Budget

2014-2015

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BUDGET PLAN

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BUDGET PLAN

Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

HIGHLIGHTS

Budget 2014-2015 tabled by the government plans for a return to fiscal balance in 2015-2016. It lays out a plan for restoring a sustainable balance in public finances.

- The plan includes the government's fiscal policy directions and measures to stimulate employment and economic growth, as well as actions to ensure rigorous and responsible spending management.

❑ Achievement of a balanced budget in 2015-2016

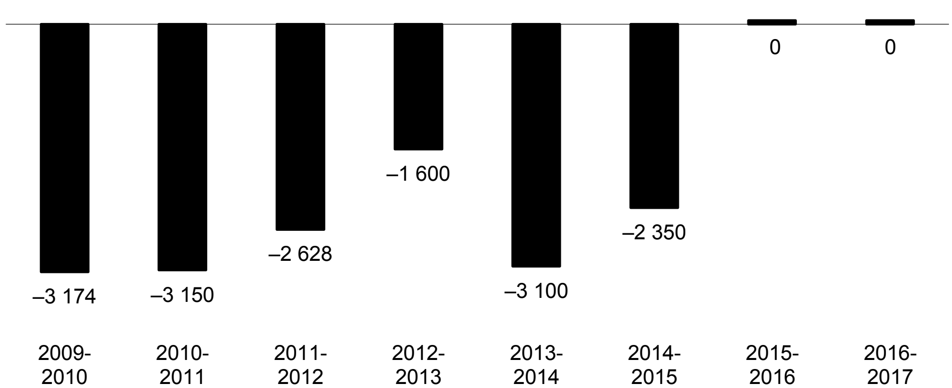
The budget will be balanced in 2015-2016. Until then, the deficit will be:

- $3 100 million in 2013-2014;
- $2 350 million in 2014-2015, for a deficit reduction of $750 million compared with 2013-2014.

The budget will be balanced after running deficits six years in a row.

CHART A.1

Budgetary balance(1) from 2009-2010 to 2016-2017
(millions of dollars)



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

❑ A balanced budget on schedule

When the government looked into the state of public finances in April 2014, it noted an estimated overrun of $3.7 billion in 2014-2015 relative to the deficit objective set in February 2014.

— The wide gap was largely due to anticipated spending overruns totalling $3.2 billion, confirmed by the Auditor General of Québec in his report of June 2014.

Since then, the government has determined the steps required to contain spending overruns as of 2014-2015 and balance the budget in 2015-2016.

❑ Rigorous and responsible spending management

To balance the budget, the target rate for consolidated expenditure growth will be fixed at a lower rate than revenue growth. Thus, for the next two years, consolidated expenditure will grow at an average rate of 1.7%, compared with average revenue growth of 3.2%.

— In particular, program spending will grow by 1.8% in 2014-2015 and 0.7% in 2015-2016.

The government will ensure better control of all of its spending through:

— spending control measures within government departments and public bodies, in particular:

  — control of remuneration, including a general freeze on staffing levels in the public and parapublic sectors in 2014-2015 and 2015-2016. This measure will allow the government to, in particular, use the leeway created by the retirement of nearly 15 000 employees a year to strategically reallocate available positions on the basis of direct public services;

  — establishment of an expenditures offset mechanism whereby no new program will be authorized unless the sum equivalent to its cost is saved elsewhere within the government;

— immediate tightening of tax expenditures.

❑ Reducing the debt burden

The government is maintaining its debt reduction objectives. Deposits in the Generations Fund to pay down the debt will reach $1 301 million in 2014-2015 and $1 583 million in 2015-2016.

— Québec's gross debt/GDP ratio was 54.3% as at March 31, 2014.

INTRODUCTION

This section of Budget 2014-2015 provides an overview of the government's fiscal policy directions.[1] It presents:

— recent change in the economic and budgetary situation as well as the main developments since February 20, 2014;

— the policy directions for attaining fiscal balance in 2015-2016;

— the five-year budgetary outlook;

— revenue measures;

— actions to control government spending;

— tax expenditure measures.

1 Unless otherwise indicated, this document hinges on data available as of May 26, 2014. In addition, throughout this section, the budgetary data for 2013-2014 are preliminary and those for subsequent years are forecasts.

1. THE GOVERNMENTS'S FISCAL POLICY DIRECTIONS

Budget 2014-2015 plans for a return to fiscal balance in 2015-2016. Achieving that objective demands an effort on all parts. The fiscal policy directions include measures to stimulate employment and economic growth, as well as the necessary actions to ensure rigorous and responsible spending management.

1.1 Faster growth in the Québec economy in 2014 and 2015

Following weaker-than-expected growth in 2013, a year marked by a downturn in private investment and employment stagnation, the Québec economy is expected to gain traction in 2014 and 2015. The temporary factors that contributed to the poor economic performance should gradually disappear.

— Business investment will rebound as confidence improves and the U.S. economy gradually recovers.

— Exports will continue to expand thanks to the lower Canadian dollar and the stronger economies of Québec's main trading partners.

— Home renovations will take off through the LogiRénov tax credit announced by the government on April 24, 2014.

— Job creation will firm up as economic growth improves.

— The Québec government is maintaining a high level of public investment while continuing its efforts to restore fiscal balance.

— Lastly, the inflation rate should gradually get closer to 2% due to stronger domestic demand and higher prices stemming from a weaker dollar.

Consequently, economic growth in Québec is expected to accelerate to 1.8% in 2014 and 2.0% in 2015. However, Québec will have to deal with a shrinking labour pool due to population aging.

TABLE A.1

Economic growth
(real GDP, percentage change)

	2012	2013	2014	2015
Québec	1.5	1.1	1.8	2.0
Canada	1.7	2.0	2.2	2.5
United States	2.8	1.9	2.5	2.9

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

1.2 The budgetary situation

1.2.1 Return to a balanced budget

As shown in the consolidated financial framework presented in the table below, the budget will be balanced in 2015-2016 as pledged by the government. However, it will require a significant slowdown in spending growth starting in 2014-2015.

The target rate for consolidated expenditure growth will be fixed at a lower rate than revenue growth. For the next two years, growth in consolidated expenditure will be 1.9% in 2014-2015 and 1.5% in 2015-2016, while revenue growth will be 2.9% and 3.5%, respectively.

The deficit will be $3.1 billion in 2013-2014 and $2.4 billion in 2014-2015. A balanced budget is anticipated for 2015-2016.[2]

— The deficit in 2013-2014 is $600 million higher than the $2.5-billion deficit forecast on February 20, 2014, a sum equivalent to the observed spending overruns for the same year.

TABLE A.2

Consolidated summary financial framework – Budget 2014-2015
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Own-source revenue	74 847	77 790	80 540
% change	*3.4*	*3.9*	*3.5*
Federal transfers	18 820	18 607	19 276
% change	*7.4*	*–1.1*	*3.6*
Consolidated revenue	**93 667**	**96 397**	**99 816**
% change	***4.2***	***2.9***	***3.5***
Expenditure	–85 038	–86 615	–87 700
% change	*5.4*	*1.9*	*1.3*
Debt service	–10 608	–10 831	–11 183
% change	*7.8*	*2.1*	*3.2*
Consolidated expenditure	**–95 646**	**–97 446**	**–98 883**
% change	***5.7***	***1.9***	***1.5***
Québec Taxation Review Committee	—	—	650
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583
BUDGETARY BALANCE(1)	**–3 100**	**–2 350**	**—**

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

2 Amendments will be made to the *Balanced Budget Act* to account for the new fiscal deficit objectives.

Time frame for balancing the budgets of the provinces and federal government

Québec is not the only jurisdiction that must contend with a deficit. This is also true of most Canadian jurisdictions.

In 2009-2010, like Québec, almost all of the provinces, along with the federal government, established a time frame for restoring fiscal balance.

Like the other Canadian jurisdictions, Québec postponed its return to a balanced budget.

Balancing the budget in 2015-2016, i.e. after running deficits for six consecutive years, is a comparable time frame to that of several other Canadian jurisdictions.

Time frame for restoring fiscal balance
(years)

	Number of years anticipated to restore fiscal balance			Year in which fiscal balance is restored
	Initial	Adjustment	Total	
British Columbia	2	+2	4	2013-2014
Alberta[1]	3	+2	5	2014-2015
Québec	**4**	**+2**	**6**	**2015-2016**
Federal government	4	+2	6	2015-2016
Prince Edward Island[2]	4	+2	6	2015-2016
Newfoundland and Labrador	2	+4	6	2015-2016
Manitoba[2]	5	+2	7	2016-2017
Nova Scotia	1	+7	8	2017-2018
New Brunswick	3	+5	8	2017-2018
Ontario	6	+2	8	2017-2018

Note: The number of years anticipated to attain fiscal balance is calculated starting in 2009-2010, a recession year in which most Canadian jurisdictions recorded deficits. Saskatchewan has not recorded a deficit since 2009-2010.
(1) Deficit budget balance before the use of the stabilization reserve.
(2) The number of years necessary to restore fiscal balance was announced in 2010-2011.

❑ Measures to restore fiscal balance

Budget 2014-2015 presents the government's plan for putting public finances in order. The plan is built around three primary objectives.

1. Return to a balanced budget in 2015-2016. To achieve that objective, the government will implement economic recovery measures, but also pledges to manage spending responsibly and optimize government accountability.

   It intends to ask all government departments, bodies and enterprises to contribute.

   — To that end, the government will take the means necessary to better control all government spending, including remuneration. More specifically, to curtail growth in remuneration,[3] this budget is placing a general freeze on staffing levels in the public and parapublic sectors[4] in 2014-2015 and 2015-2016.

   — The government also intends to respect the following guideposts in order to balance the budget in 2015-2016:

   – not introduce any general tax increases;

   – honour the current collective agreements with government employees;

   – protect health and education services and services to vulnerable persons.

2. Review existing programs and the tax system with a view to sustainable fiscal balance. Two committees will be formed for that purpose:

   — The Ongoing Program Review Committee, which will be tasked with examining and proposing possible solutions regarding the relevance, effectiveness, efficiency and financing of programs and the review of existing structures;

   — The Québec Taxation Review Committee, which will be tasked with providing a clear picture of the Québec tax system and making recommendations for ensuring that it finances public services adequately while fostering economic growth.

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3 Remuneration includes the regular remuneration of employees and physicians, overtime and certain indemnities, fringe benefits and other employer contributions made by the government, such as the contribution to retirement plans, the Québec Pension Plan, the Health Services Fund, Employment Insurance and the Québec Parental Insurance Plan.

4 Public and parapublic sector employees include in particular employees of departments and bodies subject to the *Public Service Act*, as well as employees of the health and social services and education networks.

3. Reduce the debt burden by continuing to make deposits into the Generations Fund. The objectives set in the *Act to reduce the debt and establish the Generations Fund* are being maintained.

For the current year, Budget 2014-2015 includes all the necessary measures to trim the deficit to $2.4 billion in 2014-2015.

Budget 2015-2016 will specify the other measures required to balance the budget in 2015-2016, in particular in response to the work done by the two committees.

❑ The financial framework for consolidated revenue and expenditure

In 2014-2015, the government will post consolidated revenue of $96.4 billion and consolidated expenditure of $97.4 billion. Of that amount, $86.6 billion will be used to finance the government's various missions.

— Expenditures for the Health and Social Services mission will amount to $37.3 billion, an increase of 2.6% over 2013-2014.

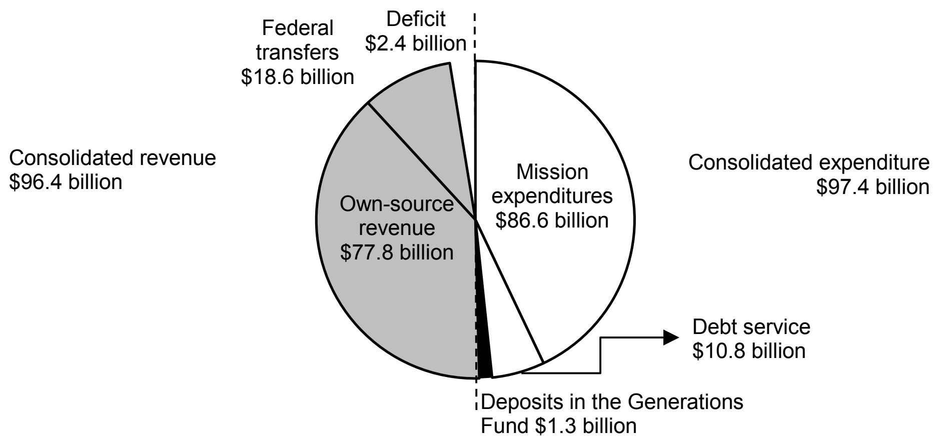
— Expenditures for the Education and Culture mission will rise by 2.7% to $20.7 billion in 2014-2015.

Debt service payments will amount to $10.8 billion. The deficit, including the $1.3-billion deposit in the Generations Fund, will be $2.4 billion.

In this budget, the consolidated financial framework and expenditures by mission are presented on the same basis as in the government's consolidated financial statements presented in the Public Accounts.[5,6]

CHART A.2

Breakdown of the government's consolidated revenue and expenditure for 2014-2015
(billions of dollars)



5 Section D of the Budget Plan presents the government's detailed financial framework and gives the detailed breakdown of consolidated data by sector, such as the general fund, special funds, public bodies and the health and social services and education networks.

6 The presentation of the consolidated financial framework and itemized spending by mission complies with Recommendation 8 in the Report of the Auditor General of Québec, released on February 19, 2014, to "Present forecasting data in a form comparable with the actual data published in the government's consolidated financial statements."

TABLE A.3

Detailed consolidated financial framework, 2013-2014 to 2015-2016

(millions of dollars)

	2013-2014	2014-2015	2015-2016
Consolidated revenue			
Personal income tax	25 961	27 349	28 338
Contributions for health services	6 305	6 482	6 657
Corporate taxes	5 540	5 819	6 112
School property tax	1 750	1 901	2 054
Consumption taxes	17 156	17 657	18 288
Duties and permits	2 167	2 506	2 649
Miscellaneous	9 403	9 670	10 064
Government enterprises	5 444	5 105	4 795
Revenue of the Generations Fund	1 121	1 301	1 583
Own-source revenue	**74 847**	**77 790**	**80 540**
Federal transfers	18 820	18 607	19 276
Total consolidated revenue	**93 667**	**96 397**	**99 816**
% change	***4.2***	***2.9***	***3.5***
Consolidated expenditure			
Health and Social Services	–36 304	–37 264	–38 167
Education and Culture	–20 123	–20 665	–20 971
Economy and Environment	–12 147	–12 501	–12 908
Support for Individuals and Families	–9 452	–9 659	–9 641
Administration and Justice	–7 012	–6 931	–6 818
Spending control measures(1)	—	305	305
Control of remuneration through a general freeze on staffing levels	—	100	500
Expenditure	**–85 038**	**–86 615**	**–87 700**
Debt service	–10 608	–10 831	–11 183
Total consolidated expenditure	**–95 646**	**–97 446**	**–98 883**
% change	***5.7***	***1.9***	***1.5***
Québec Taxation Review Committee	—	—	650
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583
BUDGETARY BALANCE(2)	**–3 100**	**–2 350**	**—**

(1) Spending control measures announced on April 24, 2014.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

Consolidated expenditure by mission

The government missions

In the Public Accounts, government expenditures are broken down into five major public service missions corresponding to a government's primary functions.

The five missions chosen by the Québec government are:

- Health and Social Services;
- Education and Culture (education, employment, information, culture, communications, tourism and recreation);
- Economy and Environment (natural resources, agriculture, environment, economy, industry and transportation);
- Support for Individuals and Families (support for individuals, families and communities);
- Administration and Justice (governance, public policy and administration, legislation, justice and law).

The activities of certain departments and bodies may fall under more than one mission given their areas of intervention.

Consolidated expenditure by mission excluding debt service
(millions of dollars)

	2013-2014	**2014-2015**	**Change** (%)
Health and Social Services	36 304	37 264	2.6
Education and Culture	20 123	20 665	2.7
Economy and Environment	12 147	12 501	2.9
Support for Individuals and Families	9 452	9 659	2.2
Administration and Justice	7 012	6 931	–1.2
Spending control measures(1)	—	–305	—
Control of remuneration through a general freeze on staffing levels	—	–100	—
TOTAL	**85 038**	**86 615**	**1.9**

(1) Spending control measures announced on April 24, 2014.

1.2.2 Recent developments in the budgetary situation

Compared with February 20, 2014, the budgetary situation incorporates downward adjustments to revenue and anticipated program spending overruns.

— Negative adjustments to the financial framework and anticipated spending overruns total, not accounting for the measures to return to a balanced budget, $600 million in 2013-2014, $4 118 million in 2014-2015 and $7 608 million in 2015-2016.

Most of the main adjustments and spending overruns were discussed in the report by Luc Godbout and Claude Montmarquette on the state of Québec's public finances, released by the government on April 25, 2014 (see Appendix 1).

The deficit for 2013-2014 is $3.1 billion, which is $600 million more than the $2.5-billion objective established on February 20, 2014. Without measures to balance the budget, the deficits for the next two years would be $5.9 billion in 2014-2015 and $7.6 billion in 2015-2016.

TABLE A.4

Summary of adjustments and overruns since February 20, 2014
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE AT FEBRUARY 20, 2014	**–2 500**	**–1 750**	**—**
Adjustments related to the economy(1)			
Own-source revenue	–343	–916	–1 276
Federal transfers	32	193	–158(2)
Debt service	67	18	8
Subtotal	**–244**	**–705**	**–1 426**
Program spending overruns(3)			
Overruns 2013-2014	–693	–693	–693
Overruns 2014-2015	—	–2 555	–2 555
Overruns 2015-2016	—	—	–2 549
Subtotal	**–693**	**–3 248**	**–5 797**
Other adjustments			
Bodies, special funds and networks	212	–165	145
Shortfall to be offset identified as at February 20, 2014	—	—	–530
Elimination of the contingency reserve	125	—	—
Total – Adjustments and overruns	**–600**	**–4 118**	**–7 608**
BUDGETARY BALANCE BEFORE MEASURES	**–3 100**	**–5 868**	**–7 608**

(1) Adjustments relating solely to revenue and expenditure of the general fund.
(2) After taking into account the allocation of $389 million from federal health transfers to the Fund to Finance Health and Social Services Institutions (FINESSS).
(3) These overruns represent the difference between the program spending target of February 20, 2014 and the cost of renewing existing programs plus the impact of decisions announced by the previous governments. The estimates were calculated by the Secrétariat du Conseil du trésor.

❑ Adjustments related to the economy

The economy's recent performance requires downward adjustments to revenue of $916 million in 2014-2015 and $1 276 million in 2015-2016.

— These adjustments are largely attributable to recurring negative outcomes for 2013-2014, in particular for corporate taxes, and weaker-than-expected wage growth starting in 2014.

These deteriorations in the financial framework are partially offset by:

— a $193-million increase in federal transfers in 2014-2015, primarily due to an increase of $115 million stemming from the signing of the new Canada-Québec Labour Market Agreement;

— an $18-million downward adjustment in debt service in 2014-2015.

❑ Program sending overruns

In 2013-2014, program spending was $693 million higher than the objective due to an increase in the financial assistance granted to the community of Lac-Mégantic and $523 million more in pension plan costs.

Without measures to balance the budget, the recurring spending overruns relative to the objectives for the two following years would have been:

— $2 555 million in 2014-2015;

— $2 549 million more in 2015-2016.

These anticipated overruns stem from the accounting for decisions made by previous governments, price increases and an expansion of user groups.

❑ Other adjustments

The other adjustments to the budgetary balance, before taking into account the measures to balance the budget, include:

— adjustments to consolidated entities, including to the results of non-budget-funded bodies and special funds, and to the results of the health and social services and education networks;

— elimination of the contingency fund in 2013-2014, and the taking into account of the $530-million shortfall identified on February 20, 2014 that has to be offset in 2015-2016.

The Québec economy in 2013 – A year that underperformed expectations

The Québec economy slowed in 2013. After growing by 1.5% in 2012, real GDP rose by only 1.1% in 2013. This is the opposite to the Canadian economy, which accelerated to 2.0% growth in 2013, compared with 1.7% growth in 2012.

In 2013, business investment saw a sharp downturn in Québec, contributing to the slower economic growth, while job creation stagnated.

However, there was an improvement in exports owing to depreciation in the Canadian dollar and an increase in U.S. imports. The combination of export growth and a significant slowdown in imports due to weak domestic demand led to a positive contribution from the external sector to economic growth.

