives post a five-year survival rate that is almost double that of Québec businesses (62% versus 35%).
- From 1999 à 2009, employment growth in cooperatives was 37.3%, compared to 15.7% for employment in the Québec economy as a whole.

Since cooperatives are comprised of groups of persons, not capital, it is practically impossible to move them elsewhere, so they maximize local economic benefits.

The shareholding workers cooperative (SWC) formula has a high potential for development, particularly with respect to business succession. The formula promotes, among other things, better productivity and worker retention through financial interests in the company for the workers.

### Shareholding workers cooperative success stories in business succession

A shareholding workers cooperative (SWC) is made up of workers seeking to acquire and hold shares in the business corporation that employs its members. The relationship between the cooperative and the business is governed by a shareholder agreement. This type of cooperative is found in, for example, the manufacturing, computer, multimedia and consulting services sectors.

SWCs open a new avenue for the cooperative formula. Several success stories deserve to be mentioned.

#### **Coopérative de travailleurs actionnaire TEC**

This SWC owns a large share of the Montréal company Technology Evaluation Centers Inc. (TEC), which is specialized in the online evaluation of software and employs more than 125 workers. The creation of the SWC enabled the company to keep its specialized resources and thus become a leader in its field.

#### **Coopérative de travailleurs actionnaire Filage Sherbrooke**

FilSpec, with the help of workers brought together in an SWC, converted its activities from conventional textiles to highly specialized textiles. The conversion saved more than 150 industrial jobs.

#### **Coopérative de travailleurs actionnaire du Groupe Congébec**

This SWC is specialized in food refrigeration for food companies. The creation of the SWC resulted in continued growth for the company, which now has more than 140 workers at its Boucherville, Sainte-Julie, Montréal and Québec facilities.

Source: Ministère du Développement économique, de l'Innovation et de l'Exportation.

While Québec accounts for more than 60% of new cooperatives in Canada, the number of new cooperatives created annually continues to be somewhat limited (about 132 a year over the last five years).

The government recognizes that the cooperative formula, despite the performance that can be attributed to it, is still little known and its possibilities are as yet largely untapped. The number of business takeovers by cooperatives is still low.

In fact, as part of the 2011-2014 Québec Entrepreneurship Strategy, the government announced several measures to support the development of cooperatives, such as SWCs, namely:

- the renewal of government cooperation with regional or sector-based cooperative networks, and with Québec's other social economy networks, respectively grouped under the responsibility of Conseil québécois de la coopération et de la mutualité (CQCM) and the Chantier de l'économie sociale;
- the creation of Groupe Coop Relève, a new technical support entity under the responsibility of the CQCM that will offer advice and expertise on business succession involving cooperatives;
- a cooperative fund for Nunavik, created in cooperation with the Fédération des coopératives du Nouveau-Québec (FCNQ) and with the help of the Kativik Regional Government and Makivik Corporation. The aim of the fund is to foster the direct participation of the Inuit population and the cooperatives of Nouveau-Québec in the Plan Nord;
- support of \$1 million for the International Summit of Cooperatives, to be held in the city of Québec from October 8-11, 2012.

Cooperatives can also take advantage of the program for the financing of collective entrepreneurship and the program for the capitalization of social economy companies, administered by Investissement Québec.

### **Conseil québécois de la coopération et de la mutualité**

The Conseil québécois de la coopération et de la mutualité (CQCM) represents all sector-based and regional cooperative organizations in Québec. It is comprised of more than 3 300 cooperatives and mutuels.

#### **Partnership agreement for the development of cooperatives**

Under this agreement, the CQCM, which receives \$4.5 million annually in government funding, can grant financial contributions to 11 regional development cooperatives and 11 sector-based federations, enabling them to promote the formula, support cooperative startups, provide specialized follow-up services and carry out developmental projects for the cooperative sector.

This partnership would not be possible without the financial contribution of nearly \$550 000 a year from the cooperative and mutual networks, for example those of Agropur coopérative, Desjardins, Groupe Promutuel, La Capitale mutuelle de l'administration publique, La Coop fédérée and SSQ Mutuelle de gestion, which contribute to this agreement without deriving any financial benefits. This support is an exemplary, concrete example of the principle of intercooperation.

Over the past three years, the partnership agreement with the CQCM has led to support for close to 330 new cooperatives, generating 1 234 jobs on startup. Over 500 existing cooperatives have received specialized follow-up and business assistance, and 167 developmental projects were completed.

## ■ New measures to support the growth of cooperatives

In Budget 2012-2013, the government proposes to go further and implement measures to:

- create a co-investment fund with \$30 million in capitalization for cooperative startups—the Fonds de co-investissement COOP;
- renew the envelope allocated to the program for the capitalization of social economy companies;
- enhance the Cooperative Investment Plan (CIP);
- renew for 10 years the deferred tax rebate mechanism, which ends on December 31, 2012.

TABLE G.24

### Measures to support the growth of cooperatives (millions of dollars)

	Financial impact				Amount of interventions <sup>(1)</sup>
	2012-2013	2013-2014	2014-2015	Total	
Fonds de co-investissement COOP <sup>(2)</sup>	-0.2	-0.2	-0.2	-0.6	30.0
Program for the capitalization of social economy companies <sup>(3)</sup>	—	—	—	—	13.1
Enhancement of the Cooperative Investment Plan	-1.0	-1.0	-1.0	-3.0	3.0
Renewal of the deferred tax rebate mechanism	—	-1.0	-1.0	-2.0	2.0
<b>TOTAL</b>	<b>-1.2</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-5.6</b>	<b>48.1</b>

(1) These amounts include the partners' shares.

(2) Impact on the government's debt service. The impact is presented for information purposes only and is incorporated into the government debt service forecast shown in sections A and C of the 2012-2013 Budget Plan.

(3) Measure financed by the Economic Development Fund.

## ❑ **Fonds de co-investissement COOP: \$30 million for cooperatives**

A pioneer in developing the cooperative formula, Québec has several assets for moving the formula forward. First, the Québec cooperative movement can count on leaders in business financing, such as Desjardins. Second, the movement can count on federative organizations, such as the Conseil québécois de la coopération et de la mutualité (CQCM).

- In addition, the federal government supports the Community Futures (CF) network, through the Community Futures Program or Business Development Corporations (BDCs), which are able to mobilize all the cooperative development assistance resources throughout Québec.

Moreover, the federal government also intervenes in business development in Canada, in particular through the Business Development Bank of Canada.

Thus, with a view to fostering the creation and growth of new cooperatives in Québec by relying on Québec and federal strengths in both expertise and financing, the government is announcing the creation of the Fonds de co-investissement COOP.

### ■ **A partnership model for cooperative financing**

The pooling of the partners' financial resources to finance new cooperatives will be done through two separate entities.

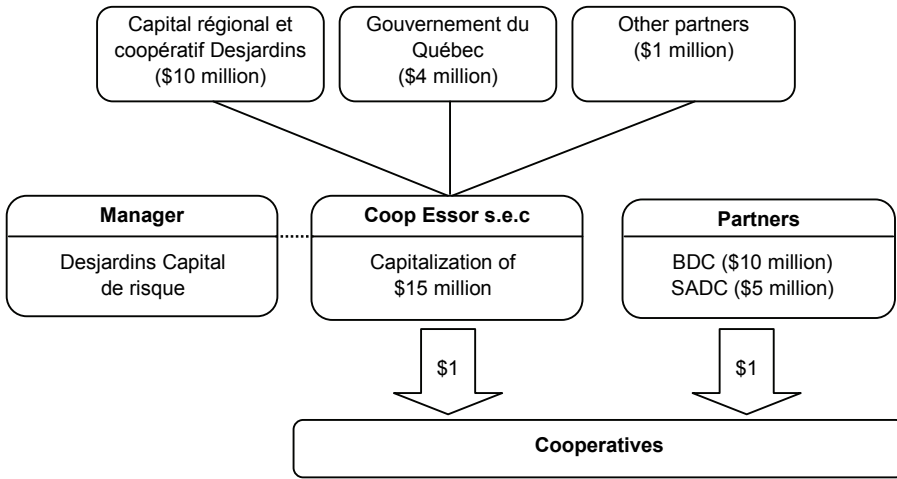
Thus, Coop Eссор will be created and managed by Desjardins Capital de risque. The government will make a contribution of \$4 million in capitalization to Coop Eссор, through the Economic Development Fund. The capitalization will be supplemented by a \$10-million contribution from Capital régional et coopérative Desjardins (CRCD) and a \$1-million contribution from other partners, including the CQCM.

Coop Eссор will co-invest in cooperatives with federal partners, including the Business Development Bank of Canada and the CF network, whose financial commitments total \$15 million.

Initially, investments in cooperatives will be financed 50-50 by the two entities.

- The fund partners will establish a common investment policy to reduce the risks associated with financing cooperative pre-startups and startups, and to yield benefits for both investors and partners.
- The policy will be flexible and efficient so as to comply with the incorporating act of each partner.

**Fonds de co-investissement COOP**



The governance of the Fonds de co-investissement COOP will include the creation of an investment committee and a board of directors of the Fonds de co-investissement COOP, which will be composed of representatives of the investor partners.

■ **Cooperatives covered by the Fonds de co-investissement COOP**

Coop Essor will be able to finance all cooperatives but, in actual fact, the vast majority of applications will be submitted to worker cooperatives, shareholding workers cooperatives (SWCs) and solidarity cooperatives.

New SWC applications and those involving takeovers of private businesses by cooperatives should constitute the bulk of the interventions.

The nature of the assistance provided by the fund and the use of the funds by the cooperatives will be defined by the fund's limited partners, with the participation of the cooperative sector.

■ **Partnerships with the cooperative sector**

Cooperative networks able to conduct financial analyses of projects will be called on. Certain sector-based cooperative federations will provide the financial analyses for projects concerning their sector of activity.

Local development centres and CFs will be called on for the analysis and follow-up of investment files under their mandate. In fields where there are no sector-based federations able to do the work, the analyses will be done by Desjardins Capital de risque or other financial partners, as needed. In any case, investment files must be approved by the investment committee and the board of directors of the Fonds de co-investissement COOP.



Moreover, as part of their existing mandate, sector-based federations of cooperatives and regional development cooperatives will ensure follow-up of the businesses supported by the Fonds de co-investissement COOP. Thus, the fund will base itself on a local follow-up and mentoring approach, which will increase the success rate and considerably reduce the investment risk associated with the creation of new cooperatives.

Thus, Budget 2012-2013 provides for a \$4-million contribution to the Economic Development Fund in the form of an advance or loan, the terms of which will be defined by the Ministère des Finances in collaboration with the Ministère du Développement économique, de l'Innovation et de l'Exportation.

### □ Program for the capitalization of social economy companies

The purpose of the program for the capitalization of social economy companies is to promote the creation, maintenance and development of social economy companies through financial assistance for cooperatives and non-profit organizations.

The program has been administered by Investissement Québec since its introduction in 2002. Due to excellent results, the program was renewed in 2008.

TABLE G.25

#### Envelopes granted to the program for the capitalization of social economy companies (millions of dollars)

	Financial interventions	Payment of interest charges	Total
2002 envelope	15.00	1.25	16.25
2008 envelope	11.40	1.70	13.10
<b>TOTAL</b>	<b>26.40</b>	<b>2.95</b>	<b>29.35</b>

To date, funding totalling \$23.1 million has been allocated to 278 social economy companies, thereby supporting projects of an estimated value of \$295.5 million and enabling the creation of 1 684 jobs and the consideration of 2 145 others.

TABLE G.26

#### Results of the program for the capitalization of social economy companies as at March 31, 2011

	Recipient businesses	Financing granted (\$million)	Projects supported	Value of projects (\$million)
Cooperatives	130	11.7	145	124.6
Non-profit organizations	148	11.4	158	170.9
<b>TOTAL</b>	<b>278</b>	<b>23.1</b>	<b>303</b>	<b>295.5</b>

Since the amounts allocated to the program in 2008 have been all but used up, the government is announcing, in Budget 2012-2013, the renewal of the envelope of the program for the capitalization of social economy companies. An envelope of \$11.4 million will be granted for new financial interventions and \$1.7 million for taking equity interests.

That envelope will cover the estimated financial needs of the next three years. The costs of the measure will be assumed by the Economic Development Fund.

### **☐ Enhancement of the Cooperative Investment Plan for shareholding workers cooperatives**

The Cooperative Investment Plan (CIP) fosters the development of cooperatives by granting members and workers a tax deduction equivalent to 125% of the cost of acquiring shares in a qualified cooperative.

Of the qualified cooperatives under the plan, shareholding workers cooperatives (SWCs) are a business model that brings together workers seeking to collectively become shareholders of the company that employs them. There are many advantages to this model, such as greater involvement in the company by the employees. SWCs represent a promising avenue for business succession—a concern that is increasingly present among Québec entrepreneurs.

As at March 8, 2012, 62 SWCs were active in most regions of Québec, thereby energizing Québec's entrepreneurial spirit. SWCs are particularly active in the professional and technical services sector, as well as the manufacturing, information technologies, business and forestry sectors.

TABLE G.27

#### **Distribution SWCs, by sector of activity**

<b>Sector of activity</b>	<b>Numer of SWCs</b>
Professional and technical services	12
Manufacturing	12
Information technologies	10
Wholesale and retail business	8
Forestry	5
Other	15
<b>TOTAL</b>	<b>62</b>

Source: Ministère du Développement économique, de l'Innovation et de l'Exportation.

In 2004, to ensure that the tax assistance for the capitalization of SWCs would be used to acquire and hold shares in a company that employs their members, a special tax on excess capital was provided for under the CIP. Thus, when the aggregate of the amounts paid for outstanding shares qualifying for the CIP exceeds 115% of the cost of the other securities held in the company employing the members, the SWC must pay a special tax equal to 30% of the excess amount.

It turns out that the 115% capital limit is too restrictive to ensure the sustainability and growth of the SWC model. Thus, to meet the needs expressed by the cooperative sector, the capital threshold beyond which a special tax will apply will be raised from 115% to 165%.

This major improvement to the plan will give SWCs more flexibility in their current operations and, more specifically, when they consider making additional investments in Québec companies where their members work. As a result, cooperatives will find it easier to actively participate in the growth of businesses in which they are partners.

The financial impact of this measure will be \$1 million a year for 2012-2013, 2013-2014 and 2014-2015.

### **❑ Renewal of the deferred tax rebate mechanism**

The deferred tax rebate mechanism is an additional measure for the support and capitalization of Québec cooperatives. This measure enables a member of a qualified cooperative who receives a rebate in the form of a preferred share to defer the tax on the value of the share until the share is disposed of.

When the measure was introduced, it was to apply for 10 years, until December 31, 2012. As it happens, the deferred tax rebate still meets the needs of the cooperative sector, and its impact on the growth of cooperatives is significant.

Budget 2012-2013 therefore announces that the deferred tax rebate mechanism will be renewed for an additional period of 10 years, until December 31, 2022.

Currently under the measure, a company must obtain an eligibility certificate from the Ministère du Développement économique, de l'Innovation et de l'Exportation to be able to pay eligible rebates. The certificate is renewable on a yearly basis at the cooperative's request.

To simplify the tax rules, the annual certification process in effect under the program will be replaced by the granting of a revocable permanent certificate.

The financial impact of the measure is \$1.0 million in 2013-2014 and 2014-2015.

## **1.3.5 Developing the financial sector**

### **❑ Importance of supporting the sector**

The financial sector, which generates over 150 000 jobs, the equivalent of 4.4% of industrial jobs in Québec, and accounts for 5.8% of Québec's industrial GDP, is one of the most important sectors in Québec.

In recent years, the Québec government has introduced several measures to support the development of the sector.

The stock savings plan II (SSP II) enables Québec investors to reduce their taxable income on the acquisition of shares of small qualified Québec corporations. The objective is to facilitate business financing.

The measure on international financial centres is aimed at facilitating, by means of tax incentives, the establishment, development and maintenance within the urban agglomeration of Montréal of businesses specializing in international financial transactions.

Finance Montréal, Québec's financial cluster created in 2010, has for its objective to make Montréal a strong financial centre in North America, for the benefit of Québec's entire financial sector, in part by giving rise to promising and innovative initiatives.

Lastly, the government supported, in 2011, the creation of the Institut de la finance structurée et des instruments dérivés de Montréal. One of the objectives of this organization, established under the leadership of HEC Montréal in collaboration with Finance Montréal, the Autorité des marchés financiers and the Ministère des Finances, is to develop a centre of excellence in teaching structured financial instruments, and thereby help promote Montréal's position as a strong financial centre in this field.

This budget provides for measures to support entrepreneurship and the improvement of financial literacy.

### **❑ Fiscal measures for this budget**

The existence of a strong financial sector is key to Québec's economic development. The financial sector facilitates the recruitment and retention of a highly specialized labour force, fosters the creation of financial products tailored to the Québec clientele and meets business financing needs.

In a globalization context in which financial corporations tend to merge, local financial services companies are faced with increasingly stiff competition and regulations that are complex. These factors are a major barrier for new entrepreneurs seeking to enter the sector.

Accordingly, it is becoming harder for small businesses to have local access to independent dealers and independent managers to meet their portfolio management or financing needs.

The government is therefore announcing fiscal measures for new companies specialized in securities dealing or securities portfolio management.

These measures will enable a qualified new financial services corporation to obtain a refundable tax credit for certain expenditures and for the hiring of specialized employees. A tax holiday for foreign specialists employed by a new financial services corporation will also be offered.

Thus, for example, securities dealers will be able to claim a tax credit respecting certain of their expenditures relative to an analysis, research, management, advisory, or securities transactions or distribution service they provide to a client.

In addition, securities advisers may claim a tax credit for certain of their expenditures relative to their securities advisory or securities portfolio management services they provide to a client.

More specifically, the measures are the following:

### **Tax credit for new financial services corporations**

The tax assistance offered will be in the form of a refundable tax credit equivalent to 40% of eligible expenditures, up to a maximum of \$150 000 per taxation year, for a five-year period as of the date of certification.

### **Hiring tax credit**

The proposed assistance will be in the form of a refundable tax credit equivalent to 30% of the eligible salary incurred regarding an eligible employee, up to a maximum of \$30 000 per employee per taxation year, for a five-year period as of the date of certification.

### **Tax holiday for foreign specialists**

The proposed assistance will be in the form of a deduction in the calculation of taxable income for a five-year period. The annual deduction rate will vary as follows: 100% the first two years, and 75%, 50% and 25%, respectively, over the following three years.

## **❑ Financial literacy measures**

The government has noted that there are financial literacy needs in Québec. The Autorité des marchés financiers already provides financial support for several projects to palliate that need, such as the personal finances education project of the Académie du Trésor. The latter's objective is to design and give financial training sessions to young people at the elementary, secondary and post-secondary levels.

A new project provides for, among other things, the development of a financial and economics program based on learning experiences. This project, which will be implemented by the CIRANO research group, is intended to introduce young people to, and train them in, financial and economic literacy.

The amounts required will reach \$900 000 over a three-year period and will come, in equal parts, from the private sector—the members of Finance Montréal—and the public sector. The Autorité des marchés financiers will contribute \$150 000 for the first year and \$75 000 a year for the following two years. The Ministère des Finances will grant a subsidy of \$75 000 a year in 2013-2014 and 2014-2015.