Sharp downturn in investments

Following two consecutive years of strong growth, Québec businesses reduced their investments in 2013. Non-residential investment was down by 6.0% in 2013, after rising by 10.6% in 2012. The main sub-categories of business investment contracted in 2013, in particular:

- investment in machinery and equipment dropped by 6.6%;
- investments in non-residential construction declined by 5.5%.

Real GDP and its components
(percentage change and contribution in percentage points)

	Québec		Canada	
	2012	**2013**	**2012**	**2013**
Real GDP	**1.5**	**1.1**	**1.7**	**2.0**
Contribution from domestic demand	2.2	0.6	2.3	1.4
– Household consumption	1.2	2.1	1.9	2.2
– Residential investment	1.4	−5.1	6.1	−0.2
– Non-residential business investment	10.6	−6.0	4.8	0.7
▪ Non-residential construction	16.3	−5.5	6.9	2.1
▪ Machinery and equipment	13.5	−6.6	5.2	0.2
Contribution from the external sector	−0.8	1.4	−0.6	0.3
– Total exports	1.6	3.8	1.5	2.1
– Total imports	2.9	0.5	3.1	1.1

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

Stagnation in the labour market in 2013

Employment statistics can fluctuate significantly over the course of a year. Indeed, employment statistics are taken from Statistics Canada's Labour Force Survey (LFS).

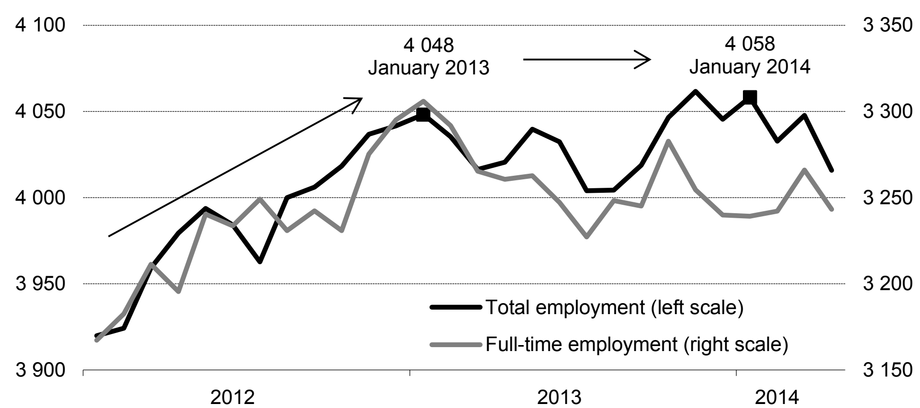
According to the annual employment data released by Statistics Canada, which correspond to the average of monthly data, 47 800 jobs were created in Québec in 2013 compared with 2012. Approximately half of these, i.e. 20 300 jobs, where part-time jobs.

- In comparison, in 2012, all 30 800 jobs created where full-time jobs.

Moreover, the average annual job creation statistic does not reflect the reality of the changes in employment, which has stagnated since January 2013, when the employment level in Québec reached 4 048 200.

- In January 2014, i.e. one year later, the level of employment was still at 4 058 200.
- In April 2014, the total number of jobs stood at 4 015 800, which was not much different than the level seen at the end of 2012.
- Full-time employment faced a similar stagnation, remaining at around 3 250 000 full-time jobs throughout 2013.

Change in employment level
(thousands of jobs)



Sources: Statistics Canada and Ministère des Finances du Québec.

1.2.3 Measures to boost the economy

Budget 2014-2015 includes policy directions and measures to stimulate employment and economic growth, in particular by:

— accelerating private investment, including investments by SMEs;

— immediately implementing the maritime strategy;

— relaunching the Plan Nord.

This will be done at a cost of $293 million in 2014-2015 and $316 million in 2015-2016.

The details of the measures under the plan for Québec's economic recovery are presented in Section B of the Budget Plan.

TABLE A.5

Measures under the plan for Québec's economic recovery
(millions of dollars)

	2014-2015	2015-2016
Supporting private investment, including investments by SMEs	235	212
Implementing the maritime strategy	1	3
Relaunching the Plan Nord(1)	—	—
Supporting the forest industry(2)	—	—
Developing all natural resources	5	2
Encouraging active living for seniors	8	23
Maintaining support to the municipalities and the regions	14	27
Strengthening the social fabric and developing Québec's cultural sector	12	14
Making government action more effective and fighting tax evasion	18	35
TOTAL	**293**	**316**

(1) The sums required for the measures to relaunch the Plan Nord are already planned in the government's financial framework.
(2) The financial impact of the measures to support the forest industry is accounted for in the government's spending growth objective.

1.2.4 Action for returning to a balanced budget

Considering the adjustments to the financial framework arising from the downward adjustments to anticipated revenue and the anticipated overruns in program spending, returning to a balanced budget in 2015-2016 will require a considerable effort.

Budget 2014-2015 presents the first measures that will be taken to turn Québec's budgetary situation around.

— This disciplined budget process will be completed next year when Budget 2015-2016 and Expenditure Budget 2015-2016 are tabled.

❑ Measures being taken as of 2014-2015

Several measures are being taken immediately to control government spending, in particular:

- spending control measures within government departments, bodies and enterprises;
- control of remuneration, including a general freeze on staffing levels in the public and parapublic sectors in 2014-2015 and 2015-2016 in order to slow growth in remuneration:
  - this measure is possible given the retirement of nearly 15 000 employees a year, thereby enabling strategic reassignment of available positions on the basis of public services;
  - to that end, the budget plans for a fuller head count in each job category;
  - this exercise will be carried out by keeping vacant positions open to young graduates and making sure to maintain the required level of expertise in government departments and bodies;
- immediate tightening of tax expenditures.

Revenue measures are also being implemented, in particular additional efforts to fight tax evasion, an increase in the specific tax on tobacco products and standardization of the rates of the specific tax on alcoholic beverages.

Use of the $200-million contingency fund completes the efforts needed to balance the budget in 2015-2016.

❑ Preparation of measures for Budget 2015-2016

In preparing Budget 2015-2016, measures will also be taken to rein in spending growth, in particular by drawing on the recommendations of the Ongoing Program Review Committee and the Québec Taxation Review Committee.

TABLE A.6

Measures for returning to a balanced budget
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE BEFORE MEASURES	**–3 100**	**–5 868**	**–7 608**
MEASURES UNDER THE PLAN FOR QUÉBEC'S ECONOMIC RECOVERY	**—**	**–293**	**–316**
REVENUE MEASURES			
Additional efforts to fight tax evasion	—	111	133
Measures to improve the fairness of the tax system	—	54	57
Increase in the specific tax on tobacco products	—	90	120
Standardization of the rates of the specific tax on alcoholic beverages	—	36	55
SUBTOTAL – REVENUE MEASURES	**—**	**291**	**365**
EXPENDITURE MEASURES			
Control of government spending			
Contribution from departments and bodies	—	2 728	2 406
Other spending measures, including those proposed by the Ongoing Program Review Committee	—	—	3 283
Efforts by non-budget-funded bodies and special funds	—	261	70
Contribution from government enterprises	—	177	102
Control of remuneration through a general freeze on staffing levels	—	100	500
Subtotal	**—**	**3 266**	**6 361**
Reduction in tax expenditures			
Elimination or suspension of certain fiscal measures announced since September 2012	—	41	56
20% reduction in tax credit rates	—	36	270
Caps on fiscal measures for business capitalization	—	27	22
Other expenditure measures, including those proposed by the Québec Taxation Review Committee	—	150	650
Subtotal	**—**	**254**	**998**
SUBTOTAL – EXPENDITURE MEASURES	**—**	**3 520**	**7 359**
TOTAL REVENUE AND EXPENDITURE MEASURES	**—**	**3 811**	**7 724**
Use of the contingency reserve	—	—	200
BUDGETARY BALANCE(1) IN BUDGET 2014-2015	**–3 100**	**–2 350**	**—**

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

❑ Revenue measures

The revenue measures implemented in Budget 2014-2015 total $291 million in 2014-2015 and $365 million in 2015-2016. They consist of:

— additional efforts to fight tax evasion;

— improvement in the fairness of the tax system, particularly through an adjustment to the eligibility age for retirement income splitting between spouses;

— an increase in the specific tax on tobacco products and standardization of the rates of the specific tax on alcoholic beverages, which together total $126 million in 2014-2015 and $175 million in 2015-2016.

The details of the revenue measures are provided in subsection 2 of this section.

❑ Expenditure measures

The government is relying on the following action to ensure a return to a balanced budget:

— spending control measures within all departments and bodies totalling $2 728 million in 2014-2015 and $2 406 million in 2015-2016;

— action by government corporations, unsubsidized non-budget-funded bodies and special funds totalling $438 million in 2014-2015 and $172 million in 2015-2016;

— a general freeze on staffing levels in 2014-2015 and 2015-2016.

The measures adopted by the government to control spending will be determined on the basis of, among other things, the recommendations of the Ongoing Program Review Committee and the Québec Taxation Review Committee.

— In the fall 2014 Economic and Financial Update, the government may announce some measures arising from the work of these two committees.

In addition, tax expenditures will have to be trimmed by $254 million in 2014-2015 and $998 million in 2015-2016 to reduce the deficits.

The details of the spending control efforts are provided in subsections 3 and 4 of this section.

1.3 Five-year budgetary outlook

This section presents the government's five-year budgetary outlook, namely:

— the consolidated financial framework for 2013-2014 to 2018-2019;

— the financial framework for the general fund and consolidated entities for 2013-2014 to 2018-2019.

The government's budgetary outlook projects a return to a balanced budget in 2015-2016. Deficits of $3 100 million and $2 350 million are forecast for 2013-2014 and 2014-2015, respectively.

— Consolidated revenue growth will be 2.9% in 2014-2015 and 3.5% in 2015-2016.

— For the same years, consolidated expenditure is expected to grow by 1.9% and 1.5%, respectively, enabling the return to a balanced budget in 2015-2016.

The financial framework includes contingency reserves of $400 million starting in 2016-2017.

The government is also announcing in this budget that, as of 2017-2018, the budgetary outlook will enable surpluses. Half of those sums will be used to pay down the debt and the other half, to ease the tax burden by giving priority to gradual elimination of the health contribution.

TABLE A.7

Consolidated financial framework for 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Consolidated revenue						
Personal income tax	25 961	27 349	28 338	29 688	30 920	32 162
Contributions for health services	6 305	6 482	6 657	6 842	7 049	7 260
Corporate taxes	5 540	5 819	6 112	6 387	6 661	6 833
School property tax	1 750	1 901	2 054	2 157	2 213	2 259
Consumption taxes	17 156	17 657	18 288	18 285	18 593	18 750
Duties and permits	2 167	2 506	2 649	2 676	2 636	2 578
Miscellaneous	9 403	9 670	10 064	10 327	10 595	10 877
Government enterprises	5 444	5 105	4 795	4 785	4 831	4 826
Generations Fund revenue	1 121	1 301	1 583	2 254	2 790	3 126
Own-source revenue	**74 847**	**77 790**	**80 540**	**83 401**	**86 288**	**88 671**
% change	***3.4***	***3.9***	***3.5***	***3.6***	***3.5***	***2.8***
Federal transfers	18 820	18 607	19 276	19 556	20 033	20 634
% change	*7.4*	*–1.1*	*3.6*	*1.5*	*2.4*	*3.0*
Total consolidated revenue	**93 667**	**96 397**	**99 816**	**102 957**	**106 321**	**109 305**
% change	***4.2***	***2.9***	***3.5***	***3.1***	***3.3***	***2.8***
Consolidated expenditure						
Expenditure	–85 038	–86 615	–87 700	–89 195	–91 010	–93 009
% change	*5.4*	*1.9*	*1.3*	*1.7*	*2.0*	*2.2*
Debt service	–10 608	–10 831	–11 183	–11 758	–12 171	–12 620
Total consolidated expenditure	**–95 646**	**–97 446**	**–98 883**	**–100 953**	**–103 181**	**–105 629**
% change	***5.7***	***1.9***	***1.5***	***2.1***	***2.2***	***2.4***
Québec Taxation Review Committee	—	—	650	650	650	650
Contingency reserves	—	—	—	–400	–400	–400
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**	**2 254**	**3 390**	**3 926**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583	–2 254	–2 790	–3 126
BUDGETARY BALANCE(1)	**–3 100**	**–2 350**	**—**	**—**	**600**	**800**

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

TABLE A.8

Financial framework for the general fund, including the results of the consolidated entities, for 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
GENERAL FUND						
Budgetary revenue						
Own-source revenue	52 805	54 682	56 609	58 555	60 492	62 143
% change	*1.8*	*3.6*	*3.5*	*3.4*	*3.3*	*2.7*
Federal transfers	16 701	16 691	17 190	17 763	18 353	18 998
% change	*6.3*	*–0.1*	*3.0*	*3.3*	*3.3*	*3.5*
Total budgetary revenue	**69 506**	**71 373**	**73 799**	**76 318**	**78 845**	**81 141**
% change	***2.9***	***2.7***	***3.4***	***3.4***	***3.3***	***2.9***
Budgetary expenditure						
Program spending	–64 518	–65 704	–66 141	–67 631	–69 530	–71 465
% change	*3.6*	*1.8*	*0.7*	*2.3*	*2.8*	*2.8*
Debt service	–8 443	–8 583	–8 677	–8 913	–8 946	–8 998
% change	*8.7*	*1.7*	*1.1*	*2.7*	*0.4*	*0.6*
Total budgetary expenditure	**–72 961**	**–74 287**	**–74 818**	**–76 544**	**–78 476**	**–80 463**
% change	***4.2***	***1.8***	***0.7***	***2.3***	***2.5***	***2.5***
CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(1)	485	636	400	–32	–48	–176
Health and social services and education networks	–130	–72	–31	8	29	48
Generations Fund	1 121	1 301	1 583	2 254	2 790	3 126
Total consolidated entities	**1 476**	**1 865**	**1 952**	**2 230**	**2 771**	**2 998**
Québec Taxation Review Committee	—	—	650	650	650	650
Contingency reserves	—	—	—	–400	–400	–400
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**	**2 254**	**3 390**	**3 926**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583	–2 254	–2 790	–3 126
BUDGETARY BALANCE(2)	**–3 100**	**–2 350**	**—**	**—**	**600**	**800**

(1) Includes consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

1.4 Spending growth

Despite the actions taken in recent years to slow spending growth, there is still upward pressure on them.

Taking into consideration the decisions made by previous governments, price increases and expansions in the clientele, without control measures spending would rise by 6.1% in 2014-2015, a difference of 4.1 percentage points, or $3.2 billion, with the 2.0% growth target set in February of this year.

New targets for spending growth that are lower than the ones seen in recent years have been set starting in 2014-2015.

In addition, to ensure a return to a balanced budget in 2015-2016, these targets will be lower than those planned for revenue growth.

This section illustrates the growth in consolidated expenditures and program spending of government departments from 2010-2011 to 2018-2019. It also lays out the program spending levels for the major portfolios, in particular government health funding.

The costs of renewing existing programs
– Rapport d'experts sur l'état des finances publiques du Québec –

Growth in government spending is generally influenced by three major factors:

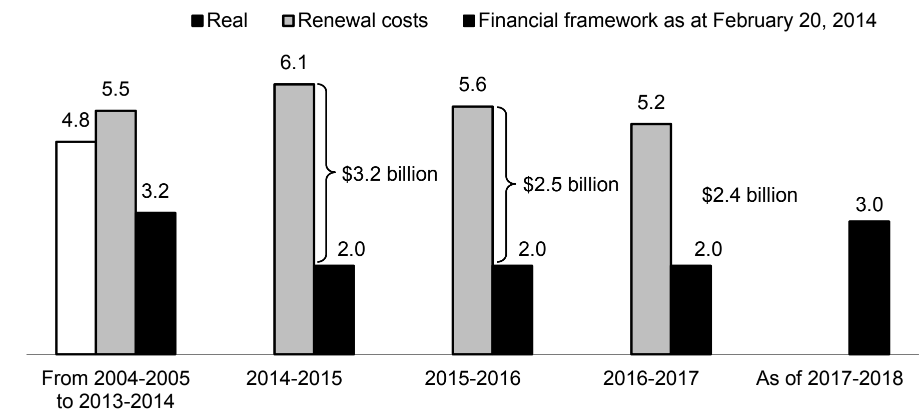
- change in clientele groups that use services; for example, children in CPEs, students and users of the health care system;
- change in the price of public service delivery, i.e. inflation that affects equipment and medication purchases, and pay increases;
- enhancement or scaling up of services, such as the introduction of new programs, enhancement of existing services or catch-up patch increases.

These factors refer to the costs associated with renewing existing programs and government commitments. Over the last 10 years, these costs rose by 5.5% on average.

The high increase in program renewal costs puts tremendous pressure on the achievement of planned spending targets.

- For 2014-2015, 6.1% growth in program renewal costs is expected, compared with a 2.0% spending target on February 20, 2014. This means a shortfall of $3.2 billion that has to be managed.

Costs of renewing existing programs and growth in program spending
(per cent)



Source: Secrétariat du Conseil du trésor.

1.4.1 Consolidated expenditure

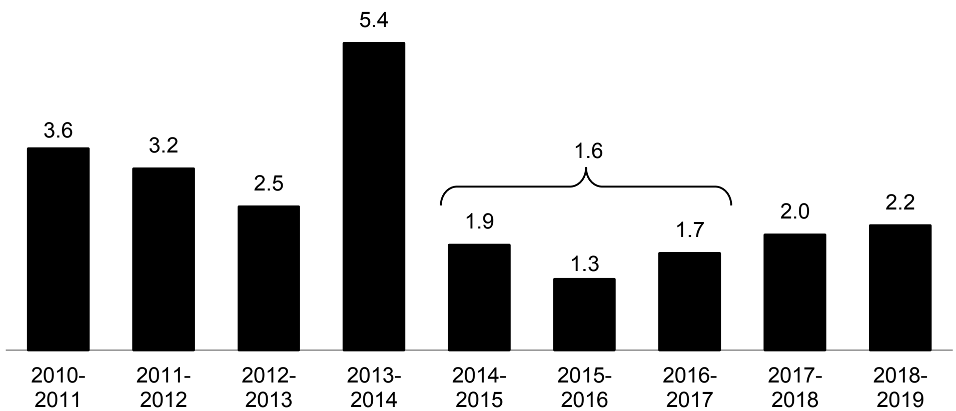
In addition to departmental program spending, consolidated expenditure includes the expenditure of special funds, non-budget-funded bodies and entities in the health and social services and education networks, and debt service.

Consolidated expenditure grew by 5.4% in 2013-2014.

Consolidated expenditure excluding debt service will rise by 1.9% in 2014-2015, 1.3% in 2015-2016 and 1.7% in 2016-2017.

CHART A.3

Growth in consolidated expenditure excluding debt service from 2010-2011 to 2018-2019
(per cent)



1.4.2 Departmental program spending

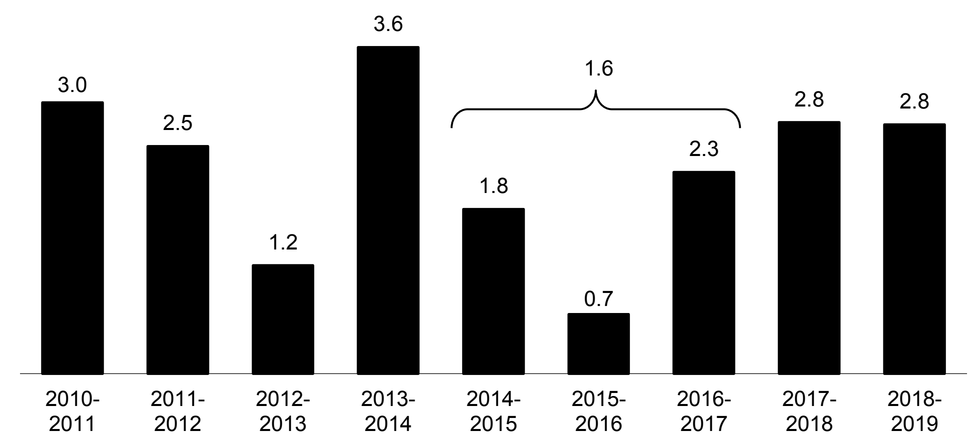
Program spending includes spending by tax-funded departments that must be approved by the National Assembly.

Over the next three years, program spending by government departments will grow at an average annual rate of 1.6%, a significantly lower growth rate than that seen between 2010-2011 and 2013-2014.

Spending will increase by 1.8% in 2014-2015, 0.7% in 2015-2016 and 2.3% in 2016-2017.

CHART A.4

Program spending growth from 2010-2011 to 2018-2019
(per cent)



Starting in 2017-2018, spending growth will return to a rate of 2.8%, a level in line with changes in clientele groups and in the price of public services.

Thereafter, program spending growth will have to be below revenue growth, freeing up additional sums to pay down the debt and relieve the tax burden on taxpayers.

A comparative look at spending

Québec's choices in matters of spending growth must be put into perspective with expected spending growth elsewhere in Canada.

- In 2014-2015, projected spending growth in the vast majority of the provinces is less than 2%.

Growth in consolidated expenditure excluding debt service in selected jurisdictions
(per cent)

	2013-2014	2014-2015	2015-2016
Québec			
– Program spending	3.6	1.8	0.7
– Consolidated expenditure	5.4	1.9	1.3
Federal government	1.9	–0.4	2.7
Ontario	3.7	2.5	0.7
British Columbia	0.8	1.7	2.6
Alberta	8.7	–4.5	3.4
Manitoba	4.1	1.3	n/a
Saskatchewan(1)	2.2	2.3	n/a
Nova Scotia(1)	3.3	1.0	2.0
New Brunswick	–0.3	1.8	n/a
Newfoundland and Labrador	1.3	5.6	n/a
Prince Edward Island	–1.8	–0.2	0.8

(1) Program spending.
Sources: Ministère des Finances du Québec and Department of Finance Canada.

❑ Program spending for the major portfolios from 2014-2015 to 2016-2017

This budget presents the government's three-year spending plan for the major portfolios. The plan is intended to guide the departments in the use of their resources. For instance:

— program spending for the Ministère de la Santé et des Services sociaux will grow by 3.0% in 2014-2015, 2.7% in 2015-2016 and 3.0% in 2016-2017;[7]

— program spending for the Éducation portfolio will go up 2.2% in 2014-2015, 1.9% in 2015-2016 and 2.2% in 2016-2017;

— overall, there will be no change in the funding allocated to the other departments.

Furthermore, the departments will have to comply with the spending control measures announced on April 24, 2014. In addition, the government will implement the announced measures for a general freeze on staffing levels in 2014-2015 and 2015-2016.

TABLE A.9

Program spending for the major portfolios from 2013-2014 to 2016-2017
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
Santé et Services sociaux	31 413	32 346	33 219	34 216
% change	*4.3*	*3.0*	*2.7*	*3.0*
Éducation(1)	16 597	16 963	17 282	17 660
% change	*3.8*	*2.2*	*1.9*	*2.2*
Other portfolios	16 508	16 700	16 445	16 560
% change	*2.2*	*1.2*	*–1.5*	*0.7*
Subtotal	64 518	66 009	66 946	68 436
% change	*3.6*	*2.3*	*1.4*	*2.2*
Additional measures to control spending				
Announced April 24, 2014(2)	—	–305	–305	–305
Control of remuneration through a general freeze on staffing levels(3)	—	—	–500	–500
PROGRAM SPENDING	**64 518**	**65 704**	**66 141**	**67 631**
% change	***3.6***	***1.8***	***0.7***	***2.3***

(1) Includes program spending allocated to the Ministère de l'Éducation, du Loisir et du Sport and the Ministère de l'Enseignement supérieur, de la Recherche et de la Science.
(2) Spending control measures announced on April 24, 2014.
(3) Control of remuneration through a general freeze on staffing levels will improve consolidated expenditure by $100 million in 2014-2015.

7 Spending growth for the major portfolios for 2014-2015 and 2015-2016 does not include the impact of the spending control measures.

❑ Government health funding

The financial framework for health consists of:

- program spending allocated to the Ministère de la Santé et des Services sociaux;
- expenditures of the Fund to Finance Health and Social Services Institutions (FINESS).

FINESSS was established to increase government funding for health care at a higher rate than program spending and to fund initiatives to improve the performance of health care institutions.

The financial framework presented on February 20, 2014 projected a $430-million shortfall as of 2015-2016, which had to be offset to ensure stable health funding.

To offset the shortfall and stabilize the amount of funding for FINESSS at $1 545 million a year, a portion of the federal health transfers will be used for that purpose.

- Government funding for health care will be set at 3.0% in 2014-2015, 2.6% in 2015-2016 and 2.9% in 2016-2017.
- This is comparable to the growth rate in other provinces, such as Ontario and British Columbia.

TABLE A.10

Government health funding from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016	2016-2017
PROGRAM SPENDING	**32 346**	**33 219**	**34 216**
% change(1)	*3.0*	*2.7*	*3.0*
FINESSS EXPENDITURES			
Progressive health contribution	719	735	744
Increase in tax rate for high-income earners	396	420	441
Subtotal	1 115	1 156	1 184
Allocation of a portion of federal health transfer payments	430	389	361
Total – FINESSS	**1 545**	**1 545**	**1 545**
TOTAL	**33 891**	**34 764**	**35 761**
Change – millions of $	**973**	**873**	**997**
***% change*(1)**	***3.0***	***2.6***	***2.9***

(1) Excludes the impact of the additional spending control measures as of 2014-2015.

Growth in health spending in certain provinces

Like Québec, Ontario and British Columbia have taken steps to control growth in health spending.

Ontario[1]

Ontario has made efficiency gains in the area of health care costs, in particular by adjusting tarifs to reflect technological improvements.

The Government of Ontario has also initiated a health funding reform to move from a provider-centred model based on global funding to a more patient-centred model based on the activities of hospitals, long-term care homes and community care access centres.

The goal in certain cases is to set prices according to best proven practices, taking into account the complex nature of procedures and patient needs.

British Columbia[2]

The Government of British Columbia has also taken steps to contain the growth of health spending. It has:

- implemented patient-based funding for health institutions;
- signed an agreement with physicians, in 2012, to rein in rising costs.

Growth in health spending by certain provinces
(per cent)

	2013-2014	2014-2015	2015-2016	Change from 2013-2014 to 2015-2016(1)
Québec(2)	5.8	3.0	2.6	3.7
Ontario	2.5	2.6	1.9	2.3
British Columbia	3.8	2.9	2.5	3.1

(1) Average annual growth rate.
(2) Excluding the impact of the additional measures to control spending as of 2014-2015.
Sources: Ministère des Finances du Québec and Department of Finance Canada.

1 Ontario government's Budget 2014, May 1, 2014.
2 B.C. government's Budget 2013, February 19, 2013.

1.5 Debt reduction

As at March 31, 2014, the gross debt was 54.3% of GDP and the debt representing accumulated deficits, 32.9% of GDP. The *Act to reduce the debt and establish the Generations Fund* sets the following debt reduction objectives for 2025-2026:

— 45% of GDP for the gross debt

— 17% of GDP for the debt representing accumulated deficits.

Reducing the debt burden is a priority for the government. Budget 2014-2015 confirms that these two objectives will be maintained. Deposits in the Generations Fund to pay down the debt will come from various revenue sources, in particular:

— amounts relative to the annual indexing of the price of heritage pool electricity, like other government rates, as of 2014;

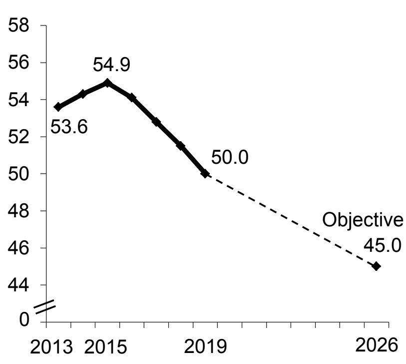
— $100 million in 2014-2015 and 2015-2016 and $500 million as of 2016-2017 from the specific tax on alcoholic beverages;[8]

— all mining revenues as of 2015-2016.

CHART A.5

Gross debt as at March 31

(as a percentage of GDP)

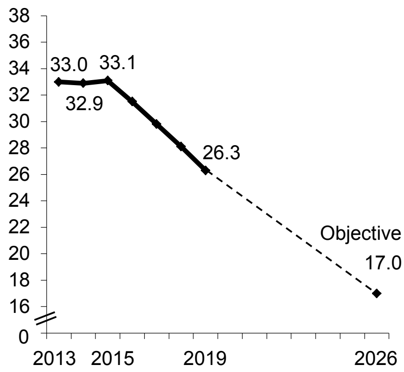


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.6

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



8 The *Act to reduce the debt and establish the Generations Fund* will have to be amended to provide for additional deposits of $400 million a year into the Generations Fund starting in 2016-2017.

1.6 Public capital investments

❑ The 2014-2024 Québec Infrastructure Plan

The government has invested substantial sums in public infrastructure since the inception of the Québec Infrastructure Plan (QIP) in 2007. These investments ensure the restoration and development of public infrastructure.

To meet Québec's significant needs for quality public infrastructure, the government is announcing that:

— a high level of public capital investments will be maintained under the 2014-2024 QIP;

— outdated infrastructure will be replaced first, in order to meet Québec's most urgent needs;

— priority will be given to projects that foster economic development.

The 2014-2024 QIP plans for investments totalling $90.3 billion. These are substantial investments and:

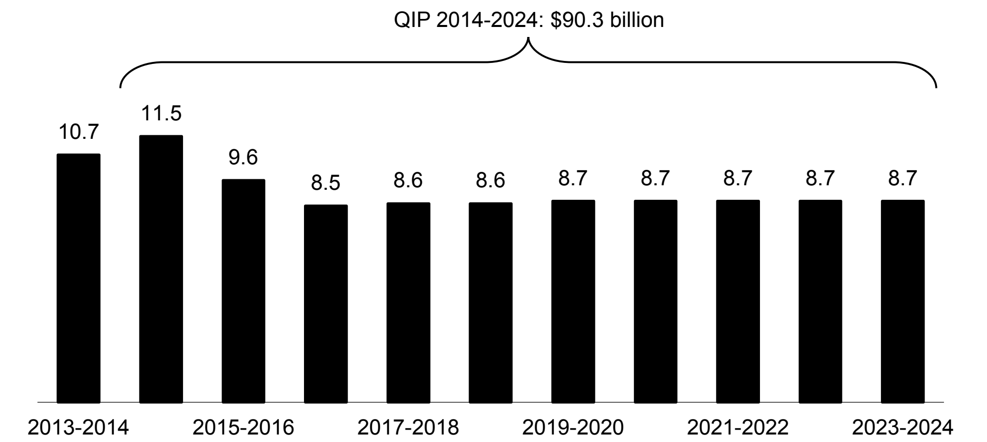
— will enable the government to ensure infrastructure development and renewal while remaining within Québec taxpayers' ability to pay and achieving the debt reduction objectives;

— are part of the effort to improve the management and planning of capital investments.

These investments will also provide powerful stimulus for economic activity and job creation in every region of Québec.

CHART A.7

Investments under the 2014-2024 Québec Infrastructure Plan
(billions of dollars)



The government is also announcing that it will be moving up investments totalling $300 million in 2014-2015, raising the level of investment this year to $11.5 billion.

A sum of $250 million will be allocated to school renovation projects, road work and other projects to support economic growth and job creation in the short term.

In addition, the government will be setting aside $50 million to conduct feasibility studies on major projects considered a priority.

Additional projects being reviewed under the 2014-2024 QIP

Widening of Autoroute Henri-IV

Extension of Autoroute 85 to the Québec-New Brunswick border

Surfacing of Autoroute Ville-Marie

Repairs to Autoroute Métropolitaine

Repairs to Louis-Hyppolyte-La Fontaine tunnel (Phase 2)

Urban boulevard in West End Montréal

Improved access to the Port of Montréal (extension of Assomption boulevard)

Redevelopment of Sherbrooke exit on Highway 25

Extension of Avenue Souligny

Cavendish boulevard link-up

Logistics hub in Montérégie

Hôpital de Verdun

New use for the Royal Victoria Hospital site

Montréal Museum of Archaeology and History at Pointe-à-Callière

Vendôme tunnel

Lac-Mégantic: bypass railway track

The 2014-2024 QIP includes new investments, such as $207 million to build 3 000 social housing units and $50 million for sports and recreation facilities.

❑ Sectoral breakdown of investments under the 2014-2024 Québec Infrastructure Plan

Nearly one quarter (23%) of the $90.3 billion in investments under the 2014-2024 QIP are devoted to the road network, 19% to the health and social services sector and 9% each to the education sector and municipal infrastructure.

Public transit will benefit from 8% of the investments, or $7.9 billion, including $1 billion in 2014-2015.

TABLE A.11

Investsments under the 2014-2024 Québec Infrastructure Plan, by sector
(millions of dollars)

	2014-2024 QIP	Share
Road network	20 423.6	23%
Health and social services	16 998.9	19%
Municipal, sport, community and recreation infrastructure	8 522.7	9%
Education	7 945.0	9%
Public transit	7 615.0	8%
Higher education and research	6 060.9	7%
Information resources	3 052.3	3%
Government buildings	2 631.1	3%
Social and community housing	2 279.4	3%
Marine, air, rail and other modes of transport	2 023.8	2%
Culture	1 956.7	2%
Other sectors	4 232.4	5%
Core funding(1)	6 558.1	7%
2014-2024 QIP	**90 300.0**	**100%**

(1) Funding reserved for projects currently under study and future projects not yet identified.

❑ Contribution from partners

In addition to the investments provided for in the 2014-2024 QIP, the Québec government's various partners will contribute a total of $12.9 billion, raising the total capital investments to $103.2 billion over the next 10 years.

TABLE A.12

Capital investments 2014-2024
(billions of dollars)

2014-2024 Québec Infrastructure Plan	**90.3**
Contribution from partners(1)	12.9
TOTAL	**103.2**

(1) Federal government, municipalities and other partners.

❑ Increased size of public capital stock in the economy

Over the next 10 years, the level of Québec government investments will remain above pre-2008 levels, at over $9 billion on average.

They should peak at 3.1% of GDP in 2014-2015 and average over 2.0% of GDP over the next 10 years. Investment targets of this level reflect the importance given to public infrastructure.

The Quebec Infrastructure Plan will contribute directly to the increase in public capital stock in the economy. Public capital stock is a key determinant of productivity and economic growth.

— As a percentage of real GDP, public capital stock increased from 28.2% of GDP in 2000 to 34.3% in 2013, and will continue to grow, reaching 35.1% of GDP in 2015.

— This growth will lift public capital stock above the level it was at in the early 1990s, thereby helping to improve business productivity as well as the standard of living in Québec.

CHART A.8

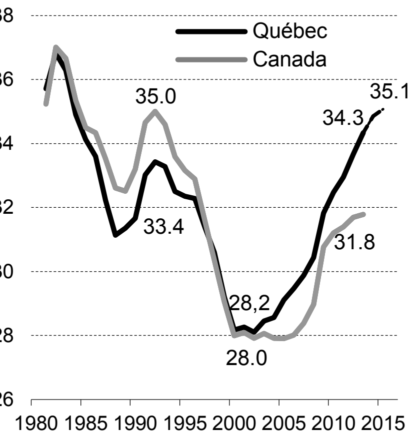
Annual public capital investments of the Québec government
(as a percentage of GDP)

Sources: Institut de la statistique du Québec, Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

CHART A.9

Change in public capital stock

(as a percentage of GDP, in real terms)



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

Amount of public capital investments

The importance of public capital investments is also reflected by their size in relation to GDP growth. The levels of investment under the Québec Infrastructure Plan over the last few years are comparable and sometimes higher than the change in GDP.

TABLE A.13

Level of Québec's nominal GDP and investments under the 2014-2024 Québec Infrastructure Plan
(millions of dollars)

	Nominal GDP	Change in GDP	Investments under QIP
2011-2012	345 287	15 617	9 976
2012-2013	357 859	12 572	10 633
2013-2014	364 583	6 724	10 704
2014-2015	376 904	12 321	11 550

❑ The accounting standard on transfers

Since April 1, 2012, governments have applied the revised accounting standard regarding transfer expenditures. This standard requires that the transferring government enter a transfer expenditure in the fiscal period when the transfer is authorized and the recipient has satisfied the eligibility criteria.

The revised standard allows the government to maintain its current budgetary policy and accounting practice regarding annual grants to recipients—primarily municipalities and universities—to reimburse principal and interest on the long-term financing of recipients' capital assets (for more information, see Appendix 4).

Since it was published, there have been major differences in interpretation of this accounting standard within the accounting profession in Canada. Representations have been made, in particular by the auditors general of the provinces and the federal government including the Auditor General of Québec as well as the Québec government, to make the Public Sector Accounting Board (PSAB) aware of this situation and obtain more precise indications to ensure consistent interpretation of this accounting standard throughout Canada.

In response to these initiatives, the PSAB felt it was necessary, in December 2013, to mandate a subcommittee to examine the facts and interpretations concerning accounting for transfers. The subcommittee's recommendations are expected by the end of 2014. The Québec government will follow the PSAB's work closely and adjust its practices where necessary.

Impacts of the Auditor General of Québec's interpretation of the revised accounting standard on transfers

Applying the Auditor General of Québec's interpretation of the revised accounting standard on transfers would have a significant impact on the government's budgetary policy regarding the allocation of infrastructure grants. The government estimates that applying the Auditor General of Québec's interpretation would have an impact of some $1 billion per year on the budgetary balance.

Estimated impact on the budgetary balance
(millions of dollars)

	2013-2014	2014-2015
Planned investments in the Québec Infrastructures Plan(1)	–1 765	–2 344
Savings achieved in program spending(2)	827	1 309
IMPACT ON THE BUDGETARY BALANCE	**–938**	**–1 035**

(1) Government-supported share of recipients' capital investments.
(2) Savings relating to recording under the net debt attributable to past commitments and to the impact of investments made.

Moreover, according to the Auditor General of Québec's estimates in his report on the consolidated financial statements as at March 31, 2013, this interpretation would have implied, as at March 31, 2013, recording an amount of $8.1 billion under the net debt and the debt representing accumulated deficits.

2. REVENUE MEASURES

Budget 2014-2015 stipulates the implementation of revenue measures that will help return to fiscal balance in 2015-2016. They consist mainly of:

— additional efforts to fight tax evasion;

— an adjustment to the eligibility age for retirement income splitting between spouses;

— an increase in the specific tax on tobacco products;

— standardization of the rates of the specific tax on alcoholic beverages.

TABLE A.14

Revenue measures
(millions of dollars)

	2014-2015	2015-2016
Additional efforts to fight tax evasion	111	133
Adjustment to the eligibility age for retirement income splitting between spouses	52	55
HSF contribution on stock options granted by a corporation outside Québec	2	2
Increase in the specific tax on tobacco products	90	120
Standardization of the rates of the specific tax on alcoholic beverages	36	55
TOTAL	**291**	**365**

2.1 Efforts to fight tax evasion

❑ New measures to fight tax evasion and unreported work

For a number of years, the government has been stepping up the fight against tax evasion and unreported work in every sphere of the economy where the risk is high. Among other things, these efforts improve fairness for taxpayers who pay their full taxes, and clean up practices in certain sectors of economic activity.

Despite the government's many initiatives, tax evasion, money laundering, collusion and corruption persist in our society. The government is therefore announcing the implementation of new initiatives aimed, in particular, at:

- improving tax auditing in the construction sector;
- ensuring a greater presence in certain at-risk sectors;
- installing sales recording modules (SRMs) in bars and resto-bars;
- expediting penal case management.

These new initiatives will increase revenues by more than $110 million a year as of 2014-2015.

TABLE A.15

Increase in revenues stemming from the new measures to fight tax evasion and unreported work
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Improved auditing in the construction sector	16	21	21
Greater presence in certain at-risk sectors	50	50	50
Installation of SRMs in bars and resto-bars	25	42	42
Expediting financial penal case management and other actions	20	20	20
TOTAL	**111**	**133**	**133**

Source: Ministère des Finances du Québec.

2.2 Measure to improve the fairness of the tax system

❑ Adjustment to the eligibility age for retirement income splitting between spouses

Since 2007, Québec's personal tax system has included an income splitting mechanism that enables couples receiving certain retirement income to reduce their overall tax burden.

Under the mechanism, an individual may transfer up to 50% of his retirement income eligible for splitting to his spouse and deduct the split income in calculating his income, provided such income is included in calculating the income of his eligible spouse.

In 2013, some 220 000 couple benefited from retirement income splitting between spouses, enjoying tax relief of $129 million.

■ Problem of fairness among Québec pensioners

In this budget, the government wants to correct a significant problem of fairness among Québec pensioners. This problem stems from the mechanism for splitting retirement income between spouses that unduly favours individuals who receive an annuity from a registered pension plan (RPP).

Some types of retirement income, such as retirement income paid by an RPP, can be split between spouses regardless of their age, while others, for instance, from a registered retirement savings plan (RRSP), cannot be split before age 65.