## **❑ Financial cooperatives**

The Québec financial sector has the advantage of being able to count on the strength of the Mouvement Desjardins, a world leader in financial cooperatives.

The United Nations General Assembly proclaimed 2012 “International Year of Cooperatives”.

To underscore this event, the government will collaborate with the cooperative sector, universities and research groups to create an Institut supérieur de coordination de la recherche et de l'innovation pour les coopératives et les mutuelles.

The composition of the institute will be announced at the International Summit of Cooperatives, to be held from October 8-11, 2012 in the city of Québec.

### 1.3.6 Increase the competitiveness of the biofood sector

The biofood industry plays a key role in the Québec economy. On its own, it generates 7% of Québec GDP and employs over 476 000 workers throughout Québec.

In 2010, Québec biofood exports totalled \$5 billion. The principal markets were the United States, the European Union and Japan.

- More than half of agricultural products, whether directly from the farm or after processing, go to markets outside Québec.

In a number of regions, the biofood sector is at the heart of economic life: In 14 of the province's 17 administrative regions, more than one out of 10 jobs is in the biofood sector. In the maritime regions, fishing, aquaculture and marine products processing account for nearly 8 000 jobs.

- In Gaspésie, 14% of jobs are in the marine products sector, whereas, in Îles-de-la-Madeleine and on the Basse-Côte-Nord, the sector accounts for 42% and 47% of jobs, respectively.

Food processing, an engine of development
<p>The food processing sector is an engine of development for the entire Québec biofood sector, as close to 70% of Québec agricultural and marine products are bought by Québec processors.</p> <p>The food processing sector also occupies an important place in the Québec manufacturing industry.</p> <ul style="list-style-type: none"><li>– The food processing sector and the beverage and tobacco processing sectors represent 15% of manufacturing activity in Québec.</li><li>– The food processing sector is the top manufacturing employer. Taking into account the beverages and tobacco products sectors, food processing supports a total of almost 65 000 jobs in the manufacturing sector.</li></ul>

Aware of the importance of the biofood sector in the lives of Quebecers, the Minister of Agriculture, Fisheries and Food released, in 2011, the biofood policy green paper, which set out the government's vision for meeting the sector's challenges. The consultation process relative to the green paper is in progress. Following the consultation, the government will propose a biofood policy and table a framework law to establish the foundation of the government's intervention for developing the industry.

However, the government recognizes the importance of taking action immediately to support the biofood sector. Accordingly, Budget 2012-2013 provides for \$34 million for the next three years, broken down as follows:

- \$15 million, to promote Québec food products;
- \$13 million, to support development of the food processing sector;
- \$6 million, to continue the plan to improve the competitiveness of the commercial fishing and aquaculture sector.

TABLE G.28

**Financial impact of the measures to increase the competitiveness of the biofood sector**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Promotion of Québec foods				
– Québec strategy	–4.0	–4.0	–4.0	–12.0
– Regional food products	–1.0	–1.0	–1.0	–3.0
<b>Subtotal: Promotion</b>	<b>–5.0</b>	<b>–5.0</b>	<b>–5.0</b>	<b>–15.0</b>
Support for the development of food processing	–3.0	–5.0	–5.0	–13.0
Plan to improve the competitiveness of the commercial fishing and aquaculture sectors	–2.0	–2.0	–2.0	–6.0
Support for biofood exports <sup>(1)</sup>	—	—	—	—
<b>TOTAL</b>	<b>–10.0</b>	<b>–12.0</b>	<b>–12.0</b>	<b>–34.0</b>

(1) This measure will be funded under the Export Program.

## □ Promoting Québec foods

To encourage consumers here to choose foods produced and processed in Québec, the government plans to continue its efforts to identify and promote Québec foods.

### ■ Québec strategy

Since 2008, the strategy to increase domestic purchases of Québec food products has contributed to the promotion of Québec foods. The aim of the strategy was to raise the visibility of home-grown products and put them on shelves, and to encourage Quebecers to prioritize Québec products in their purchase decisions.

The most visible action of the strategy was the deployment of the 2008-2010 "Mettez le Québec dans votre assiette!" promotional campaign and the 2011 "Québec Products : Always the Right Choice" promotional campaign for Québec foods. Among other things, these campaigns brought the "Aliments du Québec" and "Aliments préparés au Québec" logos to the public's attention.

## Promotion of Québec foods: a success

In just a few years, the efforts to promote home-grown products have yielded concrete results:

- 13 800 products from more than 600 companies are now identified by the Aliments du Québec logos, whereas only 4 000 were in 2007-2008;
- 43% of processors affirm that the promotional campaign resulted in an increase in their sales;
- 61% of consumers affirm that they pay more attention to the provenance of the products they buy;
- 72% of consumers affirmed, in 2010, that they would make an effort to choose home-grown foods, whereas only 33% did in 2008.

In addition, the increased familiarity with the Aliments du Québec logos had a ripple effect on the large food chains, which rallied around a common objective: to give more visibility to these products, in particular through promotional flyers and signs inside the stores. Moreover, in 2011, 66% of Quebecers were of the opinion that Québec products were readily identifiable in grocery stores, compared to 54% in 2007.

In addition to fostering the identification and promotion of the products, the strategy enabled a strategic watch to be put in place to help entrepreneurs seize business opportunities in markets. It also provided support and assistance for entrepreneurs in accessing distribution networks.

To continue efforts to promote Québec food products, Budget 2012-2013 provides for the renewal of the strategy to increase the domestic sale of Québec food products for the next three years.

To that end, funding of \$4.0 million in 2012-2013, 2013-2014 and 2014-2015 will therefore be granted to the Ministère de l'Agriculture des Pêcheries et de l'Alimentation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

### ■ Regional food products

Québec food products are highly diversified. Many producers have successfully played up the regional distinctiveness of their products. Over the years, certain regional brands have become household names with consumers.

These regional features of Québec foods bestow something unique and distinctive on the products that adds to their value in the eyes of consumers. The regional identity of products is also part of the drive to develop buying local and short-chain marketing, particularly through the development of public markets.

To develop initiatives that will give a local and regional flavour to the strategy to increase the domestic sale of Québec food products, the government is announcing an envelope of \$3 million over the next three years for the local component of the strategy.



To that end, additional funding of \$1.0 million in 2012-2013, 2013-2014 and 2014-2015 will be granted to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## ❑ Support for food processing development

The food processing support strategy was launched in 2009 to encourage the competitiveness, innovation and performance of businesses in the sector, and to ensure the quality and safety of the food offered.

Support for innovation, sound management and business investment remains crucial if the companies, comprised primarily of SMEs, are to succeed in increasing their productivity and developing new products. These companies are in competition with food-industry giants worldwide for access to grocery store shelves in Québec and elsewhere. To stay in the race, they must offer products consumers want and at a competitive price.

To meet consumer expectations, they must, among other things, meet the highest quality and safety criteria. A massive recall of products can cause a loss of consumer confidence that can be extremely hard to win back. Thus, the strategy also provides for measures to support businesses in complying with high standards of quality that will open up new markets for them.

### Société coopérative agricole de l'Île-aux-Grues

The Société coopérative agricole (SCA) de l'Île-aux-Grues groups the island's five dairy producers, which process all their dairy production at the Fromagerie Île-aux-Grues. This cooperative is one of the businesses in the biofood sector that has received financial support under the food processing support strategy.

After experts diagnosed an equipment problem that had been causing problems on the cheese manufacturing line that affected the uniformity of the cheese, the business had to acquire a new and improved centrifugal separator and self-cleaning system. Through \$75 000 in financial assistance from the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation, the \$144 000 project was completed.

With this investment, the cooperative was able to optimize its cheese processing line and equip the cheese factory with a better system in terms of both quality and productivity.

The cheese factory's efforts have since been rewarded: Its Tomme de Grosse-Île cheese won the Caseus 2011 public's choice award.

To continue supporting the development of food processing, Budget 2012-2013 provides for the renewal of the food processing support strategy for the next three years.

To that end, additional funding of \$3.0 million in 2012-2013 and \$5.0 million in 2013-2014 and 2014-2015 will be granted to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## ■ **Creation of an indepartmental food processing committee**

The food processing industry has many issues to contend with, such as standards, innovation, labour and the transportation of goods.

Special dynamics are at play in the processing industry, given its place within the biofood industry and the manufacturing industry. Thus, to better reflect this special position of the industry and to coordinate government action in its regard, Budget 2012-2013 provides for the creation of an interdepartmental committee under the responsibility of the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The committee will bring together the departments and agencies concerned by the issues facing the industry, including the Ministère du Développement économique, de l'Innovation et de l'Exportation, the Ministère des Transports, the Ministère du Développement durable, de l'Environnement et des Parcs and the Ministère des Finances, as well as representatives of the food processing industry.

The committee will be mandated to study the specific issues of the food processing industry and optimize government action, in order to support the industry as effectively as possible.

The full composition of the committee will be announced at a later date by the Minister of Agriculture, Fisheries and Food.

## □ **Plan to improve the competitiveness of the commercial fishing and aquaculture sector**

The commercial fishing and aquaculture sector, which includes marine products processing, is a vital activity for certain municipalities in Gaspésie, Basse-Côte-Nord and Îles-de-la-Madeleine.

The sector has been experiencing special problems for a number of years. For example, businesses are affected by the dwindling number of many species and by a drop in prices. They must therefore increase their productivity, thereby contributing to the sector's competitiveness. However, they do not have the financial means to tackle these issues on their own.

Considering the importance of supporting the economic activity of the regions affected by this problem, Budget 2012-2013 provides for the renewal of the measures to:

- increase the productivity of the businesses in the sector, in order to ensure their profitability and survival;
- ensure a sustainable balance between fishing capacity and availability of the resource.

The efforts made to support the commercial aquaculture sector will also be continued, in particular with regard to support for the reorganization of marine aquaculture companies.

To that end, additional funding of \$2.0 million in 2012-2013, 2013-2014 and 2014-2015 will be granted to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

## ❑ Support for biofood exports

While it is a good thing for Québec businesses to sell their products locally, outside markets also present business opportunities that they cannot afford to miss out on. Growth in the biofood sector depends largely on the ability of our businesses to consolidate their presence in existing markets and break into new ones.

To that end, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation and the Ministère du Développement économique, de l'Innovation et de l'Exportation will collaborate on waging an offensive on foreign markets, primarily those with high potential. This measure will, in particular, prepare businesses for exports and ensure that linkages between Québec businesses and foreign buyers are developed.

This measure will receive financing of \$1.0 million a year over three years as part of the Export Québec measure: the inclusion of the manufacturing, fashion and clothing, forestry and biofood sectors, announced previously.

## 1.4 Propel our tourist attractions to the next level

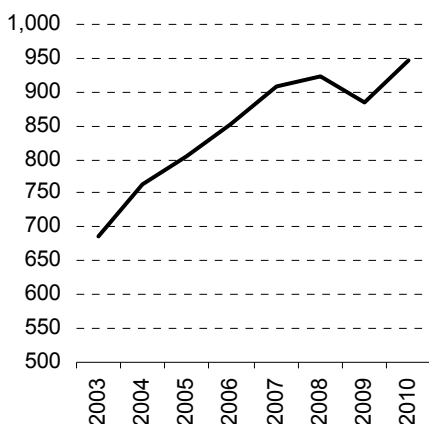
The tourism sector generates significant spinoffs in Québec's economy. In 2010, Québec's tourism revenues hit \$11.0 billion, including almost \$3.6 billion spent by some 8.1 million visitors from outside Québec. As a result, tourism ranks fourth among Québec's export products.

The sector also creates significant employment, with 416 000 jobs associated with the tourism sector, including 140 600 direct jobs generated in 2010, spread throughout Québec's regions.

Québec's tourism industry can do better. Despite the growth in international tourism in recent years, Québec's tourism revenues have stalled. To do well, Québec must offer a renewed experience to foreign tourists and Quebecers to differentiate itself from rival international destinations.

CHART G.13

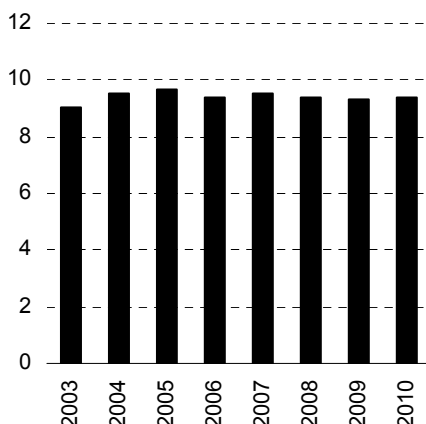
### Growth in international tourism (millions of people)



Source: Tourism Decision Metrics, 2011.

CHART G.14

### Québec's tourism revenues (billions of constant 2003 dollars)



Source: Statistics Canada, special compilation of the Ministère du Tourisme du Québec, 2011.

To give the tourism sector the impetus it needs, the Minister of Tourism set up the Comité performance de l'industrie touristique in September 2010. Chaired by Gilbert Rozon and consisting of a dozen experts and industry leaders, the committee's mandate was to put forward an overall vision to position tourism as a driver of economic development with the capacity to differentiate itself from international competition with a view to increasing tourism revenues and regional development. The committee released its recommendations in May 2011.

The committee's report emphasizes the importance of the product and the need to coordinate the efforts of partners and prioritize initiatives to develop a promising positioning for Québec as a destination: the gateways of Québec and Montréal, the iconic St. Lawrence and highly attractive tourist centres.

In the wake of the report, the Minister of Tourism undertook to table, at the Assises du tourisme 2012, a 2012-2020 development plan for the tourism industry and act on the report's recommendations.

To carry out the tourism industry development plan, Budget 2012-2013 includes measures for the tourism sector that will support investments of almost \$465 million over the next five years:

- \$166.0 million to develop tourist attractions;
- \$22.5 million for festivals and tourist events;
- \$240.0 million to modernize the offering of tourist accommodation;
- \$35.0 million in Sépaq's parks and wildlife reserves.

TABLE G.29

**Measures helping to bolster tourist attractions**  
(millions of dollars)

	Financial impact				Sustained investment over five years <sup>(1)</sup>
	2012-2013	2013-2014	2014-2015	Total	
Support for tourist attraction development	-6.0	-6.0	-6.0	-18.0	166.0
Increase from \$12.5 million to \$17.5 million in funding for tourist events and festivals	-2.5	-5.0	-5.0	-12.5	22.5
Implementation of a refundable tax credit to foster the modernization of the tourist accommodation offering	-4.0	-9.0	-9.0	-22.0	240.0
Investment \$35 million in Sépaq's parks and wildlife reserves	-2.0	-3.3	-3.3	-8.6	35.0
Optional application of a \$3 lodging tax	—	—	—	—	—
<b>TOTAL</b>	<b>-14.5</b>	<b>-23.3</b>	<b>-23.3</b>	<b>-61.1</b>	<b>463.5</b>

(1) These amounts include the minimum share of private partners.

### 1.4.1 Support for tourist attraction development

According to the Comité performance de l'industrie touristique, Québec needs to renew its tourism offering to take advantage of the growth in tourism at the global level. Indeed, it is estimated<sup>12</sup> that the number of international tourists will grow by some 900 million by 2030. For that reason, the committee has made the development of international-calibre traffic builders central to its action priorities.

Lack of private investment has been identified as a major drag on the renewal of the tourism offering. This lack of investment stems from the difficulty in accessing favourable credit conditions that take the specific features of tourism businesses into account.

To offer financing adapted to tourism businesses that are in a very specific situation, in particular because of the seasonality of activities and revenues, a new loan and loan guarantee program will be put in place.

This program, managed by Investissement Québec, will seek to stimulate private investment to renew Québec's tourism offering. It will support projects to develop innovative tourism products that complete existing ones. It will also ensure the growth of our successful tourism businesses.

The program will be in addition to the supply of available financing and will complete the initiatives already taken by the Ministère du Tourisme and other government departments and public organizations.

#### Government Support for the Tourism Sector

According to a study by the ENAP's Observatoire d'administration publique, apart from the Ministère du Tourisme, 27 Québec government departments and organizations are involved as part of their mandates in activity sectors associated with tourism. Sixteen of them offer programs or measures providing sector players with financial support.

When these interventions are combined with those of the Ministère du Tourisme, the Québec government invested \$356 million in the tourism industry in 2009-2010.

Of this amount, \$142.5 million directly targets development of the offering, including \$74 million in grants, transfers and contributions.

Besides development of the offering, the government supports, in particular, promotion of the destination, visitor reception structure and infrastructures, the basic operation of tourism organizations and associations as well as the industry's research and information activities.

The program will have an envelope of \$85 million over the next five years, which will generate investment of more than \$160 million in the industry.

- 60% of this envelope will be available for loans and 40% for loan guarantees. Moreover, most of the envelope will be allocated to for-profit businesses.

12 Tourism Toward 2030 – Global Overview, World Tourism Organization, 2011.

Investissement Québec will manage this program and will create a new tourism division (IQ Tourisme). Creation of this new division will capitalize on the experience Investissement Québec already has and consolidate this expertise in the tourism sector.

- Investissement Québec is already very active in the tourism sector. Since April 1, 2006, the organization has invested more than \$245 million in 431 projects totalling \$1.6 billion.

The program will target projects that coincide with the priorities of the tourism industry development plan and are consistent with the positioning priorities of the Comité performance de l'industrie touristique. In particular, the projects must:

- help enhance the attraction potential of the regions by intensifying and diversifying the offering;
- organize and promote the St. Lawrence in continuity with the actions of the Stratégie de développement durable et de promotion des croisières internationales sur le fleuve Saint-Laurent and through the development of river cruises;
- bolster the Québec and Montréal gateways to complete the existing offering.

Businesses in every region will be eligible. However, projects in the Québec and Montréal regions must not make up the majority of projects approved, so that all of Québec's regions have access to the program. The program will specifically target development of tourism attractions. The accommodation sector will therefore be excluded.

As with the Stratégie de développement durable et de promotion des croisières internationales sur le fleuve Saint-Laurent, the government intends to encourage the emergence of attractive centres for an international clientele. These projects will foster longer stays by foreign visitors, particularly in the regions.

To this end, \$6.0 million in additional funding in 2012-2013 and for the following four years will be allocated to the Fonds du développement économique. The funding for 2012-2013 will be drawn from the Contingency Fund.

The details of the program will be announced at a later date by the Minister of Tourism and the Minister of Economic Development, Innovation and Export Trade.

## Strategy for sustainable development and the promotion of international cruises on the St. Lawrence River

The strategy for sustainable development and the promotion of international cruises on the St. Lawrence River was launched in May 2008. By developing new ports of call, the strategy aimed to make Québec a prime cruise destination in North America to increase Québec's tourism revenues as well as diversify and stimulate the economy of the regions.

### Major investments

Implementation of this strategy has helped to develop and promote six new ports of call in addition to Montréal, Québec and Trois-Rivières, namely Saguenay, Baie-Comeau, Sept-Îles, Havre-Saint-Pierre, Îles-de-la-Madeleine and Gaspé.

In addition to the investments already made that amount to \$115 million to date, another \$50 million will be invested in 2012-2013 to put reception infrastructures in place, enhance tourism attractions and support international promotion.

### Striking results

In 2012, Québec is expected to welcome a record 245 000 cruise passengers, i.e. twice as many as in 2008 when the strategy was launched.

The strategy results in economic spinoffs in the regions bordering the St. Lawrence. Among others, Gaspé is expected to host 25 500 visitors, while Havre-Saint-Pierre and the Îles-de-la-Madeleine will each receive almost 2 500 cruise passengers. Saguenay, for its part, will receive roughly 35 000 cruise passengers, i.e. the number generally observed in Montréal.

Source: Ministère du Tourisme.

## ❑ **Project call and selection process**

To build up a bank of projects, the Ministère du Tourisme will set up a call for projects process.

In this process, an initial selection of projects will be made at the regional level by the coordination bodies of the regional tourism partnership agreements. Regional partners will have to prioritize initiatives.

Projects selected will be submitted to analysis by an advisory committee reporting to the Minister of Tourism and consisting of, in particular, representatives from the Ministère du Tourisme, Investissement Québec and the tourism industry.

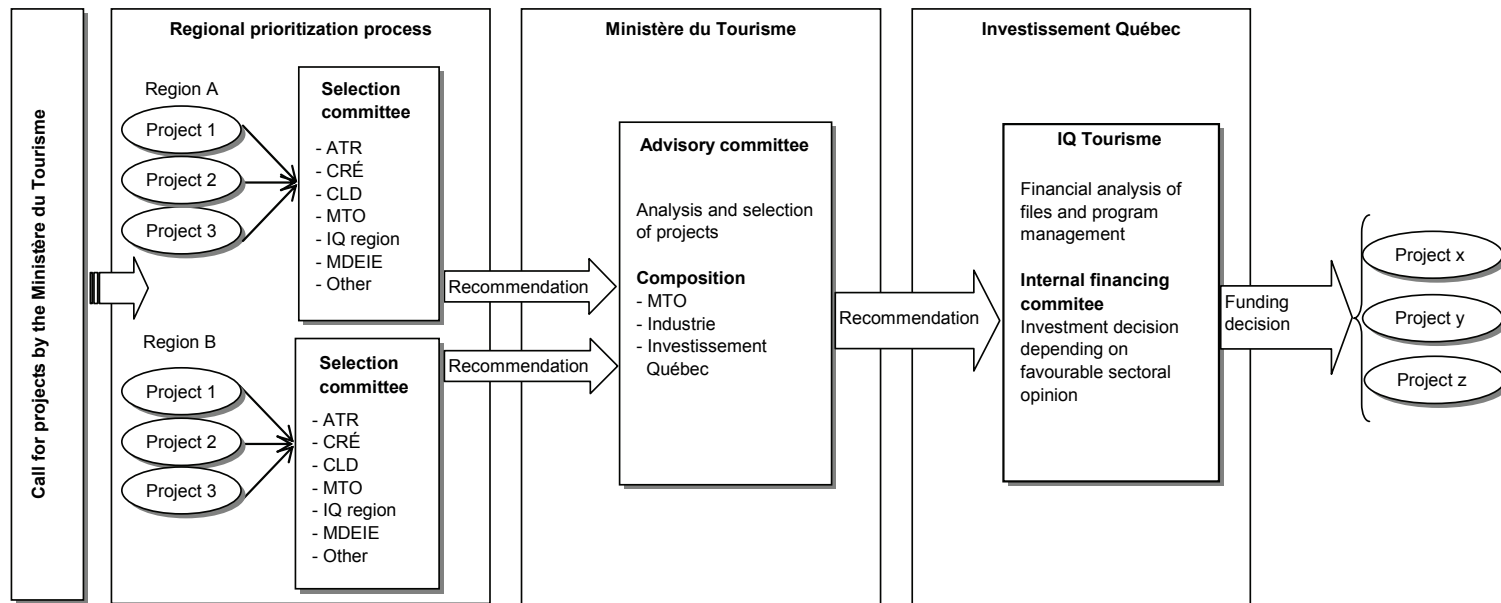
The committee will be mandated to assess the merits of supporting projects and deciding on the appropriate financial assistance vehicle or vehicles. To that end, projects will be steered to the appropriate government department or organization. The committee will be chaired by Michel Archambault, professor and head of the Chaire de tourisme Transat of the École des sciences de la gestion of the Université du Québec à Montréal.

Under the program supporting the development of tourist attractions, the committee will be charged with making recommendations to Investissement Québec.



CHART G.15

## Selection process for projects under the program supporting the development of tourist attractions



## **1.4.2 Increase from \$12.5 million to \$17.5 million in funding for tourist events and festivals**

Festivals and events make a significant contribution to the attraction of Québec as a destination on the international market and to Québec's visibility abroad. These festivals and events, spread throughout Québec, are also a source of wealth for every region of Québec.

In view of the importance of these events in Québec's tourism offering, the Ministère du Tourisme will ultimately receive additional funding of \$5 million per year to enhance the Aide financière aux festivals et événements touristiques program.

This additional funding will, in particular, enable the Ministère du Tourisme to continue the performance conversion initiated in 2007 and help boost the tourism performance of events.

- For instance, the Festival d'été de Québec, whose admissions rose from 1 million to 1.5 million between 2009 and 2011, and the Osheaga festival, for which tourist traffic doubled between 2008 and 2011, have access to more generous assistance under the program to reflect their better tourism performance.

The additional funds will also help to continue supporting innovation and the emergence of new projects such as Montréal Complètement Cirque, the Festival d'opéra de Québec, the New Richmond Festival and other events that have emerged in recent years and enhance Québec's tourism offering. Other projects may also take shape, including a cycle sport event in tandem with the Grand Prix Cycliste de Québec and that of Montréal. This event would give experienced cyclists an opportunity to discover Québec's regions.

To support international-calibre events, the Ministère du Tourisme will add a new component to the Aide financière aux festivals et événements touristiques program, which will help raise the international visibility of Québec as a destination.

- More specifically, this component will offer support for tourism sporting events such as the Rogers Cup – Tennis Internationals of Canada and the Nascar NAPA Auto Parts 200 race on the Gilles-Villeneuve track.

To that end, additional funding of \$2.5 million in 2012-2013 and \$5.0 million in 2013-2014 and 2014-2015 will be allocated to the Ministère du Tourisme. The funding for 2012-2013 will be drawn from the Contingency Fund.

### **1.4.3 Implementation of a refundable tax credit to foster the modernization of the tourist accommodation offering**

Accommodation is a major component of the tourist experience because it influences the ability of a destination to attract and renew its customer base. With strong competition from various international tourism destinations, it is essential that Québec's accommodation offering be able to meet travellers' expectations.

In its report, the Comité performance de l'industrie touristique mentioned the old, indeed outdated, tourism offering in certain sectors, in particular with respect to accommodation in the regions. This, according to the committee, is the result of the insufficient resources devoted to renewing the offering, thus hampering the development of Québec's tourism industry.

To accelerate and intensify infrastructure investments of accommodation establishments in Québec's regions beyond the greater Montréal and Québec region gateways, Budget 2012-2013 stipulates the implementation of a refundable tax credit fostering the modernization of the tourist accommodation offering.

- The 25% tax credit will apply to the portion of eligible expenditures in excess of \$50 000.
- The amount of the tax credit may not exceed \$175 000 per year.
- The expenditures must be incurred after the day of Budget 2012-2013, for renovation or improvement work completed before January 1, 2016.

TABLE G.30

## Main parameters of the refundable tax credit to foster the modernization of the tourist accommodation offering

<b>Eligible corporations</b>	<ul style="list-style-type: none"> <li>– A corporation must, in particular: <ul style="list-style-type: none"> <li>▪ own an eligible tourist accommodation establishment;</li> <li>▪ have assets of at least \$400 000;</li> <li>▪ have gross income of at least \$100 000.</li> </ul> </li> </ul>				
<b>Eligible tourist accommodation establishments</b>	<ul style="list-style-type: none"> <li>– Establishment that is: <ul style="list-style-type: none"> <li>▪ located in Québec, but outside the census metropolitan areas of Montréal or Québec;</li> <li>▪ classified, within the meaning of the <i>Act respecting tourist accommodation establishments</i>, as a hotel establishment, bed and breakfast establishment, tourist home, resort or youth hostel.</li> </ul> </li> </ul>				
<b>Eligible work</b>	<ul style="list-style-type: none"> <li>– Work to renovate or improve the building used for the operation of an eligible tourist accommodation establishment provided it relates to any of the following components: <ul style="list-style-type: none"> <li>▪ the rooms, including bathrooms;</li> <li>▪ dining rooms;</li> <li>▪ interior facilities that constitute public areas (e.g.: foyer, reception, toilets, bar, shops and meeting rooms);</li> <li>▪ the exterior structure of the building.</li> </ul> </li> </ul>				
	<table> <tr> <th><b>Major eligible work</b></th><th><b>Major ineligible work</b></th></tr> <tr> <td> <ul style="list-style-type: none"> <li>– Work to expand the building (addition of rooms)</li> <li>– Addition or replacement of sanitary fixtures (washbasin, toilet or bathtub-shower)</li> <li>– Replacement of floor coverings</li> <li>– Addition or replacement of water pipes or electrical, heating, air conditioning or lighting systems</li> <li>– Replacement of the exterior siding, doors, windows or roofing of the building</li> </ul> </td><td> <ul style="list-style-type: none"> <li>– Landscaping and refurbishment of access points (parking area, driveways, etc.)</li> <li>– Renovation of the kitchen, administration offices or laundry</li> <li>– Installation and acquisition of a swimming pool, hot tub or sauna</li> <li>– Installation of a fitness room or health centre</li> <li>– Work to build play equipment, a shelter, shed or garage</li> <li>– Repair or maintenance work</li> </ul> </td></tr> </table>	<b>Major eligible work</b>	<b>Major ineligible work</b>	<ul style="list-style-type: none"> <li>– Work to expand the building (addition of rooms)</li> <li>– Addition or replacement of sanitary fixtures (washbasin, toilet or bathtub-shower)</li> <li>– Replacement of floor coverings</li> <li>– Addition or replacement of water pipes or electrical, heating, air conditioning or lighting systems</li> <li>– Replacement of the exterior siding, doors, windows or roofing of the building</li> </ul>	<ul style="list-style-type: none"> <li>– Landscaping and refurbishment of access points (parking area, driveways, etc.)</li> <li>– Renovation of the kitchen, administration offices or laundry</li> <li>– Installation and acquisition of a swimming pool, hot tub or sauna</li> <li>– Installation of a fitness room or health centre</li> <li>– Work to build play equipment, a shelter, shed or garage</li> <li>– Repair or maintenance work</li> </ul>
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<b>Eligible expenditures</b>	<ul style="list-style-type: none"> <li>– Expenditures attributable to the carrying out of eligible work incurred with a recognized contractor or merchant.</li> <li>– Portion of the expenditures in excess of \$50 000 without exceeding \$750 000 per year.</li> </ul>				
<b>Rate</b>	<ul style="list-style-type: none"> <li>– 25% of eligible expenditures incurred, up to a maximum tax credit of \$175 000 per year.</li> </ul>				
<b>Term</b>	<ul style="list-style-type: none"> <li>– Expenditures incurred after the day of Budget 2012-2013 for work carried out before January 1, 2016, under the terms of agreements entered into during such period.</li> </ul>				

This tax assistance will encourage owners of accommodation establishments located in the regions to improve the quality of their fixed assets and thus consolidate the tourist accommodation offering in Québec.

The tax credit will support investment projects estimated at roughly \$240 million. The financial impact of this tax assistance will total \$33 million over five years, including \$4 million in 2012-2013 and \$9 million in 2013-2014 and 2014-2015.

#### **1.4.4 Investment of \$35 million in Sépaq's parks and wildlife reserves**

The Société des établissements de plein air du Québec (Sépaq) operates and manages public infrastructures of Québec's national park network, the wildlife reserve network as well as tourist centres.

To develop, preserve and capitalize on the exceptional facilities and territories under its management, \$35 million will be allocated to it over the next two years to continue, consistent with sustainable development, the consolidation and development of these assets that started a few years ago.

These investments are allocated as follows:

- \$20 million will be allocated to carry out structuring projects to protect Québec's green spaces, in particular the Parc national des Îles-de-Boucherville, the Parc de la Chute-Montmorency and the Parc national des Grands-Jardins;
- \$10 million will be invested in the long-term preservation of the man-made heritage. These investments will, in particular, seek to meet the maintenance needs of buildings and infrastructures, and consolidate access to roads and trails;
- \$5 million will be applied to implement Sépaq's environmental management plan to reduce its ecological footprint. This plan includes replacing its gas-powered vehicles with vehicles that run on electricity, installing video conferencing systems and replacing polluting heating systems with EPA-certified stoves.

TABLE G.31

**Investments by Sépaq**  
(millions of dollars)

	Total over 2 years
<b>Structuring projects - Protection of green spaces</b>	<b>20.0</b>
Parc national des Îles-de-Boucherville	
Parc de la Chute-Montmorency	
Parc national des Grands-Jardins	
Other projects	
<b>Long-term preservation of the man-made heritage</b>	
Accommodation, activities and services	6.4
Roads, trails, signage and other infrastructures	3.6
<b>Subtotal</b>	<b>10.0</b>
<b>Environmental management plan - Reduction of the ecological footprint</b>	<b>5.0</b>
<b>TOTAL INVESTMENTS</b>	<b>35.0</b>

To fund these investments, additional appropriations of \$2.0 million in 2012-2013 and \$3.3 million in 2013-2014 and 2014-2015 will be allocated to the Ministère du Développement durable, de l'Environnement et des Parcs. The amount for 2012-2013 will be drawn from the Contingency Fund.

### 1.4.5 Optional application of a \$3 lodging tax

Currently, regional tourist associations (RTA) that want the lodging tax to apply within their territory can request that a specific tax of \$2 per overnight stay or an *ad valorem* tax of 3% of the price of each overnight stay be imposed.

The revenue generated by this tax, after deducting administration costs, is returned to participating regions.

Henceforth, RTAs will have a third option, namely a specific tax of \$3 per overnight stay. Accordingly, RTAs in the regions where the specific tax of \$2 or the *ad valorem* tax of 3% already applies will have to submit a new application to the government if they want to use this new option.

## 1.5 Partnership for the development of Québec

In Budget 2012-2013, the government is announcing a series of immediate measures for the regions, municipalities and aboriginal communities. These measures are described in greater detail in the document *Québec, Its Municipalities and Regions – Partnership for Development*.

Some of these measures will have a financial impact, as shown in the following table.

TABLE G.32

**Financial impact of measures for the regions, municipalities and aboriginal communities**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Annual envelope of \$60 million for the Fonds de développement régional	-19.8	-19.8	-19.8	<b>-59.4</b>
Additional support for local development centres	-17.5	-19.5	-19.5	<b>-56.5</b>
RCMs become responsible for planning local road work	-4.0	-5.0	—	<b>-9.0</b>
Implementation of greenbelts	-8.0	-10.0	-12.0	<b>-30.0</b>
\$15 million for Montréal inc. de demain	-1.9	-0.2	-0.2	<b>-2.3</b>
Renewal and improvement of the Aboriginal Initiatives Fund	-8.0	-10.0	-16.0	<b>-34.0</b>
<b>TOTAL</b>	<b>-59.2</b>	<b>-64.5</b>	<b>-67.5</b>	<b>-191.2</b>

The budget also includes other measures for Montréal and Québec that will be funded under the 2011-2016 Québec Infrastructures Plan:

- \$125 million to celebrate the 375th anniversary of Montréal's founding;
- \$35 million for the renovation of Wilson Hall at McGill University;
- \$30 million for the construction of the Théâtre Le Diamant in Québec City.

Budget 2012-2013 also announces that two thirds of the revenue from the carbon market and the extension of the duty on gasoline and fossil fuels will be allocated to public and alternative transportation and other transportation measures to reduce greenhouse gas emissions.

## 1.6 Consolidating our leadership in sustainable development

Over the past several years, Québec has been firmly committed to fight climate change and reaffirmed its place as a leader in sustainable development.

More specifically, Québec set itself apart with its 2006-2012 Climate Change Action Plan, the goal of which is to reduce greenhouse gas (GHG) emissions.

The government has also introduced a series of complementary and coordinated policies and strategies to support its objectives, such as the Québec Public Transit Policy in 2006, the Québec Energy Strategy 2006-2015, the development strategy for Québec's environment and green technology industry in 2008, the Government Sustainable Development Strategy 2008-2013, the Québec Residual Materials

Management Policy in 2011 and the 2011-2020 Electric Vehicle Action Plan in 2011.

In this budget, the government is continuing its actions to maintain its leadership role in fighting climate change and foster sustainable development, including through:

- a new climate change action plan worth nearly \$2.7 billion between now and 2020, financed by revenues from the duty on fuel and fossil fuels and the sale of GHG emissions permits in the cap-and-trade system;
- enhancement of the Rénoclimat program for energy-efficient home renovations, financed by the annual contributions paid by energy distributors;
- a new, \$100-million fund for the development of clean technologies;

TABLE G.33

**Financial impact of the measures for engaging in sustainable development**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Implementation of the 2013-2020 Climate Change Action Plan				
– Revenues from emission rights in the cap-and-trade system and from the duty on fuel and fossil fuels	10.0	120.0	250.0	<b>380.0</b>
– Initiatives under the Climate Change Action Plan	–10.0	–120.0	–250.0	<b>–380.0</b>
Extension of the Rénoclimat program for energy-efficient home renovations to rental housing units	—	—	—	—
\$100 million in new funding for the development of clean technologies <sup>(1)</sup>	–0.6	–1.2	–2.3	<b>–4.1</b>
Continuation of efforts to fight lake aging	–1.0	–1.0	–1.0	<b>–3.0</b>
<b>TOTAL</b>	<b>–1.6</b>	<b>–2.2</b>	<b>–3.3</b>	<b>–7.1</b>

(1) Impact on the government's debt service. This impact is shown for information purposes and is incorporated into the government debt service forecast discussed in sections A and C of the 2012-2013 Budget Plan.

### 1.6.1 The new climate change action plan

The efforts made over the last several years have made Québec a genuine leader in combating climate change. Today, Québec boasts one of the best performances among North American jurisdictions in reducing GHG emissions. This position is largely attributable to the development of our hydroelectric network, which generates clean energy for every Québec home and business.

This position also flows from the adoption of clear policy directions for GHG emissions reduction, a defining feature of which is the establishment of the Green Fund and implementation of the 2006-2012 Climate Change Action Plan.



To date, over 2 000 projects have been carried out under this \$1.6-billion action plan. The plan was intended as Québec's concrete contribution to the worldwide efforts to reduce GHG emissions and to the efforts to help Quebecers adapt to changing climate conditions.

By adopting an ambitious GHG emissions reduction target for 2020 and establishing a cap-and-trade system for GHG emission rights, Québec has once again demonstrated that it intends to continue its long-term commitment to fight climate change, make our planet greener for future generations and tap into the huge economic development potential afforded by green technologies.

To support these actions, the Minister of Sustainable Development, Environment and Parks will soon table the 2013-2020 Climate Change Action Plan.

This new action plan will provide for investments totalling nearly \$2.7 billion between now and 2020.

Details on the general directions of the action plan as well as its funding are discussed in the paper *Québec and Climate Change – A Greener Environment*.

### 1.6.2 Enhancement of the Rénoclimat program

One of the objectives the government set itself in its 2006-2012 Climate Change Action Plan was to make homes, industry and government more energy-efficient.

In this regard, it was noted that very few people renovate their homes to make them more energy efficient, despite the existence of financial assistance programs for home renovations.