TABLE A.16

Eligibility for the retirement income splitting mechanism according to the source of the retirement income and the age of individual

	Eligibility	
Sources of revenue	**Under 65**	**65 or older**
Life annuity under a registered pension plan (RPP)[1]	Yes	Yes
Payment received following the death of the spouse	Yes	Yes
Deferred profit sharing plan (DPSP)	No	Yes
Registered retirement savings plan (RRSP)[2]	No	Yes
Registered retirement income fund (RRIF)[3]	No	Yes

(1) Defined-benefit and defined-contribution RPP.
(2) Including locked-in retirement accounts (LIRA).
(3) Including life income funds (LIF).

Individuals who participated in an RPP offered by an employer, which contributed to the plan, are thus at an advantage compared to those who accumulated retirement income on their own, in particular by means of an RRSP.

For example, a 60-year-old pensioner who transfers half of his $50 000 in retirement income from an RPP to his spouse will receive a tax benefit of $629 compared to a pensioner of the same age with retirement income from an RRSP. Accordingly:

— the couple will enjoy a tax reduction of $688 since the pensioner's tax rate will fall to 16% instead of 20% on part of the income transferred to the spouse, and the spouse will benefit from the amount for retirement income;

— the spouse of the pensioner will have to increase the corresponding contribution to the Health Services Fund as well as the health contribution, increasing the couple's social contributions by $59.

TABLE A.17

Illustration for a couple of the tax benefit allowed by the splitting of $50 000 of retirement income(1) – 2014
(dollars)

	Retirement income from an RPP – Split			**Retirement income from an RRSP**			
	Pensioner	**Spouse**	**Total**	**Pensioner**	**Spouse**	**Total**	**Difference**
Net income	25 000	25 000	**50 000**	50 000	—	**50 000**	**—**
Tax expenses and social transfers							
Tax payable	−1 391	−1 739	**−3 130**	−3 818	—	**−3 818**	**−688**
Social contributions(2)	−802	−802	**−1 603**	−1 545	—	**−1 545**	**+59**
Social transfers(3)	165	n.a.	**165**	165	—	**165**	**—**
TOTAL	**−2 028**	**−2 541**	**−4 569**	**−5 198**	—	**−5 198**	**−629**

Note: Figures have been rounded off, so the total may not correspond to the total indicated.
(1) Assuming the spouses are age 60, that the couple earns only one retirement income and that such income is split evenly.
(2) Public prescription drug insurance plan, Health Services Fund and health contribution.
(3) Refundable tax credit for solidarity.

A source of unfairness towards other workers

A significant share of taxpayers who benefit from retirement income splitting before age 65 continue to hold a job and earn employment income while they receive a pension from the registered pension plan (RPP).

- More than 70% of those benefiting from retirement income splitting who are under age 65 are in this situation.

This situation creates tax unfairness towards other workers who do not receive retirement income before age 65 and cannot split their employment income.

■ Set 65 as the minimum age of eligibility for the splitting mechanism for all sources of retirement income

To correct the unfairness caused by retirement income splitting between spouses under age 65, the government is announcing, in Budget 2014-2015, that henceforth the eligibility age for this measure will be 65 for all sources of retirement income.

This measure will affect roughly 85 000 households in Québec that currently receive a tax benefit estimated at $52 million for fiscal year 2014-2015.

2.3 Changes to certain specific taxes

2.3.1 Increase in the specific tax on tobacco products

For a number of years, the smoking rate has hovered around 20% in Québec,[9] one of the highest rates in Canada.

— According to the Ministère de la Santé et des Services sociaux, smoking is responsible for 10 400 deaths per year in Québec and imposes health costs and indirect costs estimated at nearly $4 billion per year.

Taxation of tobacco products remains one of the most effective ways to reduce smoking.

— According to the World Health Organization, research shows that higher taxes are especially effective in reducing consumption of tobacco products and preventing young people from starting to smoke.

For these reasons, Budget 2014-2015 is announcing a rise in the specific tax on tobacco products of $4.00 per carton of 200 cigarettes, i.e. $0.50 per pack.

— Accordingly, on June 5, 2014, the specific tax on tobacco products will rise from $25.80 to $29.80 per carton of 200 cigarettes.

— This increase represents $90 million in additional tax revenue in 2014-2015, $120 million in 2015-2016 and $115 million in 2016-2017.

— As estimated by the Ministère des Finances, the rise in the tax should encourage roughly 50 000 smokers to quit smoking and thus reduce the number of deaths due to smoking in Québec.

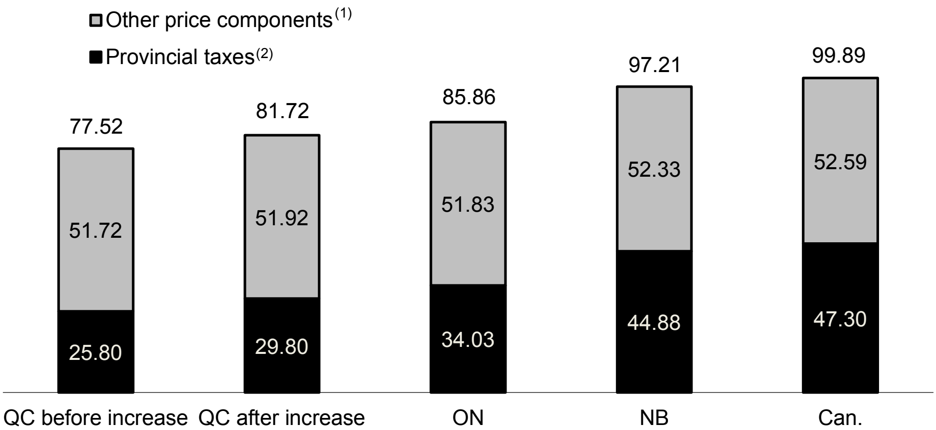
9 Statistics Canada, Table 105-0501, CANSIM.

The governments of Ontario, Newfoundland and Labrador and Canada have also raised taxes on tobacco products. Even with the rise in the specific tax of $4.00 per carton of 200 cigarettes, Québec remains the province with the lowest taxes on tobacco products.

— The effective difference in taxation for a carton of 200 cigarettes will be $4.23 with Ontario, $15.08 with New Brunswick and $17.50 with the Canadian average.

CHART A.10

Breakdown of the price of a carton of 200 cigarettes
(dollars)



(1) The other price components were calculated assuming constant production costs in Canada. They also include the federal excise tax of $21.03 and the goods and services tax.
(2) Including the harmonized sales tax.
Sources: Finance ministries of the provinces and Department of Finance Canada. Compilation by the Ministère des Finances du Québec.

To forestall an increase in tobacco smuggling, especially in the context of the increase in the specific tax on tobacco products, an additional $1 million will be allocated to ACCES tobacco[10] partners in 2014-2015 for the fight against the illicit trade in tobacco.[11]

10 ACCES tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Directeur des poursuites criminelles et pénales, the Ministère des Finances du Québec, Québec police forces, as well as the Canada Revenue Agency and the Canada Border Services Agency. For more information on the activities of ACCES tobacco, see section G.

11 See subsection 3.1 of section G of the Budget Plan for more information on the actions of ACCES tobacco.

❑ Significant decline in smuggling since 2009

Following a sharp rise in smuggling from 2005 to 2009, the market share of smuggled tobacco products has fallen in Québec, in particular because of Actions concertées pour contrer les économies souterraines – Tabac (ACCES tobacco).

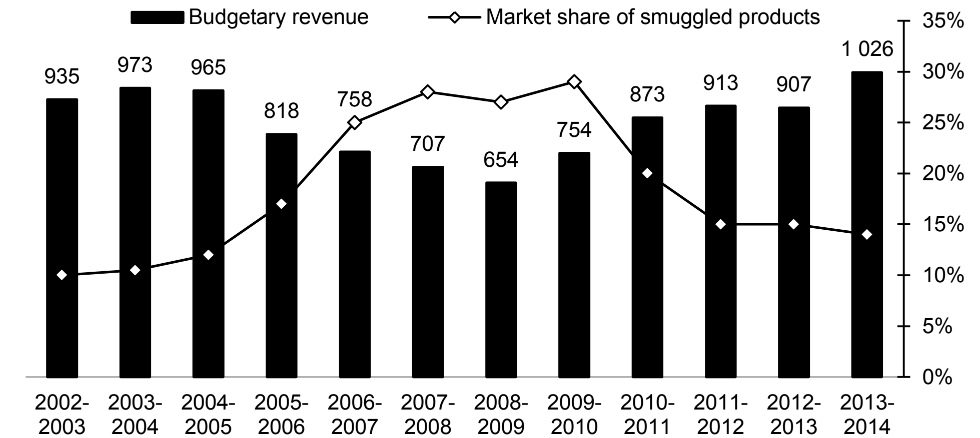
While the market share of smuggled products was estimated at nearly 30% in 2009, it dropped to 14% in 2013, a level that has remained stable since 2011 and is similar to the level observed in the early 2000s.

In addition, the increase in revenue from the specific tax on tobacco products while Québec's smoking rate remains stable[12] confirms the decline in the market share of smuggled products in Québec.

From 2008-2009 to 2013-2014, revenue from the specific tax rose from $654 million to $1 026 million, an increase of more than $370 million.

CHART A.11

Change in revenue from the specific tax and change in market share of smuggled tobacco products in Québec
(millions of dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

12 Statistics Canada, Table 105-0501, CANSIM.

2.3.2 Standardization of the rates of the specific tax on alcoholic beverages

Alcoholic beverages sold in Québec are subject to a specific tax whose rates depend on the type of product and where they are consumed. More specifically:

- in the case of alcoholic beverages sold in grocery stores, convenience stores and the Société des alcools du Québec for consumption at home, the rates are \$0.50 per litre for beer and \$1.12 per litre for wine and spirits;

- for alcoholic beverages sold in establishments for consumption on-site, such as a bar or restaurant, the rates are \$0.82 per litre for beer and \$2.47 per litre for wine and spirits.

The application of different rates to alcoholic beverages depending on where they are consumed is attributable to the historical development of the taxation of such beverages which has always been higher in establishments. However, this situation is debatable from a tax neutrality standpoint. And it has been criticized for many years by operators of establishments who contend that the difference in rates could influence consumers' choice.

To improve this situation and, at the same time, help achieve a balanced budget in 2015-2016, the government is announcing that as of August 1, 2014, the applicable rates will be the same regardless of where alcoholic beverages are consumed.

- This standardization will be achieved by reducing the rates applicable to products sold for consumption on-site and raising those applicable to products sold for consumption at home.

It will generate additional tax revenue of \$36 million for 2014-2015 and \$55 million for 2015-2016.

It should be mentioned that as of 2014-2015, part of the specific tax on alcoholic beverages will be deposited in the Generations Fund, thus helping to reduce Québec's debt load.

- In 2014-2015 and 2015-2016, \$100 million from the specific tax will be allocated to the Generations Fund each year.

- Beginning in 2016-2017, and additional \$400 million will be deposited into the fund, bringing the total deposit from the specific tax on alcoholic beverages to the Generations Fund to \$500 million per year.

❑ New rates of the specific tax on alcoholic beverages

In the case of alcoholic beverages sold for consumption at home, the specific tax on alcoholic beverages will rise from $0.50 to $0.63 per litre for beer and from $1.12 to $1.40 per litre for wine and spirits.

For alcoholic beverages sold for consumption on-site, the tax will decline from $0.82 to $0.63 per litre for beer and from $2.47 to $1.40 per litre for wine and spirits.

TABLE A.18

Specific tax on alcoholic beverages
(dollars per litre)

	Beer		Wine and spirits	
	Consumption at home	**Consumption on-site**	**Consumption at home**	**Consumption on-site**
Existing tax	0.50	0.82	1.12	2.47
Tax in effect as of August 1, 2014	0.63	0.63	1.40	1.40
DIFFERENCE	**0.13**	**–0.19**	**0.28**	**–1.07**

The impact of this standardization on the price of products sold for consumption at home is:

— roughly $0.05 per 341-ml bottle of beer;

— roughly $0.24 for a 750-ml bottle of wine, representing a rise of some 1.6% for a bottle priced at $15;

— roughly $0.37 for a 1.14-litre bottle of spirits.

Turning to alcoholic beverages sold for consumption on-site, the impact of standardization on the price of such products will represent a reduction of roughly:

— $0.07 per 341-ml bottle of beer;

— $0.92 for a 750-ml bottle of wine;

— $1.40 for a 1.14-litre bottle of spirits.

TABLE A.19

Impact of standardization of rates on the price of certain alcoholic beverages including the impact relating to sales taxes
(dollars)

	Consumption at home	Consumption on-site
341-ml bottle of beer	0.05	–0.07
750-ml bottle of wine	0.24	–0.92
1.14-litre bottle of spirits	0.37	–1.40

Prices remain attractive in Québec compared to Ontario and New Brunswick after the increase

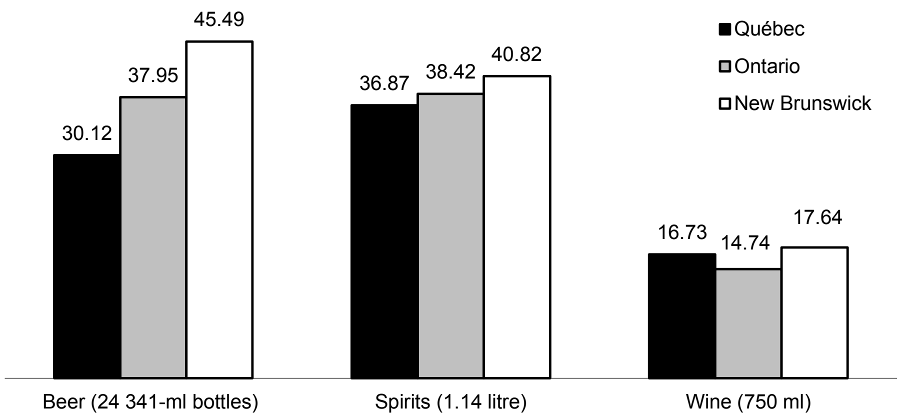
Adding the announced rise in the specific tax to the prices of certain alcoholic beverages on May 29, 2014, prices in Québec compare well with those in Ontario and New Brunswick.

The price of beer purchased in retail stores remains significantly lower in Québec than in the neighbouring provinces.

In addition, the price of wine and spirits remains competitive in Québec compared to Ontario and New Brunswick. A comparison of average prices for some twenty of the best-selling products in Québec that are also available in Ontario and New Brunswick shows that:

- the price of spirits remains lower in Québec than in Ontario and New Brunswick;
- the price of wine remains lower in Québec than in New Brunswick, but slightly higher than in Ontario.

Comparison of prices for some of the best-selling alcoholic beverages in Québec including the impact of the rise in the specific tax
(dollars)



Note: For the price of beer in Québec, the price shown is the minimum price including the goods and services tax and the Québec sales tax. For wine and spirits, the prices shown are the average prices for some twenty of the best-selling products in Québec that are also available in Ontario and New Brunswick.

Sources: Websites of the Liquor Control Board of Ontario, Alcool NB Liquor and the Société des alcools du Québec, consulted on May 29, 2014.

3. CONTROL OF GOVERNMENT SPENDING

The government is relying on the important contribution of all government entities to return to a balanced budget in 2015-2016.

— Departments, bodies and government enterprises will have to control their spending as a whole.

— The government will slow the growth in remuneration,[13] particularly through a general freeze on staffing levels in 2014-2015 and 2015-2016, while complying with the current collective agreements reached with government employees.

— In addition, in Budget 2014-2015, the government is presenting policy directions for the upcoming wage negotiations.

— Lastly, the government will bolster its governance powers and adopt better control and management mechanisms, along with adequate reporting on spending and staffing.

13 Remuneration includes the regular remuneration of employees and physicians, overtime and certain indemnities, fringe benefits and other employer contributions made by the government, such as the contribution to retirement plans, the Québec Pension Plan, the Health Services Fund, employment insurance and the Québec parental insurance plan.

3.1 Contribution of departments and bodies

Among all the measures selected to control spending, the government has decided to enlist the contribution of departments and bodies. The measures total $2 989 million in 2014-2015 and $5 759 million in 2015-2016.

TABLE A.20

Contribution of departments and bodies
(millions of dollars)

	2014-2015	2015-2016
Actions being taken as of 2014-2015		
Administrative measures announced on April 24, 2014	305	305
Specific administrative measures	415	586
Calling into question of certain spending initiatives	576	513
Other specific measures	1 053	816
Subtotal	**2 349**	**2 220**
Updating of renewal costs	379	186
Subtotal	**2 728**	**2 406**
Spending measures for 2015-2016, including those proposed by the Ongoing Program Review Committee	—	3 283
Contribution of unsubsidized special funds and non-budget-funded bodies	261	70
TOTAL	**2 989**	**5 759**

❑ Actions being taken as of 2014-2015

On April 24, 2014, the government announced program spending control measures for all departments as of 2014-2015. The annual savings of $305 million anticipated in this regard will be achieved thanks to:

— productivity gains representing 2% of the payroll;

— efforts equivalent to 3% of operating expenditures;

— tighter allocation and promising of subsidies.

Other spending control measures are provided for as of 2014-2015 and are grouped into four categories:

— administrative spending reductions of $415 million in 2014-2015 and $586 million in 2015-2016, including less use of external professional services, rationalization of facilities used and optimization of resources in the health and social services network in order to trim bureaucracy and boost efficiency;

— calling into question of certain spending initiatives totalling $576 million in 2014-2015 and $513 million in 2015-2016, through the review or deferral of government commitments;

— other measures that generate savings of $1 053 million in 2014-2015 and $816 million in 2015-2016, such as reducing the amounts paid to bodies, spreading out the pay raises for physicians and reviewing the Prescription Drug Insurance Plan, particularly by entering into specific agreements with manufacturers and reducing the cost of generic drugs;

— updating of the renewal costs of $379 million in 2014-2015 and $186 million in 2015-2016, through the downward adjustment of the projected cost of certain programs or the pace at which certain projects are carried out.

❑ Additional spending efforts for 2015-2016

The actions put forward in this budget will bring growth in program spending down to the target of 1.8% set for 2014-2015.

However, the actions taken will be insufficient for 2015-2016 and upward pressure on spending will persist. Therefore, additional spending control measures will have to be put in place.

Through its program review, the Ongoing Program Review Committee will assist the government in identifying the $3.3-billion effort that will have to be made in 2015-2016 to reduce spending growth to the target of 0.7% provided to ensure a return to a balanced budget.

❑ Effort of non-budget-funded bodies and special funds

Unsubsidized non-budget-funded bodies and special funds, which are entities financed largely by own-source revenue, will also have to contribute to the fiscal effort. For 2014-2015, a spending reduction effort of $261 million is being requested.

First, unsubsidized non-budget-funded bodies and special funds will have to reduce their spending by $70 million starting in 2014-2015—an effort equivalent to productivity gains representing 2% of the payroll and to a reduction of 3% in their operating expenditures.

Second, the government is requesting an additional effort of $191 million from unsubsidized non-budget-funded bodies and special funds for 2014-2015, which should lead to an improvement in the results of consolidated entities.

TABLE A.21

Effort requested of unsubsidized non-budget-funded bodies and special funds for 2014-2015
(millions of dollars)

	2014-2015
Effort equivalent to productivity gains representing 2% of the payroll and a reduction of 3% in their operating expenditures	70
Additional effort	191
TOTAL	**261**

Under section 59 of the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 November 2012*, the Minister of Finance and the Chair of the Conseil du trésor will define the application details and performance expected of each unsubsidized non-budget-funded body and special fund.

Unsubsidized non-budget-funded bodies and special funds will be responsible for implementing the measures necessary to achieve the targets set.

3.2 Contribution of government enterprises

The main commercial government enterprises, namely, Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec, will have to make an effort comparable to that requested of government entities.

— For 2014-2015, the government has set a results improvement target for each government enterprise. This comparable effort will generate a budgetary return of $77 million and have a recurrent impact on the results for subsequent fiscal years.

The government is also asking some government enterprises to make an additional effort that will generate a budgetary return of $100 million in 2014-2015 and $25 million in 2015-2016.

— The government is asking Hydro-Québec to make additional one-time efforts totalling $100 million in 2014-2015 and $15 million in 2015-2016.

— In addition, Loto-Québec is being asked to make an additional effort of $10 million as of 2015-2016.

An effort totalling $177 million in 2014-2015 and $102 million in 2015-2016 is thus being requested of government enterprises.