#### Government assistance programs for energy-efficient home renovations

Two programs provide financial support for energy-efficient home renovations: Québec's Rénoclimat program and the federal ecoENERGY Retrofit – Homes program.

Both of these programs provide financial assistance to homeowners based on the type of work carried out and its impact on the home's energy rating (EnerGuide rating).

The Rénoclimat program, which costs approximately \$14 million a year, is in its 10th year, has saved energy, and draws on the expertise of the Bureau de l'efficacité et de l'innovation énergétiques of the Ministère des Ressources naturelles et de la Faune.

- In the last two years, the program has provided average financial assistance of \$1 100 to roughly 9 000 households a year in addition to offering an energy evaluation of their home.

### ☐ Withdrawal of the federal government as of April 2012

The federal ecoENERGY Retrofit – Homes program, which provides financial assistance in addition to that granted under Québec's Rénoclimat program to help homeowners make their homes more energy-efficient, will end on March 31, 2012.

However, the federal government's withdrawal is an opportunity for Québec to enhance the Rénoclimat program and send a clear message in favour of energy-efficient home renovations.

### **❑ Greater support for energy-efficient renovations**

To encourage more homeowners to make their homes more energy-efficient as well as send a clear message in the current context of the planned termination of the federal ecoENERGY Retrofit – Homes program, Budget 2012-2013 provides for a substantial enhancement of the Rénoclimat program, including:

- an increase of over 60% in the financial assistance currently granted;
- extension of the program to buildings with 4 to 20 housing units;
- reduction of the cost of the first energy evaluation from \$150 to \$50;<sup>13</sup>
- elimination of the participation limit of once per home.

These enhancement measures will apply to people participating in the program who have their second energy evaluation done on or after April 1, 2012.<sup>14</sup>

### **❑ Substantial, permanent assistance**

The measure will raise the average amount granted to Québec households from \$1 100 to nearly \$1 900, an increase of approximately \$800. It will partly offset the end of the federal program.

It will also provide sustained, long-term assistance to the home renovations sector, thereby further encouraging homeowners to make their homes more energy-efficient.

Lastly, the measure will raise the number of participants in the program by more than 13 000 Québec households over three years.

TABLE G.34

#### **Additional number of participants resulting from the enhancements made to the Rénoclimat program**

	2012-2013	2013-2014	2014-2015	Total
Additional number of participants having completed the second evaluation	1 745	4 094	7 510	<b>13 349</b>

Source: Ministère des Ressources naturelles et de la Faune.

13 The reduction applies after the renovations have been done and the second evaluation for determining the amount of financial assistance granted has been completed.

14 To be eligible for these enhancements, participants must not have received financial assistance under the federal ecoENERGY Retrofit – Homes program.

## ❑ Nearly \$35 million over three years

The measure announced in Budget 2012-2013 represents enhancements totalling \$5.6 million in 2012-2013, \$9.8 million in 2013-2014 and \$18.7 million in 2014-2015.

TABLE G.35

### Costs of the Rénoclimat program (millions of dollars)

	2012-2013	2013-2014	2014-2015	Total over 3 years
<b>Program costs before Budget 2012-2013<sup>(1)</sup></b>	<b>8.5</b>	<b>8.5</b>	<b>8.5</b>	<b>25.5</b>
<b>Program enhancements</b>				
– Increase of over 60% in the financial assistance currently granted	3.7	4.3	7.4	<b>15.4</b>
– Other enhancements to the program <sup>(2)</sup>	1.9	5.5	11.3	<b>18.7</b>
<b>Subtotal: Enhancements</b>	<b>5.6</b>	<b>9.8</b>	<b>18.7</b>	<b>34.1</b>
<b>PROGRAM COSTS AFTER BUDGET 2012-2013</b>	<b>14.1</b>	<b>18.3</b>	<b>27.2</b>	<b>59.6</b>

(1) Cost of the current program in 2011-2012.

(2) Including extension of the program to buildings with 4-20 housing units, reduction of the cost of the first energy evaluation from \$150 to \$50 if the household has completed its second evaluation, and elimination of the participation limit of once per home.

Source: Bureau de l'efficacité et de l'innovation énergétiques of the Ministère des Ressources naturelles et de la Faune.

## ❑ Funding ensured by energy distributors

Currently, the Rénoclimat program is financed by the annual contributions paid by energy distributors and deposited in the Natural Resources Fund for the energy efficiency and innovation component.

The enhancement of the Rénoclimat program will be fully funded by the financial investment already determined in respect of these contributions.

### Energy distributors' contributions to the Natural Resources Fund

In accordance with the *Act respecting energy efficiency and innovation*, the government sets the overall financial investment for actions designed to foster energy efficiency and innovation. It allocates this investment among the different forms of energy in order to determine the contribution payable by energy distributors.

The contributions paid by energy distributors are deposited in the Natural Resources Fund for the energy efficiency and innovation component.

A government order passed in November 2011 set the overall financial investment from energy distributors at \$62.1 million for fiscal year 2011-2012.

**1.6.3 New \$100-million fund for the development of clean technologies**

The cleantech sector is experiencing explosive growth worldwide, in particular because of the urgent need to counteract climate change. However, this sector has to rely on sufficient venture capital to ensure its development. In this context, the government is announcing its equity interest in Cycle Capital Management's Cycle Capital Fund III.

<b>Venture funds managed by Cycle Capital Management</b>
<p>Cycle Capital Management (CCM) currently manages two venture capital funds focused on clean technologies, which have a total capitalization of \$122 million. CCM was founded by Andrée-Lise Méthot.</p> <p>With initial capital of \$80 million, Cycle Capital Fund I is focused on investments in companies at the commercialization stage. Its mission is to finance and develop companies that contribute to sustainable development, in particular by investing in clean technologies and renewable energy projects. The Québec government contributed \$25 million to the capital of this fund. As at December 31, 2011, the fund had invested \$53 million in 11 companies. Including the contribution from other investors, companies had access to total capital of \$350 million.</p> <p>The Seed Fund Cycle-C3E, which has initial capital of \$42 million, was launched in January 2011 and invests in companies at the seeding and start-up stage. The fund aims to increase available capital for the early-stage financing of companies specializing in clean technologies. The government has a \$22-million equity interest in the fund.</p>

**❑ \$50 million for the creation of Cycle Capital Fund III**

Cycle Capital Management (CCM) is creating Cycle Capital Fund III to invest in cleantech companies at the development stage.

The fund will have a minimum capitalization of \$100 million. The Québec government's equity interest in the fund at initial closing will be \$50 million and will be made through its mandatary, Investissement Québec.

In addition, according to a principle whereby a government contribution of \$1 is matched by a contribution of \$1 from industrial investors, the Québec government may contribute another \$25 million, possibly raising its total equity interest in the fund to \$75 million.

Cycle Capital Fund III will have a life of 10 years and be managed privately as a limited partnership. It will invest in between 15 and 20 business projects.

Teralys Capital will add \$25 million to the government's contribution to the fund, while Fondation will add \$10 million. As well, industrial investors have already made a commitment to CCM to participate in the new fund's capitalization.

TABLE G.36

**Illustration of the capitalization of Cycle Capital Fund III**  
(millions of dollars)

<b>Investors</b>	<b>Initial closing</b>	<b>Second closing</b>
Government	50	75
Teralys Capital	25	25
Fondaction	10	10
Industries	15	40
<b>TOTAL</b>	<b>100</b>	<b>150</b>
<b><i>Government's share</i></b>	<b><i>50%</i></b>	<b><i>50%</i></b>

his initiative is in keeping with the goals of the Québec government's 2013-2020 Climate Change Action Plan.

The particulars of the fund's creation will be unveiled at a later date by the Minister of Finance and the Minister of Economic Development, Innovation and Exports.

The sums required for the government's participation will be paid into the Fonds du développement économique in the form of loans and advances, the terms of which will be agreed upon with the Minister of Finance.

#### **1.6.4 Support for basin organizations and regional environment councils to fight lake aging**

Québec's lakes are already plagued with blue-green algae. The government allocated \$5 million over five years to the Ministère du Développement durable, de l'Environnement et des Parcs to implement the 2007-2017 Blue-Green Action Plan. This funding, which ends on March 31, 2012, financed environmental groups and basin organizations in Québec that have a mandate to fight lake aging.

Considering that it is worthwhile to continue supporting these efforts to combat lake aging, the government is renewing the \$5-million envelope for another five years, that is, until March 31, 2017. Funding of \$1.0 million a year for five years will be allocated to the Ministère du Développement durable, de l'Environnement et des Parcs for that purpose. The funding required for 2012-2013 will be drawn from the Contingency Fund.

The renewed funding will be used to, among other things:

- support concrete action such as revegetation of lakeshores and phosphorus source reduction;
- continue raising awareness among local organizations and develop knowledge, in particular through the Réseau de surveillance volontaire des lacs.

This announcement acts on the recommendation of the parliamentary Committee on Transportation and Environment to intensify action by local organizations to make them key players in preventing premature lake aging.

## 2. THE STRENGTH OF OUR VALUES

### 2.1 For strengthening solidarity

In this budget, the government is continuing its solidarity efforts through a series of structuring initiatives:

- for our seniors, the announcement of the key directions of the Growing Old at Home Action Plan.
- for our workers, implementation of new voluntary retirement savings plans to ensure an adequate retirement income for all;
- for community housing, investments totalling \$180 million in the construction of 3 000 new units, including 2 500 social and community housing units.
- to fight poverty and support community organizations, over \$25 million, including for the Fonds d'aide à l'action communautaire autonome.

The solidarity initiatives announced in this budget will have a financial impact for the government of \$153 million over three years.

TABLE G.37

#### Financial impact of the measures to strengthen solidarity (millions of dollars)

Directions	2012-2013	2013-2014	2014-2015	Total
Growing Old at Home Action Plan	-18.4	-35.5	-50.2	-104.1
Ensuring an adequate retirement income for all	-2.5	-4.0	-4.0	-10.5
Investments of \$330 million in housing construction and home adaptation	-0.2	-11.2	-1.7	-13.1
Continuing the fight against poverty and support for community organizations	-7.0	-8.3	-10.4	-25.7
<b>TOTAL</b>	<b>-28.1</b>	<b>-59.0</b>	<b>-66.3</b>	<b>-153.4</b>

#### 2.1.1 Growing Old at Home Action Plan

Québec is on the verge of profound demographic changes in the coming years. 2011, the year when the first baby-boomers turned 65, marked the start of a shift toward a more elderly population, a trend that will accelerate as children of the post-war era begin reaching their retirement years in ever greater numbers.

This demographic trend will increase the number of seniors who, for the most part, remain in good health and wish to be actively involved in their community. The preference of seniors for remaining in their own residence underscores their attachment to the idea of “growing old at home,” living and actively participating in their own community to the extent that they are able to do so.

While this is the desire of most seniors, unfortunately it is not possible for everyone. A gradual loss of autonomy forces a great many seniors to consider other types of housing, such as senior citizens' residences, where the services that have become essential to them are offered on the premises. For other seniors confronted with a severe loss of autonomy, institutional accommodation must sometimes be considered.

This emerging demographic reality therefore makes it necessary to recognize the need for increased support and assistance for our seniors by taking concrete steps designed to help seniors remain in their community for as long as possible, thereby promoting a genuine sharing between the generations.

Accordingly, in the spring of 2012, the Minister responsible for Seniors and the Minister for Social Services will table the Growing Old at Home policy, which will define the preferred directions for allowing our seniors to remain in their living environment. The policy will be accompanied by a five-year action plan.

The funding provided by Budget 2012-2013 for the measures under the action plan is organized into four major components:

- support for seniors through community-based projects;
- health services better adapted to the needs of seniors;
- additional investments to render housing affordable, safe and adapted for seniors;
- enhanced tax assistance to help seniors remain in their home and to support informal caregivers.

The key directions of the action plan, as well as financing of the additional investments totalling nearly \$2.7 billion over five years, are explained in the paper *Québec and Its Seniors – More Support for Growing Old at Home*.

### **2.1.2 Ensuring an adequate retirement income for all**

Quebecers enjoy one of the world's most effective retirement income systems. Its diversified structure, often cited as an example, provides most retired Quebecers with a standard of living similar to what they enjoyed before leaving the labour market.

Despite its strengths, Québec's retirement income system faces two challenges:

- first, offset the savings insufficiency of certain workers who have no personal savings and do not have access to an employer pension plan;
- second, monitor the financial solvency of private pension plans that must deal with an aging population, fewer new contributors and a new international financial situation characterized by low interest rates, generating significant financial pressure.



In response to these challenges, the government has already taken a series of concrete steps to stabilize the financial situation of the Québec Pension Plan, encourage people to retire later and offer temporary funding relief for private pension plans.

With respect to savings insufficiency, the Québec government is acting on its commitment of the last budget and is announcing that it will table, in the spring of 2012, the legislative provisions necessary for the implementation of the new voluntary retirement savings plans (VRSP) as of January 1, 2013.

The features of these new plans are discussed in the paper *Quebecers and Their Retirement – Accessible Plans for All*.

### 2.1.3 Investments of \$330 million in housing construction and home adaptation

Substantial investments have been made in social housing in recent years. With the aim of continuing the government action with regard to housing, this budget provides for additional investments totalling \$330 million, broken down as follows:

- \$175 million for the construction of 2 500 new social and community housing units under the AccèsLogis Québec program, including:
  - 2 300 units in accordance with the current funding parameters;
  - 200 units in accordance with a new funding mechanism under the Chantier de l'économie sociale pilot project;
- \$5 million for the construction of 500 private rental units in municipalities facing a housing shortage, under the Affordable Housing Québec program;
- \$150 million for home renovation and adaptation for vulnerable groups.

TABLE G.38

#### Investments in support of housing (millions of dollars)

	Government investments	Financial impacts					Total over 5 year
		2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	
Construction of 2 500 social and community housing units	175.2	-0.2	—	—	-48.2	-117.1	-165.5
Construction of 500 private rental units	5.0	—	-1.7	-1.7	-1.7	—	-5.0
Home renovation and adaptation	150.0	—	-9.5	—	—	—	-9.5
<b>TOTAL</b>	<b>330.2</b>	<b>-0.2</b>	<b>-11.2</b>	<b>-1.7</b>	<b>-49.9</b>	<b>-117.1</b>	<b>-180.0</b>

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

To that end, additional funding of \$0.2 million in 2012-2013, \$11.2 million in 2013-2014 and \$1.7 million in 2014-2015 will be allocated to the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire. The funding for 2012-2013 will be drawn from the Contingency Fund.

### **New accounting standard on transfers**

A new public sector accounting standard on government transfers will enter into force.

- Henceforth, expenditures under programs administered by non-budget-funded bodies must be fully recorded when the work for which a grant was received has been completed.

Thus, grants for the construction of housing by the Société d'habitation du Québec will henceforth be charged against expenditure as the work progresses.

- See Appendix 3 of Section A of the Budget Plan for more details.

### **❑ \$180 million for the construction of 3 000 housing units**

Budget 2012-2013 provides for investments totalling \$180 million for the construction of 3 000 social, community and affordable housing units, broken down as follows:

- \$161 million for 2 300 units under the AccèsLogis Québec program in accordance with the current funding formula;
- \$14 million for 200 additional units under the AccèsLogis Québec program in accordance with a new funding mechanism, as part of the Chantier de l'économie sociale pilot project;
- \$5 million for 500 units under the private sector component of the Affordable Housing Québec program.

### **Québec's social, community and affordable housing stock**

Over 140 000 low- or middle-income households in Québec currently live in, or are awaiting, available or soon-to-be-available social or community housing:

- 73 524 households, in a unit in low-rental housing;
- 25 778 low- or middle-income households, in a unit under the AccèsLogis Québec program;
- 8 605 households, in a unit under the Affordable Housing Québec program;
- over 32 000 households, in unilateral federal cooperative and non-profit housing units under agreement.

Nearly 11 000 more households live in private rental housing and pay rent equivalent to what would be paid for low-rental housing.

## ■ **\$161 million for the construction of 2 300 housing units under the AccèsLogis Québec program**

The AccèsLogis Québec program enables housing bureaus, housing cooperatives, and non-profit organizations (hereafter referred to as “developers”) to create social and community housing for low- and moderate-income households and for people with special housing needs, with a minimal contribution from their communities (generally the municipality).

Under this program, the government, the developer of the housing project and the community cover 50%, 35% and 15%, respectively, of the maximum eligible project costs.

The amount of financial assistance varies with the municipality, the target group and the number of bedrooms in the housing unit. For example, the maximum government grant for the construction of a two-bedroom unit in a large urban centre, the eligible construction cost of which is \$128 000, will be \$64 000.

Given the target clientele for these housing units, the rent is set below the median market rent.

Budget 2012-2013 announces the construction of 2 300 new housing units under the AccèsLogis Québec program in accordance with the current funding formula.

## ■ **Pilot project for the construction of 200 more housing units under the AccèsLogis Québec program**

In the 2011-2012 Budget Speech, the government charged the Société d’habitation du Québec with examining, in consultation with the Ministère des Finances, new approaches to improve funding for social and community housing in Québec.

A task force made up of representatives from the Ministère des Finances, the Société d’habitation du Québec and partners in the sector was formed to examine new approaches that provide access to patient capital for the development of community housing in Québec.

As part of this financial re-engineering of investments in social and community housing, the government is announcing a pilot project to be conducted in cooperation with the Chantier de l’économie sociale.

The objective of the pilot project is to determine whether or not a patient capital fund for social and community housing would be a viable new source of funding for construction of social housing under the AccèsLogis Québec program.

All of the fund’s capital will come from private investments, which will have the effect of diversifying funding sources for social and community housing through a new type of public-private partnership.

In the wake of the International Forum on the Social and Solidarity Economy 2011, which took place in Montréal, the government intends to be a catalyst for social innovation by supporting the development of this new, socially innovative funding model.

In the context of the pilot project, the fund will allow AccèsLogis Québec projects in the construction stage to include patient capital as part of their funding package. Priority will be given to projects in large urban centres.

Budget 2012-2013 announces the implementation of a pilot project aimed at including patient capital as part of the financing package for 200 housing units built under the AccèsLogis Québec program. At the end of the first year, the pilot project will be renewed for two more years depending on investor interest. For that period, the government will set aside an amount in the envelope allocated to the AccèsLogis Québec program to cover 500 units a year.

■ **\$5 million for the construction of 500 new private rental units under the Affordable Housing Québec program**

Some municipalities have a hard time providing rental units. This is generally the case in areas experiencing an economic boom that are unable to meet the housing needs of people arriving from other regions or from abroad.

To support small municipalities with very low vacancy rates, Budget 2012-2013 provides for an investment of \$5 million to build 500 private rental units under the private sector component of the Affordable Housing Québec program.

Average financial assistance of \$10 000 per unit will enable construction of rental housing in cities such as Fermont, Port-Cartier and Sept-Îles.

Priority will be given to projects located:

- in a municipality that has a vacancy rate of 1.5% or lower;
- in the Plan Nord territory (outside of Nunavik) or the Abitibi-Témiscamingue region.

**Affordable Housing Québec program – private sector component**

The private sector component of the Affordable Housing program, launched in 2002, is aimed at stimulating the construction of private, affordable rental housing for middle-income households in the territory of municipalities with a housing shortage.