TABLE A.22

Effort requested of government enterprises in 2014-2015 and 2015-2016
(millions of dollars)

	2014-2015			2015-2016		
	Comparable effort	**Additional effort**	**Total effort requested**	**Comparable effort**	**Additional effort**	**Total effort requested**
Hydro-Québec	50	100	150	50	15	65
Loto-Québec	10	—	10	10	10	20
Société des alcools du Québec	10	—	10	10	—	10
Investissement Québec	7	—	7	7	—	7
TOTAL	**77**	**100**	**177**	**77**	**25**	**102**

To achieve these objectives, government enterprises will have to continue their efforts to control the growth of their spending, particularly in order to not increase their payroll in 2014-2015 and 2015-2016, except under exceptional circumstances.

Government enterprises will be responsible for implementing the measures needed to achieve the targets set. However, the steps taken must not affect public services or lead to an increase in fees.

Achieving the effort requested of government enterprises will require the adoption of legislative amendments, particularly to make all performance bonuses paid to the senior executives and management personnel of government enterprises conditional on the achievement of the effort requested.

❑ Effort of $150 million requested of Hydro-Québec for 2014-2015

In February 2014, the government's financial framework forecast net earnings of $2 900 million for Hydro-Québec in 2014-2015.

Balancing the budget and keeping it balanced requires an effort on the part of everyone who can help to put public finances in order. In this regard, Hydro-Québec's net earnings represent a non-negligible source of revenue for the Québec government. That is why an effort of $150 million is being requested of Hydro-Québec for 2014-2015 in order to raise its net earnings to $3 050 million.

This effort breaks down as follows:

— $50 million through efficiency gains;

— $85 million from additional export revenues;

— a $15-million effort in remuneration through a payroll freeze.

The effort requested of this government corporation must not translate into an increase in the electricity rates consumers pay and must not affect the reliability of the power transmission and distribution systems.

TABLE A.23

Impact of the effort requested in 2014-2015 on Hydro-Québec's net earnings
(millions of dollars)

	2014-2015
Net earnings forecast in February 2014	**2 900**
Effort requested	
– Efficiency gains	50
– Increase in export revenues	85
– Effort in remuneration through a payroll freeze	15
Subtotal	**150**
NET EARNINGS IN BUDGET 2014-2015	**3 050**

❑ Improvement of Hydro-Québec's performance

■ Deferral of the sharing of efficiency gains

Following Budget 2013-2014, Hydro-Québec filed an application with the Régie de l'énergie to introduce a mechanism for sharing additional earnings that might be realized in the future.

However, to enable Hydro-Québec to maintain the efficiency gains it is being asked to make, the government may defer annually the application of the sharing mechanisms.

— A transitional measure will be introduced until fiscal balance is restored. The government will table the necessary legislative amendments in this regard.

Mechanism for treating earnings deviations

Rates of return and sharing mechanism

The Régie de l'énergie is an economic regulation agency whose mandate is to fix all the conditions relating to electricity rates.

Rates are set annually and are intended to cover all the costs of the regulated divisions of Hydro-Québec, in addition to enabling the divisions to realize a return.

As of 2014, the Régie de l'énergie will recognize a rate of return of 8.2% on equity of Hydro-Québec Distribution and Hydro-Québec TransÉnergie.

In addition, this sharing mechanism is based on allocating earnings deviations:

- 50% – 50% between Hydro-Québec and its customers for the first 100 basis points in relation to the 8.2% rate of return authorized by the Régie de l'énergie;
- 25% – 75% between Hydro-Québec and its customers in excess of the first 100 basis points.

The purpose of this mechanism is to enable a portion of the earnings deviations realized by Hydro-Québec Distribution and Hydro-Québec TransÉnergie to be kept by consumers and included in electricity rates.

■ Change in heritage pool management

Hydro-Québec is a government corporation whose main activities are the generation (Hydro-Québec Production), transmission (Hydro-Québec TransÉnergie) and distribution of electricity (Hydro-Québec Distribution).

Hydro-Québec Distribution is responsible for supplying electricity to the Québec market. This division purchases electricity through two sources of supply:

- heritage electricity (volume of 165 TWh at a cost of 2.82 ¢/kWh in 2014) from the generating fleet of Hydro-Québec Production, currently accounting for 95% of the electricity consumed in Québec;

- supply contracts (e.g. wind, biomass, natural gas), currently accounting for 5% of the electricity consumed in Québec.

Hydro-Québec Distribution is forecasting supply surpluses of 75 TWh for the next 10 years.

The regulations currently in force stipulate that Hydro-Québec Distribution is responsible for managing electricity surpluses.

- The Régie de l'énergie may require that Hydro-Québec Distribution export its surpluses itself, using the same transmission infrastructure and markets as Hydro-Québec Production.

This measure is designed to entrust responsibility for the use of energy surpluses to Hydro-Québec Production, which is in charge of, among other things, exports to markets outside Québec. To oversee and facilitate regulatory treatment in this regard, it is necessary to:

- specify that supply contracts entered into by Hydro-Québec Distribution, as well as the supply of heritage electricity, are intended exclusively to meet the needs of the Québec market;

- give priority to contracts entered into by Hydro-Québec Distribution.

Accordingly, the supply of heritage electricity will be adjusted every year based on the needs of the Québec market and contracts entered into by Hydro-Québec Distribution.

Moreover, the application of this measure, as of January 1, 2015, will not entail any rate increases for Québec customers. Legislative amendments will be made to implement this measure.

❑ Competitive electricity rates

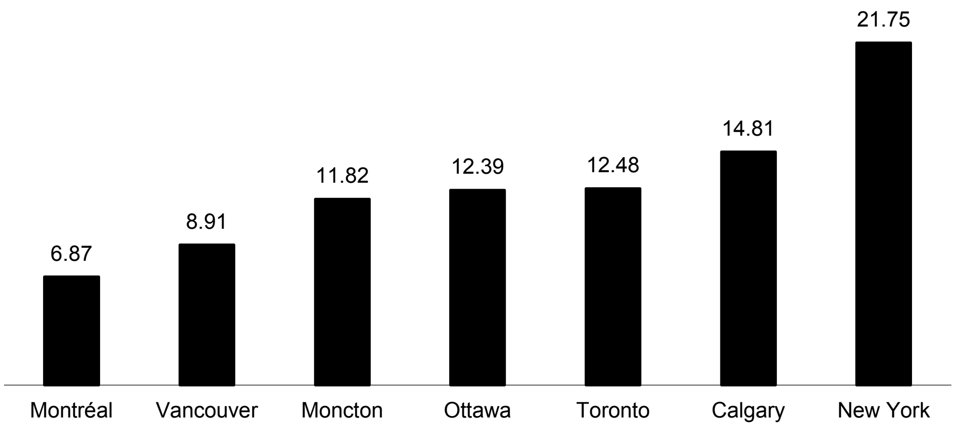
Electricity rates are lower in Québec than elsewhere in North America on average. Québec's electricity rates remain competitive when the indexation of the price of heritage electricity and the other rate adjustments authorized by the Régie de l'énergie are taken into account.

For example, in 2013, the average residential price of electricity was 6.87 ¢/kWh in Montréal, compared with 12.39 ¢/kWh on average in Ottawa, representing a difference of 5.52 ¢/kWh, or 45 %.

— The difference is even greater when the comparison concerns New York, one of Québec's trading partners in electricity exports.

CHART A.12

Average residential price in Montréal and certain large cities in North America – 2013
(cents per kilowatthour)



Source: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities*, 2013.

3.3 Control of remuneration

❑ The weight of remuneration in government spending

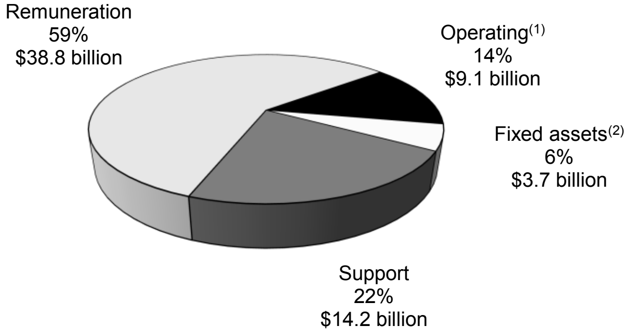
Rigorous spending management necessarily means managing the global cost of government remuneration.

In 2014-2015, remuneration expenditures will amount to $38.8 billion, or 59% of program spending.

The weight of remuneration in program spending

Remuneration includes the regular remuneration of employees and physicians, overtime and certain indemnities, fringe benefits and other employer contributions made by the government, such as the contribution to retirement plans, the Québec Pension Plan, the Health Services Fund, employment insurance and the Québec parental insurance plan.

Program spending components – 2014-2015
(per cent and billions of dollars)



Note: The figures in per cent have been rounded off, so they may not add up to 100%.
(1) Includes doubtful accounts, savings to be realized by entities and anticipated lapsed appropriations.
(2) Corresponds to the reimbursement of principal and interest.
Source: Secrétariat du Conseil du trésor, 2014-2015 Expenditure Budget.

❑ Increase in remuneration over the past five years

The government's wage agreements with its 430 000 employees[14] will end on March 31, 2015.

The increases granted when the collective agreements were renewed in 2010-2015 are not the only factors that have generated a rise in remuneration expenditures. For example, they do not include certain other factors that affect total remuneration, such as the maintenance of pay equity, progress through wage scales, fringe benefits and other employer contributions made by the government, specific agreements like those reached with physicians and the change in staffing levels.

Overall, the remuneration envelope increased an average of 4.0% per year for the period from 2010-2011 to 2013-2014—a rate well above the growth of the wage parameters granted. This increase is explained by the rise in:

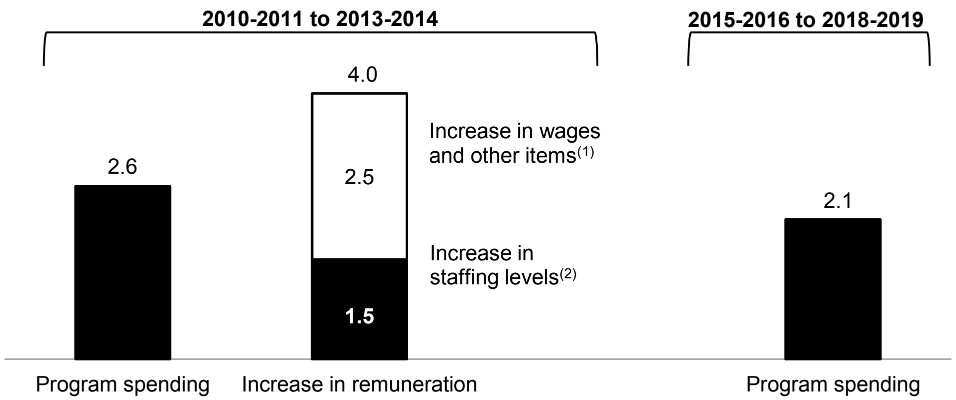
— wage parameters, employer contributions, progress through wage scales and other factors such as specific agreements (2.5% per year on average);

— staffing levels (1.5% per year on average).

Over the same period, government program spending grew by 2.6% per year.

CHART A.13

Growth in program spending and remuneration
(per cent, annual average)



(1) Including physicians, whose remuneration envelope increased an average of 8.3% per year from 2010-2011 to 2013-2014.
(2) Growth in number of employees, including health professionals.
Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec forecasts.

14 Full-time equivalent (FTE) employees. Excludes the 25 000 health professionals.

❑ Change in staffing levels over the past five years

Over the past five years, the number of public sector and network employees has grown by 6 250, or 1.5% on average every year. The largest increase has been noted in the health and social services network.

TABLE A.24

Public sector and network staffing levels
(FTE and per cent)

Year	Public service[1]	Health network[2]	Education networks[3]	Total[4]	Annual change FTE	Annual change %
2012-2013	59 071	220 017	149 264	428 352	6 487	1.5
2011-2012	58 282	216 475	147 108	421 865	6 090	1.5
2010-2011	58 209	212 223	145 343	415 775	3 708	0.9
2009-2010	58 544	209 894	143 629	412 067	7 595	1.9
2008-2009	57 910	204 765	141 797	404 472	7 369	1.9
2007-2008	57 292	199 924	139 887	397 103	4 842	1.2
2006-2007	57 378	196 353	138 530	392 261	5 966	1.5
2005-2006	57 846	193 891	134 558	386 295	1 109	0.3
2004-2005	59 088	190 644	135 453	385 185	–302	–0.1
2003-2004	60 826	187 958	136 704	385 488	5 451	1.4
2002-2003	59 790	184 151	136 096	380 037		
Average annual growth from 2008-2009 to 2012-2013 (5 years)						
In FTE	356	4 019	1 875	6 250		
In %	0.6	1.9	1.3	1.5		

(1) In addition to departments, budget-funded bodies and special funds (except the Police Services Fund), the public service comprises 12 non-budget-funded bodies (Centre de services partagés du Québec, Commission des normes du travail, Fonds d'aide aux recours collectifs, Institut de la statistique du Québec, Institut de tourisme et d'hôtellerie du Québec, La Financière agricole du Québec, Office des professions du Québec, Régie de l'assurance maladie du Québec, Régie du bâtiment du Québec, Régie du cinéma, Société de l'assurance automobile du Québec, Société d'habitation du Québec) and three trusts (Régie des rentes du Québec, Commission administrative des régimes de retraite et d'assurances and Le Curateur public du Québec).
(2) Excluding physicians and other health professionals (roughly 25 000 people).
(3) Excluding the staff of university educational institutions.
(4) Excluding the Police Services Fund and 50 non-budget-funded bodies not subject to the *Public Service Act* (roughly 25 000 people) including the Agence du revenu du Québec and government corporations including Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec.
Source: Secrétariat du Conseil du trésor.

Reminder on the most recent wage agreements

The most recent agreements entered into with government employees provided for:

- 6.0% indexing, over five years, of wage scales and the rate of remuneration;
- an increase tied to economic growth, which has meant a 0.5% increase paid in 2012-2013;
- a 1.0% increase tied to inflation, which would be paid on March 31, 2015.

General wage indexation parameters
(per cent)

	April 1, 2010	April 1, 2011	April 1, 2012	April 1, 2013	April 1, 2014	March 31, 2015	Cumulative
Firm parameters	0.50	0.75	1.00	1.75	2.00	—	6.00
Increase tied to economic growth(1)	—	—	0.50	—	—	—	0.50
Increase tied to inflation(2)						1.00	1.00
TOTAL	**0.50**	**0.75**	**1.50**	**1.75**	**2.00**	**1.00**	**7.50**

(1) The increase paid could reach up to 3.5% over the last three years of the collective agreement, depending on economic growth.
(2) Under the agreement, if inflation exceeds the pay increases granted over the five years of the agreement (basic offer plus increase tied to economic growth), an adjustment of up to 1% would be applied on March 31, 2015.

3.3.1 **General freeze on staffing levels in 2014-2015 and 2015-2016**

To balance the budget, the government must slow the growth of its spending. Accordingly, the government's efforts will focus on each of the spending components.

To slow spending growth, it is essential to control remuneration, which accounts for 59% of program spending. Over the past five years, public and parapublic staffing levels have risen by an average of 6 250 full-time equivalent (FTE) employees per year.

Control of remuneration, including a general freeze on staffing levels in 2014-2015 and 2015-2016, is one of the means that can be envisaged in the context of the massive retirements anticipated in the coming years.

Roughly 15 000 public and parapublic sector employees are expected to retire annually by 2018-2019, providing the government with an opportunity to reallocate available positions on the basis of direct services to the public.

— This general freeze will achieve savings of $100 million in 2014-2015 and $500 million in 2015-2016.

A first step was taken on April 24, 2014 with the announcement of a hiring freeze by the end of fiscal 2014-2015 in departments and bodies whose staff is subject to the *Public Service Act*.

In addition, the government wants to apply a general freeze on staffing levels in the public and parapublic sectors, including the health and social services and education networks, non-budget-funded bodies, special funds and government bodies that conduct fiduciary transactions.

This management of staffing levels must be done in a judicious manner that reflects certain principles, in particular, compliance with the current collective agreements, deference to the various decision-making levels and protection of public services.

— For example, the government may decide to not replace administrative positions and to reallocate them to direct services to the public.

In implementing this policy direction, the government will ensure that:

— there is enough flexibility to adapt to the realities in different sectors;

— young graduates have access to the positions that will be available in the public and parapublic sectors;

— the expertise required to fulfil the government's missions is maintained.

❑ Better control of the change in staffing levels

The government does not have all the levers it needs to manage this important transition. Except in the case of public service employees, which account for less than 15% of government employees, the government currently has few powers to plan and monitor the change in the number of employees in several public bodies, including those of the health and social services and education networks for which it is not the employer.

Consequently, in the coming months, the government will prepare this transition by enlisting the support of the departments responsible for the networks and of employer partners in order to set out the implementation terms and conditions needed to better oversee and monitor the change in multi-year staffing levels and to allocate vacant positions to priority services, without reducing public services.

In managing its staffing levels, the government will take into account the actual situation in the different sectors. For example, staffing levels may be monitored in terms of FTE or hours worked.

■ Bill to better oversee the change staffing levels

To provide a legislative framework for the general management of staffing levels, the government intends to submit a bill to the National Assembly in fall 2014. The guiding principles of this bill could make it possible to:

- better control staffing levels in all of the bodies included in the government's reporting entity and in the bodies that conduct fiduciary transactions:
  - in this regard, the bill will include a headcount by job category;
- determine the powers and responsibilities of the Conseil du trésor and the ministers in charge of general and sector-based management of staffing levels;
- limit the use of service contracts to prevent the control of staffing levels from leading to an increase in such contracts;
- establish rules for the general management of staffing levels regarding:
  - the replacement of people who retire;
  - the reallocation of vacant positions, particularly administrative positions;
  - better alignment of staffing levels with services to the population, particularly on account of population growth or decline, depending on the activity sector;
  - any other measure needed to achieve this objective;
  - the roles and responsibilities of the various decision-making levels.
- improve accountability in regard to staffing levels.

3.3.2 Policy directions for the upcoming wage negotiations

It is important for the offer of public services to be in keeping with the ability to pay of the government and its taxpayers. The upcoming negotiations must enable an agreement that is just and fair for all parties to be reached with public and parapublic sector employees.

The financial framework of this budget forecasts that program spending will grow by 2.1% per year on average from 2015-2016 to 2018-2019.

— The annual increase in remuneration expenditures will have to remain compatible with the growth target for program spending.

❑ Principles for the upcoming negotiations

When it embarks on the upcoming negotiations, the government intends to provide a framework for the agreement based on certain principles.

— The financial commitments made by the government in the course of renewing the agreements will have to take into account the financial commitments inherent in the obligations of the current collective agreements or in those passed on to employers in accordance with labour legislation, such as:

  — progress through wage scales;

  — contributions to government plans;

  — additional costs related to retirement plans;

  — costs related to the maintenance of pay equity;

  — costs related to specific agreements with certain groups;

  — the change in staffing levels.

— The increase in total remuneration will have to take into account the weak growth in program spending during the first few years until fiscal balance is restored.

— Pay increases may also be improved insofar as efficiency gains are made in the delivery of public services. For example, such gains could be measured in terms of staff size.

— Lastly, the agreements will have to take into account the importance of maintaining public services and the ability to pay of taxpayers.

3.4 Improved spending management framework

In implementing its budgetary policy, the government has several means to structure its fiscal policy directions, manage its resources and report on its results. In this regard, several laws, regulations, standards and directives have been introduced over the years.

Nonetheless, the current budgetary context suggests that these budget rules have produced limited benefits in recent years. For example:

— few programs have been called into question despite the fact the *Public Administration Act*, which sets policy directions in this area, has been in existence for the past 13 years;

— the targets for spending growth have been exceeded by an average of 1.6 percentage points per year over the past 10 years;

— institutions in the health and social services and education networks have posted accumulated deficits despite the legislation provisions that prevent them from doing so;

— the government obtains a consolidated financial report on the health and social services and education networks only once a year and only late in the year.

Furthermore, the government has few important powers for controlling staffing levels in the health and social services and education networks and certain public bodies.

Two major accounting reforms were carried out in 1997-1998 and 2006-2007. These reforms were designed, in particular, to consolidate the health and social services and education networks. However, they were not followed by changes to governance rules to ensure adequate management of the new entities.

Therefore, the government wants to strengthen its governance powers and aims to adopt better control and management mechanisms, together with improved reporting on spending. In particular, it intends to implement four concrete measures to that end:

— creation of the Ongoing Program Review Committee;

— strengthening of the expenditure planning framework, particularly by the application of an offset mechanism;

— government-wide financial performance reporting;

— improved control of the change in staffing levels.

3.4.1 Ongoing Program Review Committee

The government wants to assess the efficiency of public services programs and their delivery.

The state of public finances requires us to reinvent ourselves and call things into question not only from a short-term perspective but also with a forward-thinking vision for future generations. The approach selected by the government to achieve these ambitious objectives is based on, among other things, the creation of an ongoing program review committee, which will be the key component of the program review mechanism.

Essentially, the goal of this exercise will be to ensure that:

— programs address priority needs of citizens and fall under the government's mission;

— programs are administered effectively and efficiently and an appropriate governance structure is in place;

— the funding method for these programs is adequate and in keeping with citizens' ability to pay.

The work of the Committee will focus on the performance of certain programs, the reduction or revision of their scope and their continuous assessment.

To assist the Committee, the government will implement new ideas, particularly through the use of internal and external expertise and the initiation of a social dialogue with its partners and the population.

This program review exercise will be an integral part of the budgetary process and be rounded out by the deployment of an ongoing program review mechanism making it possible to continue optimizing government resources in addition to repositioning them.

3.4.2 **Strengthening the expenditure planning framework**

❑ An offset mechanism to ensure compliance with spending targets

The expenditure planning framework that the government intends to put in place provides for an offset mechanism to guarantee compliance with targeted spending levels.

This mechanism implies that no new initiatives will be authorized unless savings equivalent to the cost of the initiatives are achieved elsewhere within the government.

The application of this directive will make departments accountable for the management of their spending targets. It will thus require a trade-off between the introduction of new programs and the maintenance of existing ones.

❑ A cap on consolidated expenditures

One way to oversee the use of the offset mechanism and to boost its effectiveness would be to establish multi-year caps on consolidated expenditures.

As in several countries, in particular Denmark, Sweden, the Netherlands and Switzerland, the introduction of a budget rule on consolidated expenditures would make it possible to set a limit on total spending over several years.

Such a cap could be expressed in terms of the following parameters:

— economic growth;

— growth in the price of public services and in the population;

— spending objectives presented in the budget plan.

The terms and conditions for applying such a rule will be studied next year.

Extent to which budget rules are used elsewhere in the world[1]

In recent years, a growing number of countries have opted to apply balanced budget rules in conjunction with expenditure control rules.

These rules render departments accountable by making the availability of financial resources predictable for program managers and policy makers.

This combination of rules is found in over 15 countries.

The following table presents the main characteristics of expenditure rules in six European countries.

- In Austria, for example, there is a law approved by the central government's parliament that sets nominal limits for the next four years in five spending areas.
- Finland and the Netherlands prefer to set expenditure limits in real terms, while Sweden sets limits for 27 spending areas.

However, all countries exclude certain expenditure categories from established spending limits.

- Most countries exclude interest on the debt and expenditures in respect of natural disasters.
- Denmark excludes family and child assistance, while Finland excludes social assistance and housing allowances.

Main characteristics of the expenditure rules in six European countries

Country	Approval level	Level of government	Limit designation	Duration of the rule	Sectors concerned
Austria	Law	Central	Nominal	4 years	5 strategic sectors
Denmark	Cabinet	General	Nominal	4 years	Administrative branches
Finland	Government program	Central	Real	Term of office	Administrative branches
Holland	Vote in parliament	Central	Real	Term of office	Administrative branches
Sweden	Law	Central and agencies	Nominal	3 years	27 spending areas
Switzerland	Constitution	Federal	Nominal	Economic cycle	General

1 COTTARELLI, Carlos, *Fiscal Rules – Anchoring Expectations for Sustainable Public Finances*, IMF, December 2009.

3.4.3 **Government reporting**

❑ Better management information in the health sector

Access to clinical and financial information is crucial to improving the quality of care, properly monitoring access to services and ensuring the efficiency of the health and social services network.

This information is necessary to health management and adequate financial reporting.

High-quality clinical and financial information will thus optimize the benefits of every dollar spent by the government. This will result in benefits for both caregivers and patients.

In particular, better clinical and financial information will modernize the funding of health institutions and support management by improving financial reporting in the health and social services network.

■ Supporting management by improving financial reporting

The availability of reliable financial data is key to financial management. However, Québec lags behind in certain areas in this regard.

- Due to multiple processing and cross-matching requests, it currently takes a lot of effort to produce financial reports and the time required is incompatible with management needs in the field.

- Québec is among the Canadian provinces that make their real health data available the latest.

To improve financial reporting, the government wants to modernize information systems in the health sector. Modernizing these systems will also make it possible to better monitor and manage the health workforce.

For this initiative, the government will create a reserve to be administered by the Ministère des Finances. To that end, additional funding of $5 million for 2014-2015, $20 million for 2015-2016 and 2016-2017 and $40 million for subsequent years will be granted to the Ministère des Finances. For 2014-2015, the sums will be provided from the Contingency Fund.

❑ Fiscal balance in the networks

The health and social services networks account for a large share of the government's consolidated expenditure. Accordingly, it is important to ensure that all of the institutions and agencies making up the networks make every effort to maintain a balanced budget.

The government will monitor, through periodic reporting, the change in the financial position of the networks and see to the application, if necessary, of legislative provisions to keep their budgets balanced.

Legislative framework for fiscal balance in the networks

The legislation currently in force in Québec stipulates that the health and social services and education networks must achieve balanced results. In particular, the legislation provides that:

- the networks must present balanced forecasts;
- their year-end financial results must be balanced:
  - if they post a deficit, the Minister must require that they prepare a plan to put their finances in order.

Despite the legislative provisions concerning the maintenance of a balanced budget in each entity in the health and social services and education networks, the government notes that over 60 institutions posted accumulated deficits as at March 31, 2013.

Moreover, in previous reports, the Auditor General of Québec made the same observations and recommended the government take the necessary measures to ensure compliance with the law.

In this context, the government will study how to put new governance rules in place to better oversee the achievement of balanced budgets in network institutions.

❑ Limiting the growth in school taxes

School boards will have to contribute to the fiscal effort requested by the government, while limiting the growth in school taxes.

It should be recalled that in recent years, landowners living on the territory of certain school boards have been faced with major increases in their school tax assessments.

The increase in school tax bills, which can be attributed mainly to property values, changes to the equalization program and the growth in school board spending, has raised, sometimes substantially, the tax burden of landowners, some of whom, such as seniors, have low incomes.

The government is concerned by the increase in the tax burden of landowners. Accordingly, it will implement measures to limit the growth in school taxes.

— First, it will table a bill in fall 2014 to better control school board spending through rigorous monitoring of staffing levels in the education network.

— Second, with a view to helping school boards achieve the fiscal effort requested, the government will review the rules governing the allocation of budget surpluses to foster better use of these surpluses by school boards.

In addition, the government will initiate discussions with financial institutions to reach an agreement on the implementation of a loan program for seniors to help them pay their property taxes.

Through these measures, the government will limit the pressure on the property tax burden of taxpayers and promote sound governance of school boards.

4. A REDUCTION IN TAX EXPENDITURES

To help achieve fiscal balance, Budget 2014-2015 reduces tax expenditures. These measures will have an effect in the short term on the government's budgetary balance.

In addition, the government will set up the Québec Taxation Review Committee with a mandate to, among other things, propose changes to make the tax system more competitive and review tax expenditures as a whole.

4.1 Fiscal measures pertaining to businesses

The government is taking three concrete steps, starting immediately, to reduce tax expenditures pertaining to businesses:[15]

- the elimination or suspension of certain fiscal measures announced since September 2012;
- a 20% reduction in the rates of tax credits;
- the imposition of caps on fiscal measures for business capitalization.

These measures will have an immediate effect on the government's financial framework. In all, the measures reducing tax expenditures pertaining to businesses will result in savings of:

- $104.0 million in 2014-2015;
- $347.7 million in 2015-2016;
- $495.6 million in 2016-2017.

TABLE A.25

Financial impact of measures reducing tax expenditures pertaining to businesses
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Elimination or suspension of certain fiscal measures announced since September 2012	41.4	55.7	115.7
20% reduction in the rates of tax credits	35.5	270.4	371.7
Caps on fiscal measures for business capitalization	27.1	21.6	8.2
TOTAL	**104.0**	**347.7**	**495.6**

15 The details of the fiscal measures mentioned in this section are given in the budgetary document *Additional Information on the Fiscal Measures of the Budget*.

Tax expenditures pertaining to businesses

Two major groups of tax expenditures

Tax expenditures under the corporate tax system totalled $3.4 billion in 2013-2014 and are divided into two major groups:

- general application measures, consisting almost entirely of harmonization measures with the federal tax system, accounted for $1.0 billion;
- targeted tax assistance measures for businesses, including in particular refundable tax credits and tax holidays, totalling $2.4 billion.

Tax assistance for businesses

The concept of tax assistance for businesses refers to the tax revenue the government agrees to forego in order to reduce the tax load on businesses or to contribute to their financing.

In addition to refundable tax credits and tax holidays, tax assistance for businesses includes measures to foster the capitalization of businesses, such as tax credits for contributions to labour funds and the Cooperative Investment Plan.

❑ A 21% reduction in tax assistance for businesses forecast in 2016-2017

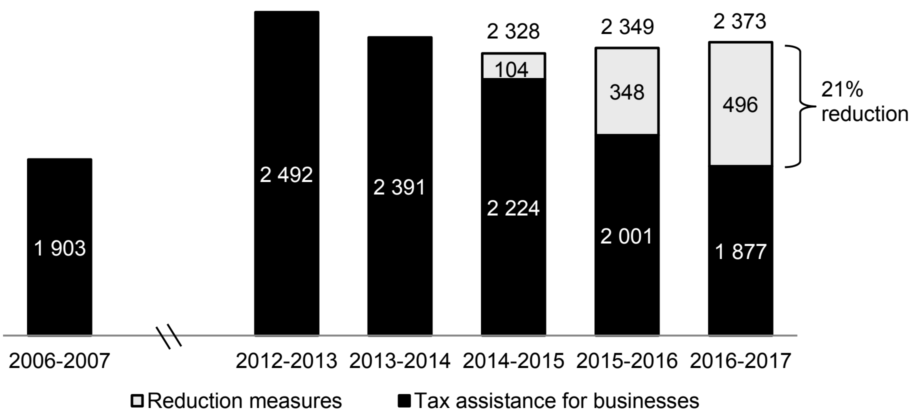
In 2014-2015, tax assistance for businesses includes some fifty measures and is expected to cost the government more than $2.3 billion. This amount was forecast to approach $2.4 billion in 2016-2017.

The reduction measures will compress tax assistance for businesses by 21% compared to 2016-2017.

This initiative will lower the cost of tax assistance for businesses to roughly $1.9 billion, equivalent to the amount in 2006-2007.

CHART A.14

Illustration of the impact of measures to reduce tax assistance for businesses(1)
(millions of dollars)



(1) The measures to reduce tax assistance for businesses include the elimination and suspension of certain fiscal measures, the 20% reduction in the rates of tax credits and the imposition of caps on fiscal measures pertaining to the capitalization of businesses.

❑ The government's priorities regarding business taxation

In Budget 2014-2015, the government is acting to restore order to public finances. In the medium term, these measures will help ensure a stable and predictable economic environment fostering investment by businesses.

In addition to seeking to restore order to public finances, the government is announcing actions to stimulate the economy and job creation. These actions are described in section B of the Budget Plan.

The government, in these actions, will focus in particular on implementing measures that are general in scope and simpler to apply, helping to maximize their spinoffs and limit red tape for businesses.

The government's aim is for Québec's corporate tax system to compare favourably with those in competing jurisdictions. Québec must offer businesses conditions fostering investment and innovation to increase wealth creation and thus secure the prosperity of Quebecers.

The recommendations of the Québec Taxation Review Committee, which will be tabled before the next budget, will provide a basis for a review of the corporate tax system.

Confirmation of certain measures announced since September 2012

Budget 2014-2015 confirms that the tax holiday for large investment projects (THI) will be maintained, as will the improvement to the tax credit to foster the modernization of the tourism accommodation offering in the regions. Accordingly and as previously announced:

- the THI enables businesses that carry out investments in excess of $200 million in eligible sectors to receive, for a period of ten years, a tax holiday applicable to corporate income tax and the contribution to the Health Services Fund;
  - the THI is an economic development tool for attracting large investment projects to Québec that create well-paid jobs and stimulate the activities of suppliers;
- the credit to foster the modernization of the tourism accommodation offering is designed to accelerate and intensify infrastructure investments by accommodation establishments in Québec's regions.

4.1.1 Elimination or suspension of certain fiscal measures announced since September 2012

Since September 2012, certain fiscal measures have been implemented or improved. Given the current situation of the public finances, the government cannot maintain these measures and is immediately:

- eliminating the enhancements made to certain fiscal measures, i.e.:
  - the enhancements to the tax credit for investment;
  - the rise in the rate of the tax credit for R&D salary in relation to biopharmaceutical activities;
  - the increase in the cap on assistance per job of the tax credit for the development of e-business scheduled to apply as of 2016.
- suspending the following fiscal measures:
  - Capital régional et coopératif Desjardins's authorization to issue $150 million in shares in 2014;
  - the tax credit for the integration of information technologies in manufacturing SMEs.

These decisions will result in savings of $41.4 million in 2014-2015, $55.7 million in 2015-2016 and $115.7 million in 2016-2017.

TABLE A.26

Financial impact of the elimination or suspension of certain fiscal measures announced since September 2012
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Elimination of the enhancements to certain fiscal measures			
Tax credit for investment	0.7	42.0	78.3
Tax credit for R&D salary in relation to biopharmaceutical activities	0.1	12.9	25.0
Tax credit for the development of e-business(1)	—	—	2.8
Suspension of certain fiscal measures			
One-year deferral of Capital régional et coopératif Desjardins's authorization to issue $150 million in shares	40.5	−4.4	—
Tax credit for the integration of information technologies in manufacturing SMEs	0.1	5.2	9.6
TOTAL	**41.4**	**55.7**	**115.7**

(1) The extension of the application period of this measure is maintained.

❑ Elimination of the enhancements to the tax credit for investment

The tax credit for investment has been improved substantially since the fall of 2012.

— In Budget 2013-2014, it was extended until December 31, 2017 and the rates were raised by 5 percentage points for businesses in resource regions of the intermediate zone.

— As part of Québec's Economic Policy – Putting Jobs First, the increased rates of the tax credit for investment were raised by 10 percentage points for manufacturing SMEs and the tax base was broadened to include certain expenditures relating to buildings.

However, with these enhancements, the government assumed an excessive share of the investment risks, reaching 50% in some cases. Consequently, the government is cancelling these enhancements, but is maintaining the extension of the tax credit until 2017.

❑ Elimination of the rise in the rate of the tax credit for R&D salary in relation to biopharmaceutical activities

In Budget 2013-2014, the government instituted a temporary rise in the rate of the tax credit for R&D salary from 17.5% to 27.5% for activities relating to the biopharmaceutical sector.

However, this measure is poorly suited to the business model of most innovative biopharmaceutical companies, which are substantially reducing their in-house R&D work. Instead, they prefer to carry out research through:

— subcontracts with university research centres;

— research in partnership with university research centres and other businesses.

For these two components, Québec's tax assistance for R&D is the most competitive in Canada.

The government is therefore cancelling the rise in the rate of the tax credit for R&D salary in relation to biopharmaceutical activities.

❑ Elimination of the increase in the cap on assistance per job of the tax credit for the development of e-business scheduled to apply as of January 1, 2016

In *Information Bulletin 2013-7* released on July 11, 2013, the government announced, regarding the tax credit for the development of e-business:

— the extension of the tax credit for 10 years as of January 1, 2016;

— an increase in the tax credit's cap on assistance per job from $20 000 to $22 500 as of the same date.

Recognizing the contribution of the information technology sector in Québec's economy, the government is maintaining the extension of the refundable tax credit for the development of e-business. This measure could be reviewed by the Québec Taxation Review Board.

However, the increase in the cap on assistance per job is cancelled given the already substantial benefit this measure provides.

❑ One-year deferral of Capital régional et coopératif Desjardins's authorization to issue $150 million in shares

Capital régional et coopératif Desjardins (CRCD) reached its capital limit of $1.25 billion in 2013. Accordingly, the upcoming annual issues are limited to an amount equal to the preceding year's redemptions.

In the February 20, 2014 budget, the government had authorized CRCD to issue $150 million in shares for 2014.

However, in the current budgetary context, the government is deferring this authorization to issue $150 million in shares to 2015.

Accordingly, for 2014, CRCD may only issue an amount equivalent to the share redemptions made in 2013, estimated at $60 million. CRCD has yet to issue shares for 2014.

Nonetheless, CRCD's objective will still be to invest at least $10 million over four years in territories facing economic difficulties, as specified in the February 20, 2014 budget.

❑ Suspension of the tax credit for the integration of information technologies in manufacturing SMEs

The government is suspending the application of the tax credit for the integration of information technologies in manufacturing SMEs.

— Introduced as part of the Economic Policy – Putting Jobs First, this 25% tax credit is available to an SME that awards a subcontract for the integration of management software packages in the business.

The government acknowledges the importance for manufacturing SMEs of integrating information technologies in their business processes. However, the government wants to assess how best to support the efforts of SMEs.

Accordingly, Investissement Québec will stop issuing new certificates as of the day following the day of the 2014-2015 Budget Speech.

In addition, the Québec Taxation Review Board will be mandated to analyze the effectiveness and scope of the measure.

4.1.2 **20% reduction in the rates of tax credits**

In view of the efforts needed to offset the budgetary impasse, a 20% reduction in rates is applied to some thirty business tax credits.

These measures will save the government $35.5 million in 2014-2015, $270.4 million in 2015-2016 and $371.7 million in 2016-2017.

This reduction in the rates of many tax credits will have an effect in the short term on the level of tax assistance for businesses. The Québec Taxation Review Committee will assess each of the measures to adjust tax assistance for businesses and maximize the economic spinoffs of the government's initiatives.

TABLE A.27

Financial impact of the 20% reduction in the rates of tax credits
(millions of dollars)

Tax credits	Rates	Tax base	Financial impact 2014-2015	2015-2016	2016-2017
Research and development					
– Salaries of researchers	17.5% / 37.5% to 14% / 30%	Salaries paid / research contracts	18.8	112.6	151.2
– University research	35% to 28%	Research contracts	0.2	1.0	1.4
– Private partnerships	35% to 28%	Salaries and equipment / research contracts	0.6	5.2	7.5
– Research consortium	35% to 28%	Dues and contributions	0.0	1.1	1.9
Technology adaptation services	50% to 40%	Technology transfer expenses	0.1	0.3	0.4
Development of e-business	30% to 24%	Salaries paid	3.2	37.3	59.4
Production of multimedia titles	26.25% / 37.5% to 21% / 30%	Salaries paid	0.2	22.3	32.4
Major employment-generating projects	25% to 20%	Salaries paid	0.2	1.7	2.2
Design	15% / 30% to 12% / 24%	Salaries paid	0.5	2.7	3.5
Processing activities in the resource regions	10% to 8%	Increase in payroll	0.2	1.5	2.0
Gaspésie and certain maritime regions of Québec	20% / 40% to 16% / 32%	Increase in payroll / salaries paid	0.1	2.0	3.2
Vallée de l’aluminium	20% to 16%	Increase in payroll	0.1	1.1	1.6
Operator of an international financial centre	30% to 24%	Salaries paid	0.3	2.6	3.7
New financial services corporation	40% to 32%	Start-up costs	0.0	0.3	0.5

TABLE A.28

Financial impact of the 20% reduction in the rates of tax credits (continued)
(millions of dollars)

Tax credits	Rates	Tax base	Financial impact 2014-2015	2015-2016	2016-2017
Hiring of employees by a new financial services corporation	30% to 24%	Salaries paid	0.0	0.1	0.2
Investments relating to manufacturing and processing equipment			7.2	23.4	27.0
– Base rate	5% to 4%	Machinery and equipment			
– Central regions	10% to 8%	Machinery and equipment			
– Resource regions	20% / 30% / 40% to 16% / 24% / 32%	Machinery and equipment			
Tax credit relating to resources	15% / 38.75% to 12% / 31%	Exploration expenses	0.3	9.8	15.4
Diversification of markets of manufacturing businesses	30% to 24%	Certification expenses	0.0	0.5	0.7
Modernization of the tourism accommodation offering	25% to 20%	Renovation expenditures	0.1	1.4	1.8
Québec film and television production	35% / 65% to 28% / 52%	Salaries paid	0.8	19.9	26.5
Film production services	25% / 45% to 20% / 36%	All expenditures	0.8	12.3	14.6
Film dubbing	35% to 28%	Salaries paid	0.0	0.5	0.7
Production of sound recordings	35% to 28%	Salaries paid	0.0	0.2	0.3
Production of shows	35% to 28%	Salaries paid	0.1	2.0	2.8
Book publishing	35% / 27% to 28% / 21.6%	Salaries paid	0.2	1.3	1.8
Production of multimedia environments or events	35% to 28%	Salaries paid	0.0	0.3	0.4
On-the-job training period	30% / 40% to 24% / 32%	Salaries paid	1.5	6.8	8.4
Manpower training in the manufacturing, forest and mining sectors	30% to 24%	External training and salaries paid	0.0	0.2	0.2
TOTAL			**35.5**	**270.4**	**371.7**

Note: Figures have been rounded off, so an amount corresponding to 0.0 means that the financial impact is negligible.