The amount of financial assistance granted by the government varies between \$5 100 and \$15 725 depending on the number of bedrooms in the unit and the municipality where it is located. For example, the amount granted for the construction of a two-bedroom unit in a major urban centre is \$10 625.

In return for financial assistance, the developer undertakes to comply with the program conditions, particularly the maximum rent permitted, for a period of 10 years.

The same as with the AccèsLogis Québec program, households renting these new units can benefit from the Shelter Allowance Program if they meet the eligibility conditions.

The Shelter Allowance Program provides financial assistance to families with children and to individuals 54 years old or over who live in low income who spend too much of their budget on rent.

The announcement of these new units makes Budget 2012-2013 the ninth consecutive budget to announce investments in social, community and affordable housing construction.

This brings the number of social, community and affordable housing units announced since 2002-2003 to 35 000, thus exceeding the initial objective of 13 000 housing units by 22 000.

This commitment will raise the amount invested in the construction of this type of housing to \$2 billion.

TABLE G.39

**Number of social, community and affordable housing units and related investments**

	Number of housing units	Investments (\$ million)
<b>Initial objective and objective attained</b>	<b>13 000</b>	<b>592</b>
Budget		
2004-2005	3 000	218
2005-2006	2 600	145
2006-2007	1 400	113
2007-2008	2 000	120
2008-2009	2 000	132
2009-2010	3 000	200
2010-2011	3 000	210
2011-2012	2 000	140
2012-2013	3 000	180
<b>Total – last 9 budgets</b>	<b>22 000</b>	<b>1 458</b>
<b>TOTAL</b>	<b>35 000</b>	<b>2 050</b>

As at December 31, 2011, of the planned 35 000 social, community and affordable housing units:

- 22 124 had been completed (delivered);
- 5 419 were in progress (funding had been committed);
- 7 457 were to come (funding had not yet been committed).

This means that another 12 876 social housing units will be made available in the coming years.

TABLE G.40

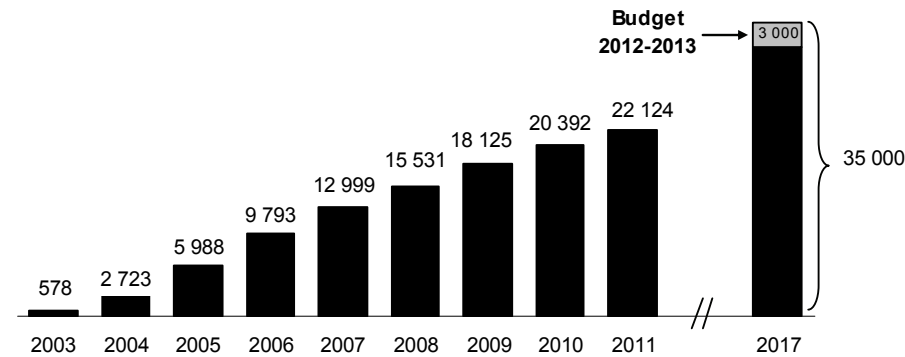
**Number of housing units built or being built<sup>(1)</sup>**

	Housing units		Projects to come			Total
	Built	Being built	Before the budget	Budget 2012-2013	Subtotal	
Number of housing units	22 124	5 419	4 457	3 000	7 457	35 000

(1) As at December 31, 2011.

CHART G.16

**Number of housing units delivered**  
(as at December 31 of each year)



**Investments of \$150 million to extend home renovation and adaptation programs**

The government continues to provide financial support for the renovation and adaptation of the private homes of low-income households or households with special needs.

Every year, it invests in the following programs:

- **RénoVillage:** grants financial assistance to low-income and modest-income owner-occupants living in rural areas to enable them to correct major defects in their home;
- **Home Adaptation for Seniors' Independence Program:** grants financial assistance to people 65 and over with low incomes who need to make minor adaptations to their home in order to continue to live there safely and independently;

- **Shelter Enhancement Program:** provides financial assistance for the renovation of shelters for women and young people under the age of 29 who are victims of family violence;
- **Emergency Repair Program:** provides financial assistance to low-income owner-occupants living in rural areas, so that they can correct major defects in their home that pose a threat to their safety or health;
- **Residential Adaptation Assistance Program:** grants financial assistance to homeowners covering eligible work required to meet the needs of a person with disabilities;
- **Rénovation Québec:** grants financial assistance to municipalities to improve housing in rundown residential areas.

A total of \$150 million will be invested in the above programs over the next two years, that is, \$75 million each in 2012-2013 and 2013-2014.

#### ■ **Negotiation and carrying out of additional Société d'habitation du Québec (SHQ) projects under the Low-Rental Housing Program**

Should the negotiations with Canada Mortgage and Housing Corporation to increase funding for the renovation, improvement and upgrading component of the Low-Rental Housing Program in 2012 and 2013 lead to an agreement soon, the SHQ will be authorized to increase Québec's share of funding in these projects, up to \$35.7 million for these two years.

### **2.1.4 Continuing to fight poverty and support community organizations**

Budget 2012-2013 provides for the following initiatives to continue fighting poverty and supporting community organizations:

- implementation of a stable funding formula for the Assistance Fund for Independent Community Action (AFICA);
- greater support for community recreation centres;
- additional funding for family community organizations and community daycare centres;
- implementation of supervision services for handicapped students aged 12-21.

The initiatives announced in this budget will have a financial impact of \$25.7 million over three years.

TABLE G.41

**Financial impact of the measures to continue fighting poverty and supporting community organizations**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Assistance Fund for Independent Community Action	-3.7	-4.1	-4.5	<b>-12.3</b>
Support for community recreation centres	-1.0	-1.5	-2.0	<b>-4.5</b>
Additional funding for family community organizations and community daycare centres	-2.0	-2.0	-3.0	<b>-7.0</b>
Supervisions services for handicapped students aged 12-21	-0.3	-0.7	-0.9	<b>-1.9</b>
<b>TOTAL</b>	<b>-7.0</b>	<b>-8.3</b>	<b>-10.4</b>	<b>-25.7</b>

**❑ Implementation of a stable funding formula for the Assistance Fund for Independent Community Action**

The Assistance Fund for Independent Community Action (AFICA) provides financial support to over 300 independent community action organizations and some 30 international humanitarian aid organizations.

The AFICA gets most of its income from a contribution from Loto-Québec, the amount of which is proportionate to the net profits of casinos and the contributing shops.

In the last few years, Loto-Québec's contribution has fluctuated to the point that the exact funding provided to these organizations is not know.

To facilitate the financial planning of these community organizations, a legislative amendment will be made to guarantee stable funding from Loto-Québec.

Consequently, the contribution paid by Loto-Québec over the next three years will be \$15.7 million, \$16.0 million and \$16.3 million for independent community action and \$2.9 million, \$3.0 million and \$3.1 million for international humanitarian aid.

TABLE G.42

**Loto-Québec's contribution to the funding of AFICA**  
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Independent community action	14.8	15.4	15.7	16.0	16.3
International humanitarian action	3.0	2.6	2.9	3.0	3.1
<b>TOTAL</b>	<b>17.8</b>	<b>18.0</b>	<b>18.6</b>	<b>19.0</b>	<b>19.4</b>



The new funding formula for the AFICA will reduce revenue from government enterprises by \$3.7 million in 2012-2013, \$4.1 million in 2013-2014 and \$4.5 million in 2014-2015.

As of fiscal year 2015-2016, Loto-Québec's contribution to the AFICA will be set by the government on a multi-year basis.

### **❑ Supporting community recreation centres**

Nearly 4 million people a year use the services of community recreation centres, a network of non-profit organizations devoted to individual, family and local community development.

With nearly 1 800 employees and 12 000 volunteers, most of these organizations are located in regions with the highest levels of material and social deprivation.

To support these centres, the Québec government is increasing the funding allocated to its financial assistance program for community recreation centres to enable them to:

- continue providing access to recreation;
- enhance support for activities for seniors;
- support youth-led activities.

To that end, the Ministère de l'Éducation, du Loisir et du Sport will receive an additional \$1.0 million in 2012-2013, \$1.5 million in 2013-2014, \$2.0 million in 2014-2015 and \$2.5 million as of 2015-2016. The funding for 2012-2013 will be drawn from the Contingency Fund.

### **❑ Additional funding for family community organizations and community daycare centres**

Family community organizations and community daycare centres provide considerable support to Québec families.

Family community organizations (OCFs) assist and support parents in their role of parenting. They offer a variety of activities, such as parent-child, early stimulation and homework assistance workshops, French as a second language courses and job readiness services.

- Nearly 280 OCFs receive financial support from the government under the financial assistance program for community family initiatives. There are OCFs in every region of Québec and, each year, they reach more than 100 000 families.
- Over the years, OCFs have become key players in ensuring the well-being of families, in particular by building close ties with local partners, such as health and social services centres, early childhood centres, schools and youth centres.

Community daycare centres, which are funded under the financial assistance program for community daycare centres, provide respite and drop-in care services to enable parents to participate in training and social and vocational integration activities.

To provide OCFs and community daycare centres with greater support, the Ministère de la Famille et des Aînés will receive additional funding of \$2.0 million in 2012-2013 and 2013-2014 and \$3.0 million in the years thereafter. Of this amount, \$200 000 a year will be allocated to community daycare centres. The funding for 2012-2013 is included in the expenditure budget of the Ministère de la Famille et des Aînés.

## **☐ Supervision services for handicapped students aged 12-21**

Supervision services for handicapped students aged 12-21 are part of a work-family balance approach aimed at offering parents of children with disabilities conditions that make it easier for them work or pursue studies.

Every day after school, students between the ages of 12 and 21 who have a physical or intellectual disability or a pervasive developmental disorder can attend a supervised care service in addition to receiving one-on-one assistance. They can take part in activities that match their abilities and interests, such as sports, cooking, crafts and homework assistance.

— In 2011-2012, 13 organizations received funding to provide supervision services for 275 handicapped students aged 12-21. These services are partly funded through the 2009-2014 Youth Action Strategy.

However, to meet all of the identified needs and ensure that services continue after the strategy ends in 2013-2014, the government intends to entrust the Ministère de la Famille et des Aînés with the responsibility of implementing a normative financial support program for supervision services for handicapped students aged 12-21 and ensure the program has stable, recurring funding.

To that end, additional funding of \$330 000 in 2012-2013, \$670 000 in 2013-2014 and \$880 000 for subsequent years will be allocated to the Ministère de la Famille et des Aînés. The funding for 2012-2013 is included in the expenditure budget of the Ministère de la Famille et des Aînés.

## **2.2 The strength of our culture**

### **2.2.1 Developing culture in Québec**

Culture is an important link in Québec's economy. The vitality of the cultural sector is reflected as much in the restoration and conservation of Québec's built heritage as it is in the scores of productions in the world of the arts as well as in the vibrant, diverse network of museums.

A number of museum projects requiring government support are under way and will position Québec advantageously on the international scene in terms of the quality of its museum network while enriching the province's cultural heritage.

Similarly, several companies are staging cultural activities around the world, including live performances such as musicals and art exhibitions currently taking place in Europe.

Furthermore, community media are crucial players in the field of communications. They focus on local news and information and have smaller audiences owing to their limited use of new information technologies.

To help these sectors flourish and improve their funding, provisions have been made to:

- raise investments by the Québec Cultural Heritage Fund by \$60 million;
- provide museums with greater support;
- create a new state-museum component to the Mécénat Placements Culture program;
- enhance the operating assistance for the McCord Museum and the Stewart Museum;
- provide additional support to the Conseil des arts et des lettres du Québec;
- enhance the operating assistance for community media;
- introduce a tax credit for the production of multimedia events or environments staged outside Québec;
- raise the cap on the tax credit for the production of performances regarding musical comedies;
- add a new pavilion to the Montreal Museum of Fine Arts;
- broaden the enhancement applicable to certain French-language film or television productions;
- build the Théâtre Le Diamant à Québec.

With Budget 2012-2013, the government will allocate \$41.1 million over three years to measures fostering the development of culture in Québec.

TABLE G.43

**Financial impact of the measures to develop culture in Québec**  
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total <sup>(1)</sup>
Investments of \$60 million through the Québec Cultural Heritage Fund	-5.5	-5.5	-5.5	<b>-16.5</b>
Increased support for museums	-2.5	—	—	<b>-2.5</b>
Creation of a state-museum component to the Mécénat Placements Culture program	-1.0	-1.5	-2.0	<b>-4.5</b>
Enhancement of the operating assistance for the McCord Museum and the Stewart Museum	-1.0	-1.5	-1.5	<b>-4.0</b>
Additional support for the Conseil des arts et des lettres du Québec	-1.5	-1.5	-1.5	<b>-4.5</b>
Enhancement of the operating assistance for community media	-1.0	-1.0	-1.0	<b>-3.0</b>
Introduction of a tax credit for the production of multimedia events or environments staged outside Québec	-1.3	-1.8	-1.8	<b>-4.9</b>
Rise in the cap on the tax credit for the production of performances regarding musical comedies	-0.3	-0.3	-0.3	<b>-0.9</b>
New pavilion for the Montreal Museum of Fine Arts <sup>(2)</sup>	—	—	—	<b>—</b>
Broadening of the enhancement applicable to certain French-language film or television productions <sup>(3)</sup>	-0.1	-0.1	-0.1	<b>-0.3</b>
Construction of the Théâtre Le Diamant à Québec <sup>(2)</sup>	—	—	—	<b>—</b>
<b>TOTAL</b>	<b>-14.2</b>	<b>-13.2</b>	<b>-13.7</b>	<b>-41.1</b>

(1) Figures have been rounded off, so the total may not correspond to the total indicated.

(2) This investment will be financed out of the budgetary envelope allocated to the Québec Infrastructures Plan 2011-2016. This measure is explained in greater detail in the paper *Québec, Its Municipalities and Regions – Partnership for Development*.

(3) The particulars of this measure are discussed in the document *Additional Information on the Fiscal Measures*, which is part of Budget 2012-2013.

## **Investments of \$60 million by the Québec Cultural Heritage Fund**

The government created the Québec Cultural Heritage Fund in 2006-2007 to foster the restoration and conservation of Québec's cultural heritage.

The fund has an investment envelope of \$100 million and is fed by specific tax revenues from tobacco products. The fund supports measures promoting knowledge of cultural heritage and the protection, enhancement and transmission of that heritage.

Since its creation, the fund has helped fund more than 400 projects, for total investments of over \$160 million, including the contribution from partners.

## ■ Increase in investments

The government wishes to allocate additional resources to enable the fund to continue its mission and obligations.

- In this regard, the budgetary envelope of the Québec Cultural Heritage Fund will be increased by \$60 million, to be used over eight years starting in 2012-2013.
- The additional funds will help support, in particular:
  - a greater number of municipalities and RCMs so they can enhance Québec's built heritage, such as the restoration of the Moulin des Augustines in Québec City;
  - museums, to enable them to renew and showcase their permanent exhibitions, like with past projects such as Fort Ingall in the Lower St. Lawrence and the Musée de la Mer on the Magdalen Islands.

To finance these measures, the amount drawn annually from specific tax revenues from tobacco products will be increased by \$5.5 million from 2012-2013 to 2019-2020.

TABLE G.44

### Québec Cultural Heritage Fund (millions of dollars)

	The Fund's investment envelope	Annual amounts drawn from specific tax revenues from tobacco products
Current situation	100	10.0
New measure	60	5.5
<b>TOTAL</b>	<b>160</b>	<b>15.5</b>

## □ Greater support for museums

Québec's museum network consists of 192 institutions recognized by the Ministère de la Culture, des Communications et de la Condition féminine and that are present in every region of Québec. These institutions enrich the social and cultural life of the province by bearing witness to its past, present and future in the fields of art, history and science. Museums are also major tourist attractions.

Québec museums, which are deeply rooted in culture, showcase quality exhibitions that testify to Québec's regional diversity. But securing funding is a challenge for museums, especially since the financial support received from the private sector has decreased substantially over the last few years.

To support the development of Québec's museum network, the government will grant a one-time increase to the museum budget. An additional sum of \$2.5 million will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine in 2012-2013 for that purpose. The funding will be drawn from the Contingency Fund.

## **❑ Creation of the state-museum component to the Mécénat Placements Culture program**

State museums play a unique role in Québec's museum network. Their world-class exhibitions provide an exceptional opportunity for Quebecers to discover our own as well as other cultures. State museums are also major tourist attractions in Québec.

Each state museum has its own foundation that allows donors who care about preserving Québec's cultural heritage to support these important institutions. However, there are currently no matching grant programs like Mécénat Placements Culture to boost the fundraising campaigns of state museums.

To support state museums' mission to preserve Québec's cultural heritage, the government will create a new component to the Mécénat Placements Culture program devoted specifically to state museums that will match private donations. Additional funding of \$1.0 million in 2012-2013, \$1.5 million in 2013-2014 and \$2.0 million thereafter will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine for that purpose. The funding for 2012-2013 will be drawn from the Contingency Fund.

## **❑ Enhancement of the operating assistance for the McCord Museum and the Stewart Museum**

The McCord Museum of Canadian History is dedicated to the preservation, study, diffusion and appreciation of Canadian history. It obtains most of its funding from private donations.

The Stewart Museum is also a history museum and it collects, conserves and exhibits collections of objects and artefacts that show the presence and influence of European civilization on the history of New France and North America.

The McCord and Stewart museums have undertaken steps to merge. If this comes to pass, it would create a large history museum in Montréal that could become an important tourist attraction. The complementarity of the museums' collections, which cover different periods, would allow the new entity to offer a more comprehensive look at Québec's history.

To supplement the Temple Grove and Macdonald Stewart foundations' commitment to continue supporting these two museums for the next 10 years and to maintain and showcase their large collections, the government will enhance the operating assistance provided to the McCord Museum and the Stewart Museum.

Additional funding of \$1.0 million in 2012-2013 and \$1.5 million for subsequent years will be granted to the Ministère de la Culture, des Communications et de la Condition féminine for that purpose. The funding for 2012-2013 will be drawn from the Contingency Fund.

## **❑ Expansion of the Musée d'art contemporain de Montréal**

The Musée d'art contemporain de Montréal has plans to expand and modernize its facilities. The government supports this project and is announcing that it will make a financial contribution provided that the museum obtains financial support from the federal government, the private sector and other partners.

## ❑ **Additional support for the Conseil des arts et des lettres du Québec**

The mandate of the Conseil des arts et des lettres du Québec (CALQ) is to support artists and cultural organizations associated with various disciplines, including the visual arts, arts and crafts, literature, the performing arts, dance, multidisciplinary arts and media arts.

The number of financial assistance applications submitted to CALQ has risen sharply in the last few years. For example:

- in 2010-2011, CALQ studied nearly 7 000 applications (bursaries and grants) compared with roughly 4 500 in 2006-2007, a 55% increase;
- over the same period, the number of different organizations supported by CALQ rose from 535 to 659 (124 new organizations), a 23% increase.

To enable CALQ to maintain the quality of its services, it will receive additional funding of \$1.5 million over the next five years, at the rate of \$300 000 per year as of 2012-2013.

Québec also has an extremely vibrant professional dance sector, but in order for this sector to develop to its full potential, the dance community must be able to rely on adequate financial and material resources.

To enable CALQ to provide better funding support for dance, additional assistance of \$6.0 million will be allocated to this sector over the next five years, at a rate of \$1.2 million a year as of 2012-2013.