4.1.3 Caps on fiscal measures for business capitalization

Caps are also being imposed on certain fiscal measures for business capitalization. Accordingly, Budget 2014-2015 stipulates:

- the implementation of a cap on issues by labour funds for fiscal year 2014-2015;
- a reduction in the rate of the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins (CRCD) from 50% to 45%;
- a reduction in the rates of the additional deductions of the flow-through share regime.

These measures will save the government $27.1 million in 2014-2015, $21.6 million in 2015-2016 and $8.2 million in 2016-2017.

TABLE A.28

Financial impact of the caps on certain fiscal measures for business capitalization
(millions of dollars)

	Rates	Tax base	2014-2015	2015-2016	2016-2017
Labour funds			18.0	13.0	—
Fonds de solidarité FTQ	15 %	Cap on issue at $650 million (2014-2015)			
Fondaction	25 %(1)	Cap on issue at $200 million (2014-2015)			
CRCD	50% to 45%	Cost of acquisition of shares	7.5	7.0	6.5
Flow-through shares(2)					
Additional deductions	25% to 10%	Cost of acquisition of shares	1.6	1.6	1.7
TOTAL			**27.1**	**21.6**	**8.2**

(1) Rate increased to 25% until May 31, 2015. Thereafter, it will return to 15%.
(2) The base deduction remains unchanged at 100% of the cost of acquisition of the share.

❑ Implementation of a cap on issues by labour funds

Currently, there is no cap on annual issues by the Fonds de solidarité FTQ. However, annual issues by Fondaction are capped at $200 million for its fiscal year 2013-2014 and this cap should rise to $225 million for 2014-2015.

As part of Budget 2014-2015, a cap will be imposed on issues of shares by labour funds for their fiscal year 2014-2015. According, for their fiscal year beginning June 1, 2014, the cap will be:

— $650 million for the Fonds de solidarité FTQ;

— $200 million for Fondaction.

❑ Reduction in the rate of the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins (CRCD) from 50% to 45%

Over the years, the CRCD has grown in size, the fund has raised its profile and its historical returns have improved. These new realities make the fund less risky.

Accordingly, the rate of the tax credit allowed on the purchase of CRCD shares will be lowered from 50% to 45% as of the 2014 issue.

❑ Reduction in the rates of the additional deductions of the flow-through share regime

In general, a corporation wishing to fund natural resources exploration or development work in Québec can choose to issue flow-through shares or claim the tax credit relating to resources.

To reflect the reduction in the amount of exploration assistance offered by the tax credit relating to resources, the rates of the additional deductions of the flow-through share regime regarding expenses incurred by a corporation, which does not operate a mineral resource or an oil and gas well, are being reduced:

— where mining exploration expenses are incurred in Québec:

  — from 25% to 10% as far as the first additional deduction is concerned;

  — from 25% to 10% as far as the second additional deduction is concerned provided the expenses are surface expenses.

— from 50% to 20% for oil and gas exploration expenses in Québec.

4.2 The Québec Taxation Review Committee

The main purpose of the tax system is to generate enough revenue to enable the government to fund its activities. It is also used for other purposes, such as pursuing certain strategic economic, social, cultural or other objectives. Given its significance, it is essential that Québec's tax system be optimized.

In this regard, the government will set up the Québec Taxation Review Committee with a mandate to, among other things, propose changes to make the tax system more competitive for individuals and businesses and review tax expenditures as a whole.

The recommendations of the Québec Taxation Review Committee, which will be tabled before the next budget, will provide a basis for a review of the tax system.

In carrying out its mandate, the committee will have a budget of $2.5 million to cover the fees of the board members, external studies and the board's expenses. To that end, funding of $2.5 million will be provided from the Contingency Fund and allocated to the Ministère des Finances in 2014-2015. The government will announce the members of the committee and the details of its mandate in the near future.

CONCLUSION: THE GOVERNMENT'S MAIN FISCAL POLICY DIRECTIONS

Returning to balanced budget in 2015-2016 and putting government finances in order are crucial to Québec's economic and social development.

To that end, the following directions will guide the conduct of the government's fiscal policy in the coming years:

— return to a balanced budget as of 2015-2016;

— alignment of spending growth with taxpayers' ability to pay;

— adequate funding of public services;

— ongoing debt reduction, a commitment to future generations.

APPENDIX 1: ADJUSTMENTS TO THE FINANCIAL FRAMEWORK SINCE THE RELEASE OF THE *RAPPORT D'EXPERTS SUR L'ÉTAT DES FINANCES PUBLIQUES DU QUÉBEC*

The *Rapport d'experts sur l'état des finances publiques du Québec* showed the change in the budgetary situation between February 20 and April 7, 2014. At that time:

— there was a downward adjustment of $300 million to revenue in 2013-2014 and $485 million in 2014-2015;

— program spending overruns amounted to $620 million in 2013-2014, which were in addition to overruns of $2 628 million in 2014-2015.

Thus, as of April 7, 2014, the adjustment to the budgetary balance showed a deterioration by $645 million for 2013-2014 and $3.7 billion for 2014-2015.

Since then, there have been more adjustments to the budgetary balance.

— Upward adjustments of $45 million in 2013-2014 and downward adjustments of $385 million in 2014-2015 have been recognized.

The deficit, before taking the measures to return to a balanced budget into account, is expected to be $5.9 billion in 2014-2015.

TABLE A.29

Adjustments to the financial framework presented in the task force's report
(millions of dollars)

	2013-2014	2014-2015
BUDGETARY BALANCE AS AT FEBRUARY 20, 2014	**–2 500**	**–1 750**
Budgetary revenue		
Own-source revenue	–480	–480
Loto-Québec	–120	–120
Hydro-Québec	300	—
Canada-Québec Labour Market Agreement	—	115
Subtotal – Revenue	**–300**	**–485**
Program spending		
Overruns 2013-2014	–620	–620
Additional overruns 2014-2015	—	–2 628
Subtotal – Expenditures	**–620**	**–3 248**
Bodies and special funds	300	—
Health and social services and education networks	–150	—
Elimination of the contingency reserve	125	—
Subtotal – Other	**275**	**—**
TOTAL – ADJUSTMENTS AS AT APRIL 7(1)	**–645**	**–3 733**
Adjustments since April 7		
Budgetary revenue	–11	–238
Budgetary expenditure	–6	18
Other adjustments	62	–165
Subtotal	**45**	**–385**
TOTAL ADJUSTMENTS	**–600**	**–4 118**
BUDGETARY BALANCE BEFORE MEASURES	**–3 100**	**–5 868**

(1) *Rapport d'experts sur l'état des finances publiques du Québec*.

APPENDIX 2: FINANCIAL IMPACT OF THE MEASURES OF BUDGET 2014-2015

TABLE A.30

Financial impact of the measures of Budget 2014-2015
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
1. REVENUE MEASURES			
1.1 Additional efforts to fight tax evasion			
Expedited case management in financial penal matters	20.0	20.0	20.0
Installation of sales recording modules in bars and resto-bars	25.0	42.0	42.0
Improved auditing in the construction sector	16.0	21.0	21.0
Greater presence in certain at-risk sectors	50.0	50.0	50.0
Subtotal	**111.0**	**133.0**	**133.0**
1.2 Measures to improve the fairness of the tax system			
Adjustment to the eligibility age for retirement income splitting between spouses	52.0	55.0	58.0
HSF contribution on stock options granted by a corporation outside Québec	2.0	2.0	2.0
Subtotal	**54.0**	**57.0**	**60.0**
1.3 Changes to certain specific taxes			
Increase in the specific tax on tobacco products	90.0	120.0	115.0
Standardization of the rates of the specific tax on alcoholic beverages	36.0	55.0	55.0
Subtotal	**126.0**	**175.0**	**170.0**
1.4 Change in the allocation of revenue from the specific tax on alcoholic beverages to the Generations Fund	**—**	**—**	**25.0**
SUBTOTAL – REVENUE MEASURES	**291.0**	**365.0**	**388.0**

TABLE A.30

Financial impact of the measures of Budget 2014-2015 (continued)
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
2. EXPENDITURE MEASURES			
2.1 Control of government spending			
Contribution from departments and bodies	2 728.0	2 406.0	2 406.0
Other spending measures, including those proposed by the Ongoing Program Review Committee	—	3 283.0	3 161.0
Efforts by non-budget-funded bodies and special funds			
– Spending control measures	70.0	70.0	70.0
– Additional efforts	191.0	—	—
Subtotal	**261.0**	**70.0**	**70.0**
Contribution from government corporations			
– Hydro-Québec	150.0	65.0	50.0
– Loto-Québec	10.0	20.0	20.0
– Société des alcools du Québec	10.0	10.0	10.0
– Investissement Québec	7.0	7.0	7.0
Subtotal	**177.0**	**102.0**	**87.0**
Control of remuneration through a general freeze on staffing levels	100.0	500.0	500.0
Subtotal	**3 266.0**	**6 361.0**	**6 224.0**

TABLE A.30

Financial impact of the measures of Budget 2014-2015 (continued)
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
2.2 Reduction in tax expenditures			
Elimination or suspension of certain fiscal measures announced since September 2012			
Elimination of the improvements to certain fiscal measures			
– Tax credit for investment	0.7	42.0	78.3
– Tax credit for R&D salary in relation to biopharmaceutical activities	0.1	12.9	25.0
– Tax credit for the development of e-business	—	—	2.8
Subtotal	**0.8**	**54.9**	**106.1**
Suspension of certain fiscal measures			
– One-year deferral of Capital régional et coopératif Desjardins's authorization to issue $150 million in shares	40.5	−4.4	—
– Tax credit for the integration of information technologies in manufacturing SMEs	0.1	5.2	9.6
Subtotal	**40.6**	**0.8**	**9.6**
Subtotal	**41.4**	**55.7**	**115.7**
20% reduction in tax credit rates			
– Research and development			
– Salaries of researchers	18.8	112.6	151.2
– University research	0.2	1.0	1.4
– Private partnerships	0.6	5.2	7.5
– Research consortium(1)	0.0	1.1	1.9
– Technology adaptation services	0.1	0.3	0.4
– Design	0.5	2.7	3.5
– Development of e-business	3.2	37.3	59.4
– Production of multimedia titles	0.2	22.3	32.4
– Major employment-generating projects	0.2	1.7	2.2
– Investments relating to manufacturing and processing equipment	7.2	23.4	27.0

TABLE A.30

Financial impact of the measures of Budget 2014-2015 (continued)
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
2.2 Reduction in tax expenditures (continued)			
20% reduction in tax credits (continued)			
– Processing activities in the resource regions	0.2	1.5	2.0
– Gaspésie and certain maritime regions of Québec	0.1	2.0	3.2
– Vallée de l'aluminium	0.1	1.1	1.6
– Tax credit relating to resources	0.3	9.8	15.4
– Operator of an international financial centre	0.3	2.6	3.7
– New financial services corporation(1)	0.0	0.3	0.5
– Hiring of employees by a new financial services corporation(1)	0.0	0.1	0.2
– Diversification of markets of manufacturing businesses(1)	0.0	0.5	0.7
– Modernization of the tourism accommodation offering	0.1	1.4	1.8
– Québec film and television production	0.8	19.9	26.5
– Film production services	0.8	12.3	14.6
– Film dubbing(1)	0.0	0.5	0.7
– Production of sound recordings(1)	0.0	0.2	0.3
– Production of shows	0.1	2.0	2.8
– Book publishing	0.2	1.3	1.8
– Production of multimedia environments or events(1)	0.0	0.3	0.4
– On-the-job training period	1.5	6.8	8.4
– Manpower training in the manufacturing, forest and mining sectors(1)	0.0	0.2	0.2
Subtotal	**35.5**	**270.4**	**371.7**

TABLE A.30

Financial impact of the measures of Budget 2014-2015 (continued)
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
2.2 Reduction in tax expenditures (continued)			
Caps on fiscal measures for business capitalization			
– Implementation of an annual cap on issues for labour funds	18.0	13.0	—
– Reduction in the rate of the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins (CRCD) from 50% to 45%	7.5	7.0	6.5
– Reduction in the rates of the additional deductions of the flow-through share regime	1.6	1.6	1.7
Subtotal	**27.1**	**21.6**	**8.2**
Other expenditure measures, including those proposed by the Québec Taxation Review Committee	150.0	650.0	650.0
Subtotal	**254.0**	**997.7**	**1 145.6**
SUBTOTAL – EXPENDITURE MEASURES	**3 520.0**	**7 358.7**	**7 369.6**
TOTAL – REVENUE AND EXPENDITURE MEASURES	**3 811.0**	**7 723.7**	**7 757.6**
TOTAL – MEASURES IN THE PLAN FOR QUÉBEC'S ECONOMIC RECOVERY	**−293.2**	**−315.5**	**−207.3**

Note: A negative amount indicates a cost for the government.
(1) Since figures are rounded, sums corresponding to $0.0 million indicate a negligible financial impact.

APPENDIX 3: OMNIBUS BILL AND OTHER LEGISLATIVE MEASURES

Some measures of the budget require legislative amendments. The Minister of Finance will introduce an omnibus bill in the National Assembly during the fall 2014 parliamentary session. This bill will contain the legislative amendments that are not of a fiscal nature.[16] It will include the following measures, in particular. The details of the measures are provided in the budget documents.

❑ *Balanced Budget Act*

The *Balanced Budget Act* will be amended to set the budget deficit objectives for 2013-2014 and 2014-2015 and establish fiscal 2015-2016 for the return to a fiscal balance.

Furthermore, the legislative amendments will take into account the overrun of $100 million relative to the budgetary deficit objective of $1.5 billion established in accordance with the Act for 2012-2013.

❑ *Act to reduce the debt and establish the Generations Fund*

Legislative amendments will be made to the *Act to reduce the debt and establish the Generations Fund* in order to allocate additional deposits of $400 million per year drawn from revenues from the specific tax on alcoholic beverages as of 2016-2017.

These additional contributions will be over and above the deposits of $100 million per year currently provided for in the Act, as of 2014-2015. Thus, $500 million per year drawn from the specific tax on alcoholic beverages will be deposited in the Generations Fund as of 2016-2017.

❑ Change 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 deposit $430 million from the Canada Health Transfer in the Fund to Finance Health and Social Services Institutions (FINESSS) in 2014-2015, $389 million in 2015-2016 and $361 million in 2016-2017.

16 Certain fiscal measures already announced have not been incorporated in the Québec tax legislation or regulations.

Most of these measures were contained in three bills (34, 55 and 59) which, due to dissolution of the National Assembly, died on the Order Paper. Other measures, such as the ÉcoRénov tax credit and fiscal measures to foster investment by manufacturing SMEs, must also be adopted. The Minister of Finance will introduce a bill encompassing these measures.

❑ Efforts requested of government enterprises

The main commercial government enterprises, namely, Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec, will have to make an effort to improve results.

Achieving the effort requested of government enterprises will require the adoption of legislative amendments, particularly to make all performance bonuses paid to the senior executives and management personnel of government enterprises conditional on the achievement of the effort requested.

❑ Improvement of the performance of Hydro-Québec

■ Deferral of the sharing of efficiency gains

Legislative amendments will be made to the *Act respecting the Régie de l'énergie* to suspend implementation of any mechanism for sharing earnings deviations by Régie de l'énergie until the budget has been balanced, and to provide that Hydro-Québec keep all earnings deviations.

■ Change in the management of the heritage pool

The *Act respecting the Régie de l'énergie* will be amended to specify that supply contracts entered into by Hydro-Québec Distribution, as well as the supply of heritage electricity, are intended exclusively to meet the needs of the Québec market.

❑ Electrification of public transit

Legislative amendments will be made to the *Act respecting Hydro-Québec* and the *Act respecting the Régie de l'énergie* to enable the government corporation to fund projects for electrically powered public transit.

❑ Attestation from Revenu Québec

Legislative amendments will be made to stipulate that, before entering into a construction, renovation or alteration contract, the contractor must obtain an attestation from Revenu Québec and provide it to the client, who must hold a valid licence from the Régie du bâtiment du Québec.

The attestation from Revenu Québec will also be mandatory beginning in January 2015, where the cumulative amount of the contracts between the client company and a particular employment agency exceeds $2 500 in the calendar year.

❑ Creation of the Capital Mines Hydrocarbures fund

The *Act respecting Investissement Québec* will be amended to authorize the creation of Capital Mines Hydrocarbures, a fund devoted to government investment in non-renewable natural resources.

❑ Sports and Physical Activity Development Fund

The bill will enable an increase of $5 million from 2014-2015 to 2024-2025 in the annual amount taken out of the revenues from the specific tax on tobacco products and deposited in the Sports and Physical Activity Development Fund.

❑ Creation of Fonds Avenir Mécénat Culture

The *Act respecting the Ministère de la Culture et des Communications* will be amended to establish the Fonds Avenir Mécénat Culture and stipulate the terms of its financing. The sums deposited in the Fund will be used, in whole, to finance the Mécénat Placements Culture program administered by the Ministère de la Culture et des Communications.

The bill will ensure the deposit of $5 million annually from the revenues of the specific tax on tobacco products in the Fonds Avenir Mécénat Culture starting in 2014-2015.

❑ Société du Plan Nord

A bill will be introduced to establish the Société du Plan Nord.

❑ Northern Plan Fund

The *Act to establish the Northern Plan Fund* will be amended to change the name of the fund to “Northern Plan Fund” and replace the expression “area open to northern development” by “territory covered by the Plan Nord.”

❑ Government-wide staffing management

The bill will enable the government control the total staffing level of all bodies in the government’s reporting entity and bodies executing fiduciary operations.

❑ *Act respecting immigration*

The *Act respecting immigration to Québec* will be amended to:

— introduce the terms relating to security deposits from foreign entrepreneurs who ensure the sums needed to carry out their business project in Québec;

— introduce a system for allocating foreign investors’ files among financial intermediaries.

❑ Release of a pre-electoral report on the state of Québec's public finances

The *Financial Administration Act* will be amended to require the Minister of Finance to produce and make public a pre-electoral report on the state of Québec's public finances no later than three months before the fixed date of the general election.

Furthermore, the *Auditor General Act* will be amended so that the Auditor General of Québec examines the report.

❑ Transfer to Revenu Québec of responsibilities relating to application of the *Mining Tax Act*

The bill will include provisions pertaining to the transfer of responsibilities relating to application of the *Mining Tax Act* to the Minister of Revenue of Québec on April 1, 2015.

❑ Legislating of governance best practices

The statutes of labour funds will be amended to strengthen and consolidate the principles of sound governance of their board of directors.

❑ *Code of Penal Procedure*

The *Code of Penal Procedure* will be amended to increase the contribution added to the total amount of the fine and costs imposed on the issue of a statement of offence for an offence under the laws of Québec, except in the case of a statement of offence issued for the contravention of a municipal by-law.

APPENDIX 4: THE ACCOUNTING STANDARD ON TRANSFERTS

❑ The government's budgetary policy on the allocation of grants to municipalities and universities for the acquisition of fixed assets

For more than 30 years, the Québec government has allocated grants for capital investments by municipalities concerning, for instance, sewers, water mains and mass transit, as well as capital investments by universities. These annual grants consist of a reimbursement of the principal and interest on long-term borrowings that the municipalities and universities have contracted to fund their capital investments.

The objective is, in particular, to match the government's expenditure with the use of the fixed assets, which is fair for taxpayers from an inter-generational standpoint. The government's accounting practice in this regard has always been to charge to expenditure each year the principal and interest reimbursements to the municipalities and universities. These annual grants are stipulated in each of the agreements with the municipalities and universities. They must be submitted each year to the National Assembly of Québec for approval through the appropriation of appropriations bills.

❑ The revised accounting standard in force since April 1, 2012

Since April 1, 2012, governments have applied the revised accounting standard regarding transfer revenues and expenditures, commonly known as "grants". As was the case before, the revised standard requires that the transferring government, i.e. the one that pays the transfer, enter a transfer expenditure in the fiscal period when the transfer is authorized and the recipient has satisfied the eligibility criteria. From the standpoint of the recipients of the government transfer, the same criteria must be satisfied for the transfers to be recognized as amounts receivable.