Consequently, the Ministère de la Culture, des Communications et de la Condition féminine will receive additional funding of \$7.5 million over five years, including \$1.5 million in each of the 2012-2013, 2013-2014 and 2014-2015 fiscal years. The funding for 2012-2013 will be drawn from the Contingency Fund.

## ❑ **Enhancement of the operating assistance for community media**

Community media operate in all of Québec's administrative regions, providing local information relating to all aspects of the community they represent and reflecting local concerns. The Ministère de la Culture, des Communications et de la Condition féminine counts 165 community media throughout Québec, including radio and television stations and newspapers.

The operating assistance program for community media provides them with support to help them fulfil their mission and implement their action plan. The operating assistance granted to community media is equal to 25% of their total operating budget, on average.

The operating assistance program for community media will be improved to enable the consolidation of existing media outlets and the use of new technologies. Furthermore, this improvement is in keeping with the government's will to support future regional online information networking initiatives of community media.

To that end, additional funding of \$1.0 million per year as of 2012-2013 will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2012-2013 will be drawn from the Contingency Fund.

## ❑ Introduction of a refundable tax credit for the production of multimedia events or environments staged outside Québec

Quebecers are world-renowned for their artistic talents, particularly the innovative use of new technologies in the creative process.

To support Québec creators in developing and showcasing their works on the world stage and thereby generate more economic benefits for Québec, Budget 2012-2013 provides for a new refundable tax credit for the production of multimedia events or environments staged outside Québec.

This new refundable tax credit, calculated at a rate of 35%, will be granted to companies that design multimedia events or environments that present an educational or cultural experience and are staged for entertainment purposes at a venue outside Québec.

The tax assistance will apply to production expenses incurred after the day of Budget 2012-2013 and before January 1, 2016.

The following table shows the principal parameters of the tax measure.

TABLE G.45

### Principal parameters of the refundable tax credit for the production of multimedia events or environments staged outside Québec

<b>Eligible corporations</b>	Corporations that carry on a business in Québec and carry out eligible productions.
<b>Eligible productions</b>	Multimedia events or environments in respect of which the Société de développement des entreprises culturelles has issued a certificate indicating that, among other things, the event: <ul style="list-style-type: none"><li>– presents an educational or cultural experience and is staged for entertainment purposes in a venue or venues located outside Québec;</li><li>– satisfies specific criteria regarding Québec content.</li></ul>
<b>Eligible expenses</b>	The wages and salaries of the creative personnel who carry out eligible production work, including the portion of wages and salaries paid pursuant to subcontracts. <ul style="list-style-type: none"><li>– Eligible labour expenditures may not exceed 50% of eligible production expenses.</li></ul>
<b>Rate</b>	35% of eligible expenditures incurred (up to \$350 000 per eligible production).
<b>Duration</b>	Eligible expenditures must be incurred after the day of Budget 2012-2013 and before January 1, 2016.

This measure will have a financial impact of \$1.3 million in 2012-2013 and \$1.8 million in 2013-2014 and 2014-2015.



## ❑ Rise in the cap on the refundable tax credit for the production of performances regarding musical comedies

The Québec government provides a tax credit for the production of performances including a musical, drama or aquatic show, a comedy, mime, magic or circus show, or an ice show.

- The tax credit is equal to 35% and applies, in particular, to the wages and salaries directly attributable to the performance's production.
- The maximum amount of the tax credit for a qualified production is \$750 000.

The number of Québec productions of musical comedies has risen considerably in recent years. Development of this type of show contributes significantly to heightening the visibility of Québec culture while stimulating job creation in Québec.

However, the production costs for this type of show are such that the maximum amount of tax assistance granted is reached in the first phase of the production. As a result, the promoter might decide to limit performances to a single phase because of the financial risk inherent in this type of production, especially considering that future performances could take place outside of large urban centres.

Phases of a qualified performance	
To be eligible for the tax credit, a performance must consist of no more than three phases:	
– Phase 1:	The period covering the pre-production of the performance until the end of the first full year after its first performance before an audience.
– Phase 2:	The period covering the second full year after its first performance before an audience.
– Phase 3:	The period covering the third full year after its first performance before an audience.

To stimulate production of bigger musical comedies, Budget 2012-2013 raises the cap on the refundable tax credit for the production of performances. The maximum amount of tax assistance for musical comedies will be increased from \$750 000 to \$1 250 000 per show.

This increase will apply to musical comedies one of whose three phases in respect of which a tax credit may be claimed has not been completed on the day of Budget 2012-2013.

This measure will have a financial impact of \$300 000 in each of the 2012-2013, 2013-2014 and 2014-2015 fiscal years.

## ❑ **Artists' studios in Montréal**

The cultural sector makes an undeniable contribution to the city of Montréal. In fact, creative artists, craftspeople and cultural organizations are part of the city's very identity and thus contribute to its international renown.

To counter the exodus of artists from the city and stop Montréal's cultural sector from eroding, these people must have access to affordable studios and production spaces, preferably located in the heart of the city.

In this context, Budget 2012-2013 provides for the creation of a task force responsible for assessing the advisability of providing financial assistance for the development of artists' studios in Montréal.

The task force will be formed of representatives from the Ministère de la Culture, des Communications et de la Condition féminine, Culture Montréal, Chantier de l'économie sociale, Ville de Montréal and the partners concerned.

### **2.2.2 Competing in a digital world**

Acknowledging the specific implications of information and communication technologies for cultural industries, in June 2010 the Minister of Culture, Communications and the Status of Women mandated the Société de développement des entreprises culturelles (SODEC) to develop, in consultation with the Conseil des arts et des lettres du Québec (CALQ) and the Ministère de la Culture, des Communications et de la Condition féminine, a strategy that adequately addresses the challenges relating to digital technologies.

The purpose was to determine the status of each cultural sector in Québec, identify the issues relating to digital technologies and define strategic directions for effectively positioning these sectors in the digital space.

In fall 2011, after numerous consultations with various stakeholders from Québec's cultural community, SODEC and CALQ each submitted a report containing their conclusions.

These reports largely informed the government in the implementation of a specific digital strategy enabling the cultural sector to successfully make the digital shift.

## ❑ **Implementation of a digital strategy for the cultural sector**

Digital technologies are an important source of creativity. However, they turn traditional patterns of consumption and diffusion of cultural products upside down and provide access to an abundant, diverse supply of foreign products. The challenges posed by digital technologies are that much bigger since Québec is the only majority-French-speaking nation in North America and, therefore, the only one whose cultural products are mostly in French.

To overcome these challenges, the directions defined in the digital strategy are essentially designed to:

- offer existing Québec cultural products on digital platforms;
- encourage and support the production of original digital content;

- assist Québec's cultural sector in its efforts to integrate new creative tools;
- stimulate the development and diffusion of digital cultural content.

■ **Commitment of \$20 million over five years to implement the digital strategy for the cultural sector**

To ensure implementation of the digital strategy for the cultural sector, Budget 2012-2013 provides for additional funding of \$20.0 million over five years for the Ministère de la Culture, des Communications et de la Condition féminine. The funding required for 2012-2013 will be drawn from the Contingency Fund.

TABLE G.46

**Financial impact of the implementation of the digital strategy for the cultural sector**

(millions of dollars)

	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	Total
Implementation of the digital strategy for the cultural sector	-2.0	-3.0	-5.0	-5.0	-5.0	<b>-20.0</b>

This amount is in addition to the \$9.0 million over three years allocated in Budget 2011-2012 to help cultural enterprises overcome the challenges they face in order to compete in the digital environment.

■ **Priority areas of action in 2012-2013**

The government is allocating additional funding of \$2.0 million to three priority areas of action for 2012-2013:

- digitize existing Québec cultural products first;
- make the body of Québec digital cultural works available to the general population;
- support the creation and development of original digital cultural content.

■ **Digitize Québec's existing cultural products first**

If Québec wants to be digitally competitive, more cultural products made by Québec artists and companies must be made available online – by digitizing existing content – in order to provide the public with access to a critical mass of local creations.

- To that end, the government is allocating the sum of \$650 000 to the Ministère de la Culture, des Communications et de la Condition féminine to fund the digitization of existing cultural works held by SODEC and the Bibliothèque et Archives nationales du Québec (BANQ).

- **Make the body of Québec digital cultural works available to the general population**

To stimulate the diffusion of e-books by Québec authors, it is important to help public libraries of all sizes offer a comparable level of service in the different regions of Québec.

- The government is therefore allocating an envelope of \$350 000 to the Ministère de la Culture, des Communications et de la Condition féminine for the purposes of implementing the e-book library platform.

- **Support the creation and development of original digital cultural content**

To continue increasing the visibility of Québec culture through new media, we must produce quality artistic products specially designed for the Internet as well as encourage the production of new products meeting the needs of people who have access to a relatively abundant supply.

- To that end, the government is allocating \$1.0 million to the Ministère de la Culture, des Communications et de la Condition féminine to support SODEC and CALQ programs for the creation and development of original digital cultural content.

TABLE G.47

**Implementation of the digital strategy for the cultural sector**  
**Fiscal year 2012-2013**  
(millions of dollars)

Priority programs to be supported	Amount
<b>Digitize existing Québec cultural works first</b>	<b>0.65</b>
– Enhancement of the assistance for books and specialized publishing companies (SODEC) <sup>(1)</sup>	
– Enhancement of the assistance for businesses in the music and variety sector (SODEC) <sup>(2)</sup>	
– Creation of a fund for the Programme commun de numérisation (BAnQ) <sup>(3)</sup>	
<b>Make the body of Québec digital cultural works available to the general population</b>	<b>0.35</b>
– Fonds pour l'achat de livres numériques – public libraries (MCCCF) <sup>(4)</sup>	
– Implementation of the e-book library platform (MCCCF)	
<b>Support the creation and development of original digital cultural content</b>	<b>1.00</b>
– Establishment of a program dedicated to original digital production (SODEC) <sup>(5)</sup>	
– Support the development of digital cultural content (CALQ) <sup>(6)</sup>	
<b>TOTAL</b>	<b>2.00</b>

(1) This additional assistance is aimed at supporting the digitization of existing works and the conversion of files into a suitable format for digital warehousing.

(2) This additional assistance is dedicated to the program's new media component.

(3) The purpose of this program is to digitize collections of heritage works and documents that can be entered in the revised Répertoire du patrimoine culturel du Québec.

(4) This assistance will make it possible to fund the fund's creation and its first year of operation.

(5) This program will make it possible to support the production of WebTV programs and Webdocumentaries and tap the potential of new digital platforms.

(6) The purpose of this program is to provide artistic content on digital platforms.

## 2.2.3 Increase in the government's contribution to the cultural sector since 2003-2004

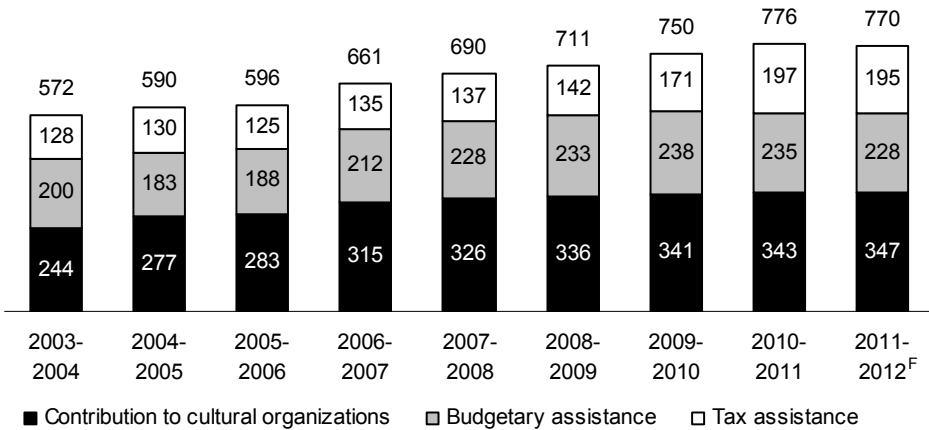
Since 2003-2004, the government's contribution to the funding of cultural activities sector has swelled. Total assistance granted to artists, cultural businesses as well as organizations dedicated to the development of Québec culture increased by 34.6% between 2003-2004 and 2011-2012, from \$572 million to \$770 million.

During the same period:

- the contribution to cultural organizations<sup>15</sup> rose by 42.4% and should stand at \$347 million in 2011-2012;
- budgetary assistance grew by 14.0% and should stand at \$228 million in 2011-2012;
- tax assistance grew by 51.9% and should reach \$195 million in 2011-2012.

CHART G.17

**Increased in the government's contribution to the cultural sector**  
(millions of dollars)



F: Forecast.

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

Sources: Ministère de la Culture, des Communications et de la Condition féminine and Ministère des Finances du Québec.

## ■ Significant support for film and television production

The film and television production sector is the main beneficiary of government support in the cultural sector. At \$207 million for 2011-2012, this amount is up \$62 million from 2003-2004, representing growth of 42.9%, well ahead of the increase for the cultural industry as a whole (34.6%).

15 This contribution is used essentially to fund the operating expenses of SODEC, CALQ, the Bibliothèque et Archives nationales du Québec, national museums, Télé-Québec, the Conservatoire de musique et d'art dramatique, the Société de la Place des Arts de Montréal, the Société du Grand Théâtre de Québec and the Comité de reconnaissance des associations d'artistes et des associations de producteurs, as well as the debt service of the Ministère de la Culture, des Communications et de la Condition féminine.

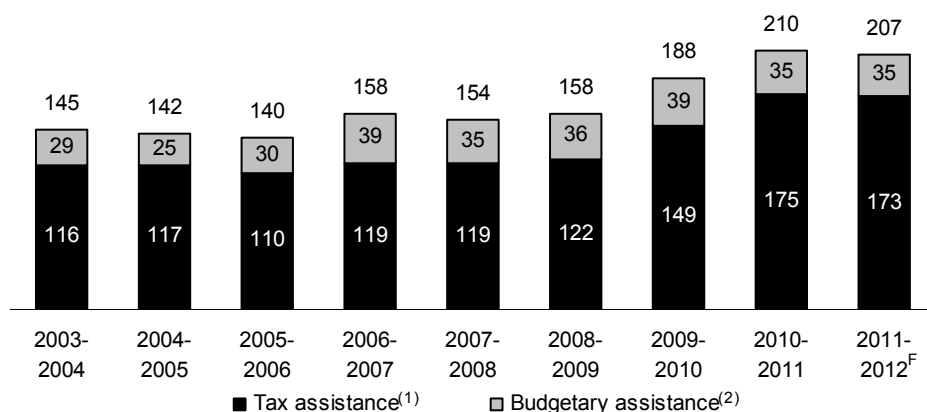
This increase is attributable to the many initiatives taken in recent years, in keeping with the government's intent to invest more in this sector.

- In October 2006, the government granted budgetary assistance of \$10 million to SODEC to fund more feature films. In February 2007, the government announced the renewal of this assistance. These initiatives, coupled with the existing budgetary assistance, enabled the government to provide the film and television production sector with total budgetary assistance of \$35 million 2011-2012.
- The tax credit for Québec film and television production was substantially improved in the January 14, 2009 Economic Statement by, among other things, increasing the applicable rates and eliminating the cap on the tax credit that can be claimed for each film or series.
- In June 2009, the government changed the base of the tax credit for film production services to have the 25% rate apply to all production expenses. In February 2010, Québec introduced a 20% increase calculated on the labour expenditures (including employer costs) relating to the production of special effects.

All these initiatives, as well as those contained in Budget 2012-2013, affirm the importance the government places on this sector.

CHART G.18

### Growth in government support for film and television production (millions of dollars)



F: Forecast.

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

(1) Includes the tax credit for Québec film and television production, the tax credit for film production services and the tax credit for film dubbing.

(2) Includes dedicated funding programs for film and television production as well as the sums allocated to the film and television production sector under the financial assistance program for cultural exports and visibility. All of these programs are administered by SODEC.

Sources: SODEC, Ministère de la Culture, des Communications et de la Condition féminine and Ministère des Finances du Québec.

## 2.3 The strength of sports and recreation

The benefits derived from sports and recreation go far beyond the well-being they bring to those who partake in them. Practising sports and recreational activities is a major contributing factor to social cohesion and improvement of the overall health of the population.

The Québec government acknowledges these benefits by investing in the development of sports and recreational facilities and financially supporting bodies that promote and oversee sports and recreational activities.

In Budget 2012-2013, the Québec government is renewing its pledge to support sports and recreation, in particular by:

- investing \$50 million more in sports and recreational facilities;
- establishing Placements Sports to ensure the development of sports federations;
- supporting the Défi sportif AlterGo.

TABLE G.48

### Financial impact - Measures to strengthen physical and recreational activity (millions of dollars)

	2012-2013	2013-2014	2014-2015
Investment of \$50 million in sports and recreational facilities	-3.0	-3.0	-3.0
Establishment of Placements Sports	-2.0	-3.0	-3.0
Support for the Défi sportif AlterGo	-0.5	-0.5	-0.5
<b>TOTAL</b>	<b>-5.5</b>	<b>-6.5</b>	<b>-6.5</b>

### 2.3.1 Investment of \$50 million in sports and recreational facilities

In 2006-2007, the government established the Sports and Physical Activity Development Fund to promote the development of sports and recreational facilities and support the organization of sports events.

#### ☐ Sports and Physical Activity Development Fund

The primary purpose of the Sports and Physical Activity Development Fund, which is funded through specific tax revenues from tobacco products, is to provide financial support for the construction, renovation, equipping and bringing up to standards of sports and recreational facilities.



Since its creation, the fund has helped finance more than 400 projects representing total investments of over \$800 million, including the contribution of partners.

- Currently, the fund has an investment envelope of \$584 million:
  - \$325 million was injected into the fund between its creation and 2008-2009;
  - an additional \$209 million was announced in Budget 2010-2011 in order to finance the replacement of freon refrigeration systems in arenas;
  - a \$50-million injection was announced in Budget 2011-2012 for the construction, restoration and development of sports and recreational facilities.

### **❑ Increase in the envelope of the Sports and Physical Activity Development Fund**

Despite the fund's current envelope, a number of projects still do not receive financial support due to a lack of resources. That is why the government wishes to allocate additional resources to the construction, restoration and development of sports and recreational facilities.

- To that end, the Sports and Physical Activity Development Fund will receive additional funding of \$50 million, which may be authorized as of 2012-2013, in order to fund more projects, such as outdoor skating rinks, pools, tennis courts, soccer fields, sports arenas, multisport facilities and various other projects.

To finance the new measure, the amount drawn annually from specific tax revenues from tobacco products will be increased by \$3 million from 2012-2013 to 2023-2024.

TABLE G.49

### **Sports and Physical Activity Development Fund** (millions of dollars)

	<b>The Fund's investment envelope</b>	<b>Annual amounts drawn from specific tax revenues from tobacco products</b>
Current situation	584	52
New measure	50	3
<b>TOTAL</b>	<b>634</b>	<b>55</b>

### **2.3.2 Establishment of Placements Sports to fund sports federations**

To ensure the development of sports federations in Québec, the government is announcing the establishment of Placements Sports, a program that will match private donations to Québec sports federations.

Through this initiative, the government and its partners hope to:

- create a leverage effect for private fundraising campaigns for sports federations by matching private donations;
- improve short- and long-term funding of Québec sports federations with support from the private sector;
- generate a better return on the sums invested by pooling funds;
- streamline procedures and reduce the administrative costs of donations for small sports federations.

To that end, additional funding of \$2.0 million in 2012-2013 and \$3.0 million for subsequent years will be allocated to the Ministère de l'Éducation, du Loisir et du Sport. The funding required for 2012-2013 will be drawn from the Contingency Fund.

Thanks to the establishment of Placements Sports, sports federations will see their annual income increase by up to \$5 million.

The particulars of Placements Sports' operation will be unveiled soon by the Minister of Education, Recreation and Sports.

### **2.3.3 Support for the Défi sportif AlterGo**

AlterGo actively supports the social integration of people living with disabilities by eliminating barriers to recreation. Since 1984, it has been organizing the Défi sportif AlterGo, a six-day sports event that brings together over 3 000 athletes with disabilities.

The government wishes to encourage disabled athletes from across Québec to participate in this event, the same as Sports Québec does with the Jeux du Québec. In that spirit, the government will contribute \$500 000 a year over the next three years to AlterGo in order to support the Défi sportif financially.

For that purpose, the Ministère de l'Éducation, du Loisir et du Sport will receive additional funding of \$500 000 a year over three years as of 2012-2013. The funding required for 2012-2013 will be drawn from the Contingency Fund.

### 3. THE FIGHT AGAINST TAX EVASION

The fight against tax evasion in sectors where tax losses are greatest has enabled the government to recover substantial additional amounts.

— These results stem from investments made by the government.

Some of these efforts by government departments and organizations are funded by the Provision to increase any appropriation for initiatives concerning the revenues (Provision) of the Ministère des Finances.

— In Budget 2012-2013, the government is allocating \$5.0 million more to the Provision, bringing it to \$62.3 million. The required additional funding will be drawn from the Contingency Fund.

— The expected increase in revenue further to the implementation of new projects funded by the Provision will offset this additional funding.

TABLE G.50

#### Financial impact of measures to fight tax evasion

(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
New measures to fight tax evasion	-5.0	-5.0	-5.0	-15.0
Impact of new initiatives against tax evasion affecting revenue	5.0	5.0	5.0	15.0
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

The new initiatives concerning the fight against tax evasion as well as the results of actions the government has taken are shown in section F of the 2012-2013 Budget Plan.



## 4. OTHER MEASURES

Budget 2012-2013 also includes other measures. These measures have a financial impact of \$21.5 million over three years.

TABLE G.51

### Financial impact of the other measures (millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Activity-based funding: implementation of an expert panel and financial support for practical initiatives	-2.0	-3.5	-3.0	<b>-8.5</b>
Support for public policy research	-0.3	-1.6	-1.6	<b>-3.5</b>
Improvement to animal health and welfare	-1.0	-1.0	—	<b>-2.0</b>
Transfer of part of the Accumulated Sick Leave Fund to the Agence du revenu du Québec	—	—	—	<b>—</b>
Compensation for crime victims	-0.5	-0.5	-0.5	<b>-1.5</b>
Improvement to geographical knowledge	-2.0	-2.0	-2.0	<b>-6.0</b>
<b>TOTAL</b>	<b>-5.8</b>	<b>-8.6</b>	<b>-7.1</b>	<b>-21.5</b>

### ❑ Initiatives to improve activity-based funding

In recent years, considerable energy has been devoted to improving health services funding, quality and access.

The expected rise in the costs of health care technologies and the demand for care, in particular because of population aging and the increasing prevalence of chronic illnesses reinforces the need to obtain the most health care value possible from each dollar.

Accordingly, it is important to look into other ways of doing things, among others new funding formulas, to ensure that future investments help maintain and improve access to care for patients.

A variety of approaches for increasing value per dollar invested in health care are available. Consistent with this approach, innovative payment models, such as activity-based funding,<sup>16</sup> are taking root to improve the quality and efficiency of health care and clinical practices and to expand accessibility.

16 Activity-based funding can incorporate funding per care episode, as well as performance pay.

To maximize the benefits of this funding approach and act on the proposals of the Association québécoise des établissements de santé et de services sociaux (AQESSS), the government is announcing the creation of an expert panel tasked with:

- formulating recommendations to implement activity-based funding;
- identifying practical initiatives where this funding approach will apply.

Accordingly, additional funding of \$2.0 million for 2012-2013 and \$3.5 million for 2013-2014 will be allocated to the Ministère des Finances. For 2012-2013, the required funding will be drawn from the Contingency Fund.

### ■ **Composition and mandate of the expert panel**

The expert panel of activity-based funding will be mandated to:

- formulate recommendations to implement activity-based funding, in particular to improve health care quality, accessibility and efficiency. The expert panel will have to identify the terms for the introduction of the approach and the conditions of its implementation;
- identify practical initiatives from the health and social services network where this funding approach will be applied, based on well-established criteria, for gradual introduction as of the spring of 2013;
- financially support implementation and assist the selected institutions to ensure objectives are achieved.

This expert panel will be chaired by Wendy Thomson whose expertise in public health policy is universally acknowledged. She will be supported by Pierre Shedleur, expert in strategic planning and former CEO of, in particular, the Commission de la santé et de la sécurité du travail and the Société générale de financement du Québec, and Roger Paquet, former head of a health institution and former Deputy Minister of Health and Social Services with the Québec government.

The work of the expert panel will be supported by the Ministère des Finances and the Ministère de la Santé et des Services sociaux.

### ■ **Timetable**

The expert panel's mandate will last from 12 to 18 months. A report will be submitted to the Ministers of Health and Social Services and of Finance in 2013, preceded by an interim report in January of that year.

### □ **Support for public policy research**

In Budget 2009-2010, the government undertook to support public policy research in the interests of more in-depth study of matters of public interest. In particular, it provided the Centre interuniversitaire de recherche en analyse des organisations (CIRANO) with multi-year funding to that end.

In Budget 2012-2013, the government is renewing its support to CIRANO until 2014-2015 so that this organization can continue its work in the fields of public policy and finance.

- As of 2012-2013, \$250 000 will be allocated annually to broaden knowledge of the issues relating to agriculture and food. This work comes within the policy directions of the *Livre vert pour une politique bioalimentaire* (green paper on bio-food policy) under the responsibility of the Minister of Agriculture, Fisheries and Food.
- In addition, an annual amount of \$75 000 for 2013-2014 and 2014-2015 will in particular fund the development of a school curriculum in finance and economics, supported by the pedagogical experiments to introduce young people to and train them in financial and economic literacy.

Accordingly, additional funding:

- of \$250 000 will be allocated to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation for each of the years 2012-2013 to 2014-2015;
- of \$1 325 000 for each of the years 2013-2014 and 2014-2015 will be allocated to the Ministère des Finances.

The funding required for 2012-2013 will be drawn from the Contingency Fund.

### ☐ **Improvement in animal health and welfare**

To support its efforts to improve the welfare of pets, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation will receive an additional \$2.0 million over the next two years to support spending resulting from the custody and treatment of animals seized for reasons of ill-treatment and carry out promotion activities to curb ill-treatment of pets.

To that end, additional funding of \$1.0 million in 2012-2013 and in 2013-2014 will be allocated to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The funding required for 2012-2013 will be drawn from the Contingency Fund.

### ☐ **Transfer of part of the Accumulated Sick Leave Fund to the Agence du revenu du Québec**

Since April 1, 2011, the Agence du revenu du Québec has replaced the Ministère du Revenu. The Agency is an independent entity charged with collecting the government's revenues. When the creation of the Agency was announced, the government undertook to honour the collective agreements of employees transferred to it. This transfer of employees implies a transfer of the liability regarding sick leave and the corresponding asset.

To enable the government to transfer part of the Accumulated Sick Leave Fund to the Agency retroactively to April 1, 2011, legislative amendments will be made to the applicable statutes.

## ❑ Compensation for crime victims

In Québec, a victim of a crime against his person can receive compensation and services as stipulated in the *Crime Victims Compensation Act*. Québec's system of compensation for victims of crime is the most generous in Canada. However, to better meet the needs of victims and their loved ones, some aspects of the system will be enhanced through legislative amendments.

The amendments will in particular make it possible to increase the lump sum death compensation granted to parents of a deceased dependent child, the amount stipulated for the reimbursement of funeral costs as well as the coverage of psychotherapeutic care for victims and their loved ones. They will also authorize the reimbursement of crime scene clean-up expenses.

To that end, the appropriations of the Ministère de la Justice will be increased by \$0.5 million as of 2012-2013. The appropriations required in 2012-2013 will come from the Contingency Fund.

## ❑ Improvement to geographical knowledge

The Québec government considers that geographical knowledge is essential to the harmonious and sustainable utilization of Québec's territory and its natural resources. Reliable and easily available geographical knowledge is indispensable for coordinated management and development of the territory.

By updating the resources required to acquire and enhance the expertise developed over the years, the government is improving the citizen's capacity to locate himself and move about the territory, to optimize the movement of people and goods and to foster the development of commercial applications and services.

Complete and adequate cartographic coverage of northern Québec will be essential to supplying a common representation and localization of natural and man-made phenomena. Accordingly, the government intends to produce and keep up to date a digital map of northern Québec in partnership, notably, with the federal government.

To that end, additional funding of \$2.0 million per year will be allocated to the Ministère des Ressources naturelles et de la Faune. The funding for 2012-2013 will be drawn from the Contingency Fund.

In addition, the geographical knowledge of the Department will be incorporated into the Fonds de l'information sur le territoire to create better synergy with the other activities of the fund and improve the efficiency of sector interventions. A legislative amendment will be made accordingly.



## **APPENDIX: An omnibus bill**

Some measures of the budget require legislative amendments. The Minister of Finance will introduce an omnibus bill to the National Assembly for adoption before the end of the spring 2012 parliamentary session. This bill will contain the legislative amendments that are not of a fiscal nature. It will include the following measures, in particular.

### ☐ **New licence and lease regime for hydrocarbons**

The bill will include in particular amendments to the *Mining Act* to auction licences to explore for petroleum, natural gas and underground reservoirs on land. In addition, it will stipulate that part of the revenue from the auctions be paid into the Generations Fund.

### ☐ **New royalty regime for land-based oil production**

The *Mining Act* will also be amended to raise the maximum percentage of the royalty rate applicable on land-based oil production from 17 to 40% of the wellhead value, according to the average retail sale price and a well's productivity. In addition, legislative provisions will enable implementation of a new production incentive for wells longer than 1 500 metres.

### ☐ **Addition of two components to the Natural Resources Fund**

The *Act respecting the ministère des Ressources naturelles et de la Faune* will be amended to allow the addition of a hydrocarbon component to the Natural Resources Fund. This component will fund monitoring and control activities as well as acquisition of knowledge in the hydrocarbon sector.

In addition, a second component will be put in place, i.e. the mining industry regulation regime component, which will fund this regime. The amounts to be paid into the hydrocarbon component will be specified in the bill.

### ☐ **Fonds Capital mines hydrocarbures**

The *Act respecting the ministère du Développement économique, de l'Innovation et de l'Exportation* will be amended to authorize the creation of Capital mines hydrocarbures, a fund devoted to government investment in non-renewable natural resources.

### ☐ **Additional payment to the Generations Fund**

Under the bill, \$300 million will be allocated to the Generations Fund in 2012-2013, from part of the accumulated surplus of the Territorial Information Fund, which will help reduce the government's debt.

## ☐ **Funding of geographical knowledge**

The *Act respecting the Ministère des Ressources naturelles et de la Faune* will be amended so that the Territorial Information Fund is assigned, among other things, to funding activities relating to geographical knowledge.

## ☐ **2013-2020 Action Plan on Climate Change: investments in the transportation sector**

Legislative amendments will be made to the *Environment Quality Act*, the *Act respecting the ministère du Développement durable, de l'Environnement et des Parcs* and the *Act respecting the ministère des Transports* to ensure the allocation of revenue from the implementation of the cap-and-trade system for GHG emission rights and the duty on gasoline and fossil fuels on the basis of government objectives, in particular regarding the amounts that will be transferred to the Green Fund and the Land Transportation Network Fund.

## ☐ **Funding of public transportation**

The omnibus bill will include provisions amending the *Act respecting the ministère des Transports* and the *Transport Act* to stipulate that the proceeds of the increase in the fuel tax applicable in a given territory be paid to a transportation body of such territory.

## ☐ **Viability of financing for the Assistance Fund for Independent Community Action**

The provisions of the *Act respecting the Société des loteries du Québec* setting the contribution paid by Loto-Québec to the Assistance Fund for Independent Community Action will be amended to set the contribution from now until 2014-2015. As of 2015-2016, this contribution will be set by the government.

## ☐ **Compensation for crime victims**

The *Crime Victims Compensation Act* will be amended to stipulate in particular the increase in the compensation paid to parents on the death of a dependent child.

## ☐ **Québec Cultural Heritage Fund and Sport and Physical Activity Development Fund**

The bill will enable an increase in the annual levy from the revenues of the specific tax on tobacco products that will be paid to the Québec Cultural Heritage Fund (from \$10 million to \$15.5 million) and to the Sport and Physical Activity Development Fund (from \$52 million to \$55 million).

## **❑ Fight against unreported work in the construction sector**

The *Act respecting Labour relations, vocational training and workforce management in the construction industry* will be amended to intensify the fight against unreported work:

- the bill will specify the fields of activity of independent contractors to reduce the number of individuals working alone on construction sites who do not have to report their hours to the Commission de la construction du Québec;
- provisions will be introduced to facilitate civil and criminal recourse against persons who refuse to supply information required in the course of an investigation;
- certain provisions will be added setting the time for keeping a record book, invoices and other relevant documents;
- others will aim to make it easier to prove the employment relationship between employees and their employers;
- lastly, the legislation will stipulate the same penalties or sanctions as those for legal persons for other legal forms of business organization, in particular partnerships and limited partnerships where they are sued as employers.

## **❑ Fight against the illicit tobacco trade**

Amendments will be made to the *Tobacco Tax Act* and the *Tax Administration Act* to raise certain fines, give MSSS inspectors inspection power in certain retail points of sale, implement a new tobacco product identification system, establish an evidence preservation mechanism and grant police officers certain investigation powers similar to those stipulated for Revenu Québec employees in certain circumstances.

## **❑ Streamlining of the legislative framework for the retail sale of alcohol**

The *Act respecting Liquor permits* will be amended to require only one permit per category for each establishment and to group the public house and tavern permits under the term “bar permit”. The bill will also enable a customer to bring home a bottle that has been opened.

## **❑ Changes to the Fund to Finance Health and Social Services Institutions (FINESSS)**

Amendments will be made to the *Act respecting the ministère de la Santé et des Services sociaux* to add clarifications regarding the recipients that can receive amounts from the Fund and thus better meet the needs of health and social services establishments. The amendments will also make it possible to pay into the fund a portion of the amounts stipulated in 2013-2014 on account of federal compensation for harmonization of the Québec sales tax with the goods and services tax.

## ❑ **Management of immigration applications**

The bill will amend the *Act respecting immigration to Québec* and the *Regulation respecting the selection of foreign nationals* to:

- enable the Minister of Immigration and Cultural Communities, as of the date of the budget, to make decisions relating to the reception and processing of selection certificate applications;
- regulate and set certain fees relating to immigration.

## ❑ **Transfer of part of the Accumulated Sick Leave Fund to the Agence du revenu du Québec**

Legislative amendments will be made to enable the government to transfer part of the Accumulated Sick Leave Fund to the Agency retroactively to April 1, 2011.

## **Implementation of voluntary retirement savings plans**

Moreover, concerning the legislative provisions necessary for the implementation of voluntary retirement savings plans, the Minister of Employment and Social Solidarity will introduce a bill to that effect in the National Assembly in the spring of 2012. This plan will come into force on January 1, 2013.

# Section H

## **FINANCIAL IMPACT OF THE MEASURES OF BUDGET 2012-2013**



## Financial impact of the measures of Budget 2012-2013

(millions of dollars)

	Financial impact for the government		
	2012-2013	2013-2014	2014-2015
<b>A STRONG ECONOMY</b>			
<b>1. THE STRENGTH OF OUR PEOPLE AND OUR RESOURCES</b>			
<b>1.1 Deploying our knowledge and know-how</b>			
1.1.1 A strategy for active participation by experienced workers	-10.0	-34.0	-40.0
1.1.2 Better match training with jobs to ensure success	-4.0	-5.0	-3.0
1.1.3 Capitalizing on the contribution of young people and new graduates	-3.5	-5.5	-6.5
1.1.4 Accelerating the labour market integration of newcomers	-7.5	-9.7	-9.9
<b>Subtotal</b>	<b>-25.0</b>	<b>-54.2</b>	<b>-59.4</b>
<b>1.2 Responsible development of natural resources</b>			
The details of these measures are described in the document <i>Québec and Its Natural Resources – Optimum Development</i>			
▪ Equity participation in resource businesses	-3.8	-8.3	6.6
▪ Mining: a rewarding duties regime, more ore processing in Québec	-1.2	-3.2	-5.2
▪ Forests: a sustainable forest management strategy	-4.7	-6.6	-7.5
▪ Hydrocarbons: a review of the royalties regimes, a new licence and lease regime	-2.0	-2.0	-1.0
▪ The Plan Nord: a comprehensive approach to the territory	-11.0	-12.0	-13.9
<b>Subtotal</b>	<b>-22.7</b>	<b>-32.1</b>	<b>-21.0</b>

**Financial impact of the measures of Budget 2012-2013 (continued)**  
(millions of dollars)

	Financial impact for the government		
	2012-2013	2013-2014	2014-2015
<b>A STRONG ECONOMY</b>			
<b>1.3 Fostering the growth of our businesses</b>			
1.3.1 Supporting the manufacturing sector	-5.5	-3.0	-2.0
1.3.2 Increasing the capital of Québec businesses	-8.0	-15.1	-21.4
1.3.3 Stimulating our exports	-6.7	-10.8	-17.4
1.3.4 Fostering the development of cooperatives	-1.2	-2.2	-2.2
1.3.5 Developing the financial sector	-1.2	-2.1	-3.1
1.3.6 Increase the competitiveness of the biofood sector	-10.0	-12.0	-12.0
<b>Subtotal</b>	<b>-32.6</b>	<b>-45.2</b>	<b>-58.1</b>
<b>1.4 Propel our tourist attractions to the next level</b>	<b>-14.5</b>	<b>-23.3</b>	<b>-23.3</b>
<b>1.5 Partnership for the development of Québec</b>	<b>-59.2</b>	<b>-64.5</b>	<b>-67.5</b>
The details of these measures are described in the document <i>Québec, Its Municipalities and Regions – Partnership for Development</i>			
<b>1.6 Consolidating our leadership in sustainable development</b>			
<b>The new climate change action plan</b>			
The details of these measures are described in the document <i>Québec and Climate Change – A Greener Environment</i>			
▪ Forecast revenue for the 2013-2020 Climate Change Action Plan	10.0	120.0	250.0
▪ Forecast investments under the 2013-2020 Climate Change Action Plan	-10.0	-120.0	-250.0
<b>Additional initiatives fostering sustainable development</b>	-1.6	-2.2	-3.3
<b>Subtotal</b>	<b>-1.6</b>	<b>-2.2</b>	<b>-3.3</b>
<b>SUBTOTAL – THE STRENGTH OF OUR PEOPLE AND OUR RESOURCES</b>	<b>-155.6</b>	<b>-221.5</b>	<b>-232.6</b>



# Financial impact of the measures of Budget 2012-2013 (continued)

(millions of dollars)

	Financial impact for the government		
	2012-2013	2013-2014	2014-2015
<b>A STRONG ECONOMY</b>			
<b>2. THE STRENGTH OF OUR VALUES</b>			
<b>2.1 For strengthening solidarity</b>			
2.1.1 Growing Old at Home Action Plan	-18.4	-35.5	-50.2
The details of these measures are described in the document <i>Québec and Its Seniors – More Support for Growing Old at Home</i>			
2.1.2 Ensuring an adequate retirement income for all	-2.5	-4.0	-4.0
The details of these measures are described in the document <i>Quebecers and Their Retirement – Accessible Plans for All</i>			
2.1.3 Investments of \$330 million in housing construction and home adaptations	-0.2	-11.2	-1.7
2.1.4 Continuing to fight poverty and support community organizations	-7.0	-8.3	-10.4
<b>Subtotal</b>	<b>-28.1</b>	<b>-59.0</b>	<b>-66.3</b>
<b>2.2 The strength of our culture</b>			
2.2.1 Developing culture in Québec	-14.2	-13.2	-13.7
2.2.2 Competing in a digital world	-2.0	-3.0	-5.0
<b>Subtotal</b>	<b>-16.2</b>	<b>-16.2</b>	<b>-18.7</b>
<b>2.3 The strength of sports and recreation</b>	<b>-5.5</b>	<b>-6.5</b>	<b>-6.5</b>
<b>SUBTOTAL – THE STRENGTH OF OUR VALUES</b>	<b>-49.8</b>	<b>-81.7</b>	<b>-91.5</b>

**Financial impact of the measures of Budget 2012-2013 (continued)**  
(millions of dollars)

	Financial impact for the government		
	2012-2013	2013-2014	2014-2015
<b>A STRONG ECONOMY</b>			
<b>3. THE FIGHT AGAINST TAX EVASION</b>			
▪ New measures to fight tax evasion	-5.0	-5.0	-5.0
▪ Impact of new initiatives against tax evasion affecting revenue	5.0	5.0	5.0
<b>SUBTOTAL – THE FIGHT AGAINST TAX EVASION</b>	—	—	—
<b>4. OTHER MEASURES</b>	<b>-5.8</b>	<b>-8.6</b>	<b>-7.1</b>
<b>TOTAL IMPACT OF THE MEASURES OF BUDGET 2012-2013</b>	<b>-211.2</b>	<b>-311.8</b>	<b>-331.2</b>
Impact of the measures on revenue	-55.7	-115.2	-128.0
Impact of the measures on program spending <sup>(1)</sup>	-151.0	-184.1	-186.7
Impact of the measures on debt service <sup>(2)</sup> and the results of consolidated entities	-4.5	-12.5	-16.5

Note: A negative amount indicates a cost for the government.

(1) Including the continuation of existing programs:

-65.3      -66.8      -71.8

(2) The impact on the government's debt service is shown for information purposes only. This impact is incorporated into the debt service forecast shown in sections A and C of the *Budget Plan* of Budget 2012-2013.

# Section I

## REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

<b>1. The <i>Balanced Budget Act</i>.....</b>	<b>I.3</b>
1.1 The budgetary balance within the meaning of the <i>Balanced Budget Act</i> .....	I.5
1.2 Achieving the objectives for decreasing budgetary deficits for 2011-2012 and 2012-2013.....	I.7
1.3 Status of the stabilization reserve fund .....	I.7
<b>2. The <i>Act to reduce the debt and establish the Generations Fund</i> .....</b>	<b>I.9</b>
2.1 Debt reduction objectives .....	I.9
2.2 Sums accumulated in the Generations Fund .....	I.12
2.3 Evolution of the gross debt and the debt representing accumulated deficits.....	I.15



# 1. THE *BALANCED BUDGET ACT*

The *Balanced Budget Act* (R.S.Q., c. E-12.00001) was amended in 2009 by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (2009, c. 38). The amendments were designed in particular to enable the government to deal with the most severe global recession since the 1930s.

The *Balanced Budget Act*:

- temporarily suspends the government's obligation to achieve a balanced budget for fiscal years 2009-2010 and 2010-2011;
- provides that, for the purposes of gradually returning to a balanced budget in 2013-2014, the government must meet objectives for decreasing budgetary deficits for fiscal years 2011-2012 and 2012-2013, established no later than the tabling of Budget 2011-2012;
- stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced for fiscal year 2013-2014.

As of 2011-2012, the government must fulfil the obligation under the Act to offset any overrun in respect of the set objectives. For example, if the government records an overrun of less than \$1 billion in relation to the decreasing deficit objectives for 2011-2012 and 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of that overrun.

## **The Balanced Budget Act**

The *Balanced Budget Act* (R.S.Q., c. E-12.00001) was passed unanimously by the National Assembly of Québec on December 19, 1996. Essentially, the Act stipulates that the government must table balanced budgetary forecasts and sets forth the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (2009, c. 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession.

Consequently, the provisions prohibiting a budget deficit do not apply from March 19, 2009, to the end of the period determined by the Minister of Finance no later than as part of Budget 2011-2012, which was set at March 31, 2013. The Act allows the government to suspend temporarily the obligation to achieve a balanced budget for 2009-2010 and 2010-2011 without being required to offset deficits by achieving surpluses in the following fiscal years.

In addition, the Act provides that the government must achieve the objectives for decreasing budget deficits established in the March 2011 budget, that is, \$3 800 million in 2011-2012 and \$1 500 million in 2012-2013. It also stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced by 2013-2014.

If the government records an overrun of less than \$1 billion in relation to the decreasing deficit objectives for 2011-2012 and 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of such overrun.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least \$1 billion as a result of circumstances defined in the Act. The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

If there is an overrun of more than \$1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, he must present a financial plan allowing those overruns to be offset within the five-year period and apply offsetting measures covering at least \$1 billion as of the fiscal year in which such an overrun is anticipated, or during the following year in the case of an actual overrun. He must offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budget balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the Canadian Institute of Chartered Accountants.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, at the time of the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve fund.

## 1.1 The budgetary balance within the meaning of the *Balanced Budget Act*

Under the *Balanced Budget Act*, the government achieves the objectives of the Act if the budgetary balance, calculated in accordance with the Act, is zero or positive.

As shown in Table I.1, a balanced budget within the meaning of the *Balanced Budget Act* was maintained from 2006-2007 to 2008-2009.

- In 2006-2007 and 2007-2008, the government posted surpluses totalling \$2.6 billion placed in reserve.
- In 2008-2009, \$1.8 billion was drawn from the reserve to keep the budgetary balance at zero within the meaning of the *Balanced Budget Act*.

Furthermore, in accordance with the Act, as amended in 2009, the obligation to achieve a balanced budget was temporarily suspended for 2009-2010 and 2010-2011 to allow the government to get through the recession and return to economic growth.

In 2009-2010, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit of \$3.2 billion.

The actual results for 2010-2011, indicate a budgetary deficit of \$3.2 billion—an improvement of \$1 050 million compared to the budgetary deficit of \$4.2 billion anticipated in the March 2011 budget.

TABLE I.1

**Budgetary balance within the meaning of the *Balanced Budget Act***  
(millions of dollars)

Fiscal year	Surplus (deficit) reported in the public accounts	Generations Fund	Accounting changes	Budgetary balance within the meaning of the Act before reserve	Annual surplus	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve <sup>(1)</sup>
						Allocations	Uses	
2006-2007	1 993	-584	—	1 409	1 409	1 300 <sup>(2)</sup>	—	109
2007-2008	1 650	-449	—	1 201	1 201	1 201	—	0
2008-2009	-1 258 <sup>(3)</sup>	-587	—	-1 845	—	109 <sup>(4)</sup>	1 845	0
2009-2010	-2 940	-725	58	-3 607	—	—	433	-3 174 <sup>(5)</sup>
2010-2011	-2 390	-760	—	-3 150	—	—	—	-3 150 <sup>(5)</sup>
2011-2012 <sup>P</sup>	-2 452	-848	—	-3 300	—	—	—	-3 300 <sup>(6)</sup>

P: Preliminary results.

(1) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

(2) In 2006-2007, only \$1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the new *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.

(3) This amount was established in the 2008-2009 financial statements without taking the adjustments made in 2009-2010 into account.

(4) In accordance with section 32 of the Act (2009, c. 38), the sum of \$109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.

(5) In accordance with the *Balanced Budget Act*, the obligation to attain a balanced budget was suspended in 2009-2010 and in 2010-2011.

(6) In accordance with the *Balanced Budget Act*, for 2011-2012, the government is obliged to meet the budgetary deficit target of \$3.8 billion set in the March 2011 budget.



## 1.2 Achieving the objectives for decreasing budgetary deficits for 2011-2012 and 2012-2013

The government is staying the course to gradually eliminate its budgetary deficit by 2013-2014 through a plan to return to budget balance.

In accordance with the Act, the objectives for decreasing budgetary deficits to be achieved in 2011-2012 and 2012-2013 were set in the March 2011 budget. The government must achieve the following deficit objectives, as established, and any overrun relative to these objectives must be offset according to the provisions set forth in the Act to that effect:

- a budgetary deficit of \$3.8 billion in 2011-2012;
- a budgetary deficit of \$1.5 billion in 2012-2013.

As shown in Table A.6 of the section on the government's economic and fiscal policy directions, the government still intends to meet the March 2011 deficit targets.

In 2011-2012, the budgetary balance within the meaning of the *Balanced Budget Act* will show a deficit of \$3.3 billion—an improvement of \$500 million compared to the target of \$3.8 billion. In addition, as a precautionary measure, the \$300-million contingency reserve is maintained for 2011-2012.

In 2012-2013, the anticipated budgetary deficit is \$1.5 billion—an amount corresponding to the government's objective in Budget 2011-2012.

As required by the Act, the government has provided for restoring budget balance in 2013-2014 and maintaining it in subsequent years.

## 1.3 Status of the stabilization reserve fund

Because of the economic recession Québec went through, the government has used up all of the stabilization reserve over the last few years. In 2008-2009, \$1 845 million was used to maintain a balanced budget and \$132 million was deposited in the Generations Fund to reduce Québec's debt. In 2009-2010, the remaining \$433 million of the stabilization reserve was applied to reduce the budget deficit. There have been no transactions in the stabilization reserve since 2009-2010.



## 2. **THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND**

### 2.1 **Debt reduction objectives**

In 2010, the government set the following debt-reduction objectives for fiscal year 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

#### ☐ **Water royalties to restore generational equity**

Financing for the Generations Fund comes primarily from royalties on an abundant collective resource in Québec—water.

Water-power royalties from Hydro-Québec and private electricity producers deposited annually in the Generations Fund will exceed \$700 million as of 2012-2013.

Since the creation of the Generations Fund in 2006, over \$3 billion in water-power royalties has served to reduce the debt burden and contributed to restoring generational equity.

#### ☐ **Debt reduction through higher electricity rates**

To achieve its debt reduction objectives, the government in particular announced in the March 2010 budget that, as of 2014-2015, all of the amounts from the gradual rise of 1 ¢/kWh over five years in the price of heritage pool electricity will be paid into the Generations Fund.

These additional payments will represent \$315 million in 2014-2015, i.e. the year after the budget is balanced, \$630 million in 2015-2016 and \$945 million in 2016-2017, reaching \$1 575 million in 2018-2019.

#### ☐ **Additional payments to the Generations Fund from the increase in mining, oil and gas royalties**

With the passage of Bill 10 (2011, c. 18), the government acted on its announcement in the March 2011 budget to increase deposits in the Generations Fund. In this regard, as of 2014-2015, amounts corresponding to 25% of net mining, oil and gas royalties received by the government exceeding \$200 million will be added to the dedicated revenues already in the Generations Fund.

The additional payments will represent \$45 million in 2014-2015 and \$50 million in 2015-2016 and 2016-2017.

**❑ Deposit in the Generations Fund of amounts derived from the auction of licences to explore for oil, gas and underground reservoirs**

The attribution, by auction, of licences to explore for oil, gas and underground reservoirs will enable the government to obtain additional revenues associated with the development of these resources.

The government provides for the deposit in the Generations Fund of 25% of the amounts derived from the auction of these licences, as in the case of the other mining, oil and gas royalties, as announced in the March 2011 budget.

**❑ Allocation of \$300 million from the Territorial Information Fund surplus to the Generations Fund**

This budget provides for an additional \$300 million, from the accumulated surplus in the Territorial Information Fund of the Ministère des Ressources naturelles et de la Faune, to be deposited in the Generations Fund in 2012-2013.

This allocation to the Generations Fund will enable the gross debt to be reduced, without affecting the activities of the Territorial Information Fund.

Legislative amendments will therefore be made to enable the government to make this deposit in the Generations Fund.

## Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* (R.S.Q., c. R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the debt representing accumulated deficits must not exceed 17% of GDP and the gross debt must not exceed 45% of GDP.

Under the Act, the Generations Fund is constituted of amounts from revenue sources dedicated to debt repayment, namely:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;
- income consisting of the gradual rise over five years in the cost of supplying heritage pool electricity as of 2014;
- fees or charges for water withdrawal;
- as of 2014-2015, an amount corresponding to one quarter of the amount by which the total of fees, duties, rentals and mining, oil and gas royalties provided for in the *Mining Tax Act* and the *Mining Act* exceeds \$200 million. This amount will be established once the duties allocated to the mining heritage component of the Natural Resources Fund have been subtracted;
- sale of government assets, rights or securities;
- unclaimed property administered by the Minister of Revenue;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Fund.

The *Act to reduce the debt and establish the Generations Fund* allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the general fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Similarly, this Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to pay amounts into the Generations Fund.

The amounts constituting the Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with the Caisse.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Fund and, if need be, those used to repay the gross debt.

## 2.2 Sums accumulated in the Generations Fund

In 2011-2012, \$848 million was paid into the Generations Fund. The downward adjustment of \$92 million compared to the March 2011 budget is primarily the result of lower investment income than forecast.

For 2012-2013, \$1 211 million will be devoted to the Generations Fund, that is \$911 million from revenue sources dedicated to the Fund, to which is added an additional \$300 million resulting from the allocation of part of the accumulated surplus from the Territorial Information Fund of the Ministère des Ressources naturelles et de la Faune.

For 2013-2014, the revenue of the Generations Fund should reach \$1 041 million.

Taking into account the deposits since its creation and those forecast for the coming years, the book value of the Generations Fund will reach:

- \$4 285 million as at March 31, 2012;
- \$5 496 million as at March 31, 2013;
- \$6 537 million as at March 31, 2014.

As of 2014-2015, deposits in the Generations Fund will increase significantly, due primarily to the gradual rise in the price of heritage pool electricity, which will enable the amounts deposited in the Generations Fund to be increased by \$315 million a year for five years.

The amounts accumulated in the Generations Fund will total \$12 646 million as at March 31, 2017.

TABLEAU I.2

**Generations Fund**  
 (millions of dollars)

	<b>Budget 2011-2012</b>		<b>Budget 2012-2013<sup>P</sup></b>					
	<b>2011-2012</b>	<b>Adjustments</b>	<b>2011- 2012</b>	<b>2012- 2013</b>	<b>2013- 2014</b>	<b>2014- 2015</b>	<b>2015- 2016</b>	<b>2016- 2017</b>
<b>BOOK VALUE, BEGINNING OF YEAR</b>	3 409	28	3 437	4 285	5 496	6 537	8 112	10 142
<b>DEDICATED REVENUES</b>								
Water-power royalties								
Hydro-Québec	608	—	608	628	636	648	667	682
Private producers	81	7	88	90	93	96	98	100
	689	7	696	718	729	744	765	782
Heritage electricity	—	—	—	—	—	315	630	945
Mining, oil and gas royalties	—	—	—	—	—	45	50	50
Unclaimed property	7	3	10	10	10	10	10	10
Investment income	244	-102	142	183	302	461	575	717
<b>TOTAL</b>	<b>940</b>	<b>-92</b>	<b>848</b>	<b>911</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
Amount from the Territorial Information Fund	—	—	—	300	—	—	—	—
<b>TOTAL</b>	<b>940</b>	<b>-92</b>	<b>848</b>	<b>1 211</b>	<b>1 041</b>	<b>1 575</b>	<b>2 030</b>	<b>2 504</b>
<b>BOOK VALUE, END OF YEAR</b>	<b>4 349</b>	<b>-64</b>	<b>4 285</b>	<b>5 496</b>	<b>6 537</b>	<b>8 112</b>	<b>10 142</b>	<b>12 646</b>

P: Preliminary results for 2011-2012 and projections for subsequent years.

The following table shows the book and market values of the Generations Fund since its creation. Section D provides detailed information in this regard as well as describing the investment policy of the Generations Fund.

TABLE I.3

**Book value and market value of the Generations Fund  
as at March 31**  
(millions of dollars)

	Book value	Market value	Difference
2006-2007 <sup>(1)</sup>	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	-87
2011-2012 <sup>P</sup>	4 285	4 272	13

P: Preliminary results.

(1) The first deposit was made in the Generations Fund on January 31, 2007.



## 2.3 Evolution of the gross debt and the debt representing accumulated deficits

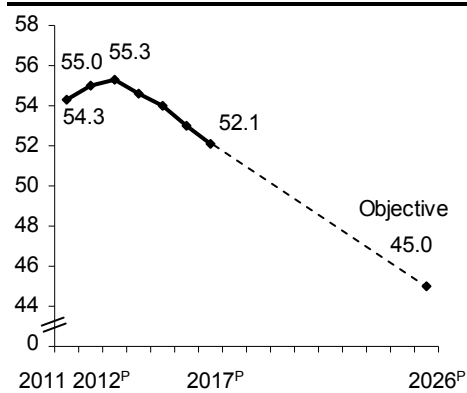
The following charts show how the ratios of the gross debt and the debt representing accumulated deficits have changed as a percentage of GDP:

- the gross debt should represent 55.0% of GDP as at March 31, 2012. The government's objective is to reduce the ratio of gross debt to GDP to 45% by 2025-2026;
- the debt representing accumulated deficits should represent 35.2% of GDP as at March 31, 2012. The government's objective is to reduce this ratio to 17% by 2025-2026.

CHART I.1

### Gross debt

(as at March 31, as a percentage of GDP)

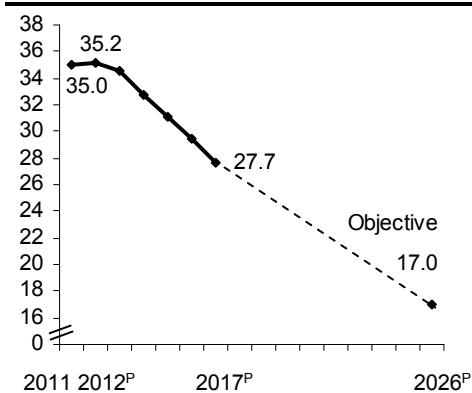


P: Preliminary results for 2012, forecasts for 2013 to 2017 and projections for subsequent years.  
 Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART I.2

### Debt representing accumulated deficits

(as at March 31, as a percentage of GDP)



P: Preliminary results for 2012, forecasts for 2013 to 2017 and projections for subsequent years.

Section D provides detailed results concerning the Québec government's debt.



# Section J

## HISTORICAL DATA

The historical data are available on the Ministère des Finances website, at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca), under the heading “Budget”.