The revised standard on transfers allows the government to maintain its current budgetary policy and accounting practice regarding grants made annually to reimburse principal and interest on the long-term financing of recipients' capital assets. When the Public Sector Accounting Board (PSAB) adopted this revised standard, it did not believe that it was introducing significant changes compared to the former standards.

Since it was published, there have been major differences in interpretation of this accounting standard within the accounting profession in Canada. Despite the reserve he expressed in his report of the government's consolidated financial statements as at March 31, 2013, the Auditor General of Québec mentions that "other substantial differences in interpretation of this standard have emerged within the profession. Representations have been made, in particular by the auditors general of the provinces and the federal government including the Auditor General of Québec as well as the Québec government, to PSAB, the body responsible for standardization, to make it aware of this situation and obtain more precise indications to ensure consistent interpretation of this accounting standard throughout Canada." [TRANSLATION]

❑ Legislative measures to bolster the notion of authorization

Recipients of grants made by the Québec government, in particular municipalities, universities, health and social services institutions and education institutions, must have a good knowledge of the Québec government's authorization process to recognize their transfer revenue.

To eliminate any ambiguity with respect to the notion of authorization, the National Assembly adopted legislative amendments in June 2013 to clearly set out that no transfer made by a government department can be entered in the government's accounts unless it is in accordance with the prior authorization of the Parliament of Québec.

Since these legislative provisions were passed the entities within the government reporting entity that are recipients of transfers from departments and that use the accounting standards applicable to the public sector have recognized their transfers according to the authorization principle adopted by the government for 2012-2013.

Their annual financial statements have been independently audited. Apart from the entities audited by the Auditor General of Québec, all these entities, amounting to more than 300, received an unqualified auditor's opinion.

❑ Implications of the application of the Auditor General of Québec's interpretation

The difference in interpretation between the Ministère des Finances du Québec and Auditor General of Québec over the accounting standard on transfers bears specifically on the authorization of the transfer by Parliament. Transfers granted by the Québec government are authorized once Parliament and the government have each exercised their power of authorization. Ultimately, then, the authorization criterion is satisfied only when the appropriations are approved by Parliament. The government is of the view that its accounting practice can be maintained since the reimbursement of principal and interest on long-term borrowings contracted by the recipients is authorized when Parliament and the government have each exercised their power of authorization.

Moreover, the position of the Ministère des Finances du Québec is confirmed by independent opinions produced by four internationally recognized accounting firms consulted on the matter, namely KPMG, Ernst & Young, PricewaterhouseCoopers and Samson Bélair / Deloitte & Touche.

The Auditor General of Québec indicates that the government cannot go back on a commitment it authorized by means of an agreement with the municipality and that it must record, on the basis of the degree of progress of the work, an expenditure and an equivalent debt.

Applying the Auditor General of Québec's interpretation of the revised accounting standard on transfers would have a significant impact on the government's budgetary policy regarding the allocation of infrastructure grants. The government estimates that applying the Auditor General of Québec's interpretation would have an impact of some $1 billion per year on the budgetary balance.

TABLE A.31

Impact on the budgetary balance
(millions of dollars)

	2013-2014	2014-2015
Planned investments in the Québec Infrastructures Plan(1)	–1 765	–2 344
Savings achieved in program spending(2)	827	1 309
IMPACT ON THE BUDGETARY BALANCE	**–938**	**–1 035**

(1) Government-supported share of recipients' capital investments.
(2) Savings relating to recording under the net debt attributable to past commitments and to the impact of investments made.

Moreover, according to the Auditor General of Québec's estimate in his report on the consolidated financial statements as at March 31, 2013, this interpretation would have implied, as at March 31, 2013, recording an amount of $8.1 billion under the net debt and the debt representing accumulated deficits.

❑ Steps taken by the Ministère des Finances to resolve the impasse

Over the past few years, the Ministère des Finances has made representations to accounting standard-setting organizations in Canada to discuss the problems encountered in Québec in applying this revised accounting standard and have the date on which it comes into force deferred. In particular, representatives of the Ministère des Finances du Québec made presentations to these organizations in March 2012, September 2013 and December 2013.

The members of the accounting standards-setting organizations welcomed the comments made with interest. In response to these initiatives, PSAB felt it necessary, in December 2013, to mandate a subcommittee to examine the facts and interpretations concerning accounting for transfers. The subcommittee's recommendations are expected by the end of 2014.

Section B

A PLAN FOR QUÉBEC'S ECONOMIC RECOVERY

INTRODUCTION

Québec is facing a number of economic challenges. Growth in private investments has slowed and job growth is stagnant, thus limiting growth in government revenues.

In a context such as this, government assistance needs to be overhauled, in particular to ease the tax burden and thereby improve the competitiveness of our economy.

The government's highest priority is the economy, and this is why it announced, within the first days of its mandate, substantial efforts to foster job creation and economic recovery:

— the introduction of a new tax credit for home renovation, the LogiRénov tax credit;

— a $42-million increase in the budget allocated to silvicultural work in 2014-2015, raising the total envelope to $225 million.

These are concrete measures that exemplify the government's approach to economic development.

With Budget 2014-2015, the government is continuing these efforts as part of a plan for Québec's economic recovery that is designed to:

— restore order to public finances, in particular by disciplined management of the full range of government spending;

— revive the economy and job growth in a sustainable way by implementing structuring initiatives directly targeting the basic resources our economy draws on and the key factor determining growth: innovation, investment and exports.

Thus, the government will create an economic and political environment that is both stable and resilient, an essential condition for sustainable economic recovery and job growth.

❑ Restoring order to public finances

Economic stability requires sound and predictable public finances. Accordingly, the government is confirming in this budget that it is maintaining the objective of restoring a balanced budget as of 2015-2016.

To achieve this objective, the government will focus, in particular, on making government action more effective.

It is thereby seeking to ensure that government initiatives are targeted at the most pressing needs and that their benefits will be optimal. To do so, the government intends to create:

- the Commission d'examen sur la fiscalité québécoise to review fiscal policy with a view to increasing the incentive to work and encouraging investment and job creation;

- the Commission sur la révision permanente des programmes to ensure disciplined management of government spending.

The work that will be carried out by these commissions will make it possible to identify the government measures with the greatest promise for the economy, particularly as regards their impact on growth in productivity, job creation and investment.

In the medium term, sound public finances will make it possible to gain maneuvering room to ensure a stable and predictable economic environment. This maneuvering room will be used to:

- reduce the debt load in order to make Québec less sensitive to interest rate fluctuations;

- improve the competitiveness of the tax system in order to encourage private investments and job creation.

❑ Economic recovery and job growth

In addition to restoring order to public finances, the government is announcing, as of now, the principles underlying the initiatives it intends to take to create a favourable environment for economic recovery and job growth.

In its initiative, the government will prioritize, in particular, the implementation of simpler, across-the-board measures that will limit the administrative burden on businesses. As part of Budget 2014-2015, the government is taking steps to:

- accelerate private investments, including investments by SMEs;
- ease the administrative burden on businesses;
- implement the maritime strategy;
- relaunch the Plan Nord;
- support the forest industry and develop all of Québec's natural resources;
- encourage active living for seniors;
- maintain support for the municipalities and the regions;
- strengthen the social fabric and develop Québec's cultural sector;
- making government action more effective.

All in all, these measures will represent more than $270 million per year on average over the next three years. These initiatives are funded entirely by the revision of the government's interventions provided for in Budget 2014-2015, particularly as regards tax assistance to businesses.

Moreover, it is estimated that in the medium term these measures will provide support for investments of nearly $7.2 billion in Québec's economy.

TABLE B.1

Financial impact of the plan for Québec's economic recover
(millions of dollars)

	Financial impact				
	2014-2015	**2015-2016**	**2016-2017**	**Total**	**Sustained investments**
Accelerating private investments, including investments by SMEs	−235.4	−211.6	−97.8	**−544.8**	**5 245.3**
Easing the administrative burden on businesses	—	—	—	**—**	**—**
Implementing the maritime strategy	−0.8	−2.8	−3.8	**−7.4**	**82.4**
Relaunching the Plan Nord(1)	—	—	—	**—**	**1 126.2**
Supporting the forest industry(2)	—	—	—	**—**	**40.0**
Developing all natural resources	−5.4	−2.0	—	**−7.4**	**38.1**
Encouraging active living for seniors	−8.3	−22.6	−23.0	**−53.9**	**53.9**
Maintaining support for the municipalities and the regions	−13.8	−27.5	−33.7	**−75.0**	**193.4**
Strengthening the social fabric and developing Québec's cultural sector	−12.0	−14.0	−14.0	**−40.0**	**390.0**
Making government action more effective and fighting tax evasion	−17.5	−35.0	−35.0	**−87.5**	**—**
TOTAL	**−293.2**	**−315.5**	**−207.3**	**−816.0**	**7 169.3**

(1) For the measures related to the relaunching of the Plan Nord, the required sums are already provided for in the government's financial framework.
(2) The financial impact of the measures designed to relaunch the forest industry are taken into account in the government's spending growth objective.

1. ACCELERATING PRIVATE INVESTMENTS, INCLUDING INVESTMENTS BY SMES

Québec boasts a number of advantages to help it prosper. We must therefore work harder on the very foundations of our economy to ensure its sustainable growth. To achieve this, we must:

— accelerate the growth of private investments and thereby transform opportunities into job and wealth creation;

— promote innovation by Québec businesses to improve our productivity;

— carve out a place in export markets;

— increase the number of entrepreneurs, particularly to provide for succession that will make it possible to grow our businesses on a sustainable basis.

❑ Concrete actions to accelerate private investment

The government has committed itself to quickly boost private investment and economic growth in Québec by effective measures particularly targeting SMEs, which represent more than 99%[1] of Québec businesses.

Accordingly, in the residential sector, the government announced the introduction, as of April 25, 2014, of the LogiRénov tax credit.

— This tax credit will support nearly $3 billion in home renovation spending, which will help to support more than 20 000 jobs in the industry.

In addition, to further support growth and private investment by Québec businesses, the government is announcing, as part of Budget 2014-2015:

— general fiscal measures that will help to reduce production costs for SMEs and will provide them with leeway for investing;

— measures supporting investment and direct assistance measures, particularly to promote innovation and exports.

Overall, these actions represent approximately $180 million per year on average over three years.

1 According to Statistics Canada, 99.8% of Québec businesses are SMEs with fewer than 500 employees and 99.3% have fewer than 200 employees.

TABLE B.2

Financial impact of measures to accelerate private investments, including investments by SMEs
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
An immediate action to promote investment				
LogiRénov tax credit	−201.0	−132.0	—	**−333.0**
Making SMEs more innovative				
Introduction of the Créativité Québec program with a $150-million envelope over 3 years	−5.3	−5.8	−9.0	**−20.1**
Holiday from the HSF contribution to encourage the hiring of specialized workers in SMEs for innovation projects	−7.4	−20.3	−33.1	**−60.8**
Increasing exports by Québec SMEs				
General reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs	−12.7	−34.1	−35.5	**−82.3**
Additional deduction for transportation costs of remote manufacturing SMEs	−2.3	−8.2	−9.0	**−19.5**
Support for exports: $20 million over 3 years for Export Québec	−4.0	−8.0	−8.0	**−20.0**
Increasing financing for businesses				
$375 million to fund venture capital funds	—	—	—	**—**
Capitalization of a $100-million fund to support angel investors	−0.2	−0.2	−0.2	**−0.6**
Renewal of local investment funds through December 31, 2015	—	—	—	**—**
More capital for the Chantier de l'économie sociale Trust	−0.5	−0.5	−0.5	**−1.5**
Developing entrepreneurship in Québec				
Accelerators to foster business creation in universities	−0.5	−0.5	−0.5	**−1.5**
Attracting the best foreign entrepreneurs to Québec	—	—	—	**—**
Supporting female entrepreneurship	−1.5	−2.0	−2.0	**−5.5**
TOTAL	**−235.4**	**−211.6**	**−97.8**	**−544.8**

LogiRénov tax credit for home renovation

To foster economic recovery while enhancing the quality of life for home-owner-occupant households, the Québec government announced, on April 24, 2014, the implementation of a new refundable tax credit for home renovation, LogiRénov.

In making this announcement, the government quickly fulfilled a commitment and is taking the first concrete step toward boosting employment and supporting economic growth.

Assistance of up to $2 500

The LogiRénov tax credit grants individuals tax assistance corresponding to 20% of eligible renovation expenses in excess of $3 000, to a maximum of $2 500.

– The maximum tax assistance is thus reached when expenses total $15 500, which corresponds to a subsidy rate of 16.1%.

Supporting nearly $3 billion in renovation spending

The LogiRénov tax credit is expected to benefit more than 220 000 households that will receive tax relief totalling slightly more than $333 million. This corresponds to an average tax assistance of approximately $1 500 per household.

Moreover, this measure will generate nearly $3 billion in home renovation spending, i.e. approximately $13 500 per household on average, which will help to support more than 20 000 jobs in the industry.

In addition, by stimulating economic activity in Québec, this measure will help to generate additional spinoff of $127 million for the government in personal income tax and sales tax over two fiscal years.

Financial impact of the LogiRénov tax credit
(millions of dollars)

	2014-2015	2015-2016	TOTAL
LogiRénov tax credit	−201	−132	−333

An assistance combined with that offered by ÉcoRénov

The LogiRénov tax credit will apply concurrently with and as a complement to the ÉcoRénov tax credit already implemented to promote environmentally responsible renovation. Beginning November 1, 2014, all work that was eligible for the ÉcoRénov tax credit will become eligible for the new LogiRénov tax credit until the credit ends on June 30, 2015.

1.1 Making SMEs more innovative

In order for SMEs to hold their own in ever more competitive markets, they must be innovative and open to change.

Thus, the development of a genuine culture of innovation in Québec is an essential condition for wealth creation and for the future prosperity of businesses.

To enable SMEs to access specialized manpower and acquire cutting-edge equipment, which will enable them to adapt their products and their practices to a constantly changing global environment, the government is announcing, as part of Budget 2014-2015, investments of nearly $27 million on average per year over the next three years. These sums will make it possible to:

— implement the Créativité Québec program, with a budget envelope of $150 million, which will help to support innovation projects by SMEs;

— facilitate the hiring of specialized workers by granting a holiday from the contribution to the Health Services Fund (HSF) on the salaries of these new employees who are going to participate in innovation projects.

TABLE B.3

Financial impact of measures intended to make SMEs more innovative
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Implementation of the Créativité Québec program with a $150-million envelope over 3 years	−5.3	−5.8	−9.0	**−20.1**
Holiday from the HSF contribution to encourage the hiring of specialized workers in SMEs for innovation projects	−7.4	−20.3	−33.1	**−60.8**
TOTAL	**−12.7**	**−26.1**	**−42.1**	**−80.9**

1.1.1 Introduction of the Créativité Québec program with a $150-million envelope over three years

Businesses that innovate are better able to grow and remain competitive, thus generating significant spinoff in Québec.

Between 2009 and 2011, fewer than one out of three Québec SMEs carried out at least one innovation project.[2] To increase Québec's prosperity, this ratio must be improved. To achieve this, the necessary tools must be provided to SMEs.

To this end, the government is announcing the creation of the Créativité Québec program, which supports the carrying out of innovation projects.

❑ A budget envelope of $150 million

With a budget envelope of $150 million over three years, Créativité Québec will make it possible to offer financing to businesses to support them in carrying out their innovation projects. At $50 million per year on average, the assistance provided will generally take the form of:

- loans;
- loan guarantees.

In certain circumstances, the program may provide non-repayable contributions or take the form of an equity participation.

❑ A better adapted supply

The activities to be targeted by this program are, in particular, acquisition of new technologies, improvement of production processes and development of new products.

The needs being different for each type of project, the Créativité Québec program will include two components for projects priced at $500 000 or more:

- a component for the acquisition of new technologies;
- a component for the development of new processes or products.

Créativité Québec will integrate the Programme d'appui à l'innovation, currently offered by the Ministère de l'Économie, de l'Innovation et des Exportations, as well as a component of the ESSOR program offering direct assistance for the acquisition of new technologies.

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2 Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises,* 2011.

Créativité Québec will be administered by Investissement Québec, which will act as the government's mandatary. An appropriation of $20.1 million over three years will be paid to the Fonds du développement économique to fund the new program, as follows:

— $5.3 million in 2014-2015;

— $5.8 million in 2015-2016;

— $9.0 million in 2016-2017.

For 2014-2015, the sums indicated will be drawn from the Contingency Fund.

The Minister of the Economy, Innovation and Exports will announce the implementation of the new program shortly.

TABLE B.4

Créativité Québec Program: principal parameters

Operational funding	– $150 million over three years
Eligible clienteles	– Private for-profit businesses, cooperatives and for-profit social economy businesses
Eligible activity sectors	– Manufacturing sector – Propulsive tertiary sector(1) – Businesses in the primary sector having a secondary or tertiary processing project
Types of projects eligible	– Acquisition and development of new technologies, including the necessary advance studies (market studies, technical studies and financial studies) – Real-world demonstration of the application of technologies – Testing and validation of products or processes
Eligible expenses	– All expenses related directly to the project
Forms of financial assistance	– Repayable contribution (loans with interest, interest-free loans, convertible debentures) – Loan guarantee for no more than 70% of the net loss – Equity participation – Non-repayable contribution (exceptionally and for innovation projects upstream from development and involving a higher technological risk)

(1) The propulsive tertiary sector is made up of high-value-added services businesses that contribute significantly to the production of goods and/or use new technologies.

Application of the offset principle and the Créativité Québec program

As a part of Budget 2014-2015, the government is announcing its intent to establish an offset mechanism to be applied to expenditures so as to guarantee compliance with targeted spending levels.

This mechanism implies that funding for any new initiative must be offset by equivalent savings generated elsewhere through such means as the elimination of existing programs.

Implementation of the Créativité Québec program clearly illustrates the application of this principle.

This new program will replace, in particular, the Programme d'aide à l'innovation (PAI), so as to avoid program duplication. In addition, its funding will be derived from savings generated by eliminating the PAI and a portion of the savings generated by tighter restrictions on tax assistance related to innovation provided for in Budget 2014-2015.

Funding of the new Créativité Québec program
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Cost of the new Créativité Québec program(1)	5.3	14.2	21.0	11.5	5.0	57.0
Sources of funding						
Appropriations for the PAI(2)	—	−8.4	−12.0	−12.0	−12.0	−44.4
Adjustment of tax assistance for businesses tied to innovation(3)	−5.3	−5.8	−9.0	—	—	−20.1
Subtotal - Funding	**−5.3**	**−14.2**	**−21.0**	**−12.0**	**−12.0**	**−64.5**
Net cost for the government	**—**	**—**	**—**	**−0.5**	**−7.0**	**−7.5**

Note: Since figures are rounded, they may not add up to the total shown.
(1) Based on the assumption that projects are generally carried out over a period of three fiscal years.
(2) The amount is net of sums already committed.
(3) The sums necessary for the implementation of the Créativité Québec program from 2014-2015 to 2016-2017 are derived from a portion of the savings generated by the 20% rate reduction in income tax credits for R&D and the refundable tax credit for design.

1.1.2 Holiday from the Health Services Fund contribution to encourage the hiring of specialized workers in the SMEs for innovation projects

As a part of Budget 2014-2015, the government is announcing the implementation of a holiday, through the end of 2020, from contributions to the Health Services Fund (HSF) for the hiring by an SME of specialized new workers.

This measure will encourage the creation of specialized, well-paid jobs and will strengthen the capability of SMEs to innovate, thereby improving their productivity and their competitiveness. This measure will complement the fiscal measures currently in effect that are designed to enhance productivity, such as the investment tax credit.

By combining investments in cutting-edge equipment with the hiring of specialized workers, Québec SMEs will be able to fully maximize their potential and thus succeed in marketing their innovative ideas and carving out a place for themselves on external markets.

A reduction in the HSF contribution that fosters job creation

All private and public sector employers pay a tax on their payroll in Québec, i.e. the contribution to the HSF.

Although small businesses enjoy a reduced rate compared to large businesses, the HSF contribution is a fixed charge that they must bear, which can put a brake on job creation.

- Only three other Canadian provinces impose a similar contribution on their businesses, and Québec is the only province that does not provide for an exemption threshold for SMEs.

By reducing the tax burden for SMEs, the holiday from the HSF contribution for the hiring of specialized workers will simultaneously encourage the creation of high-value-added jobs and improve the competitiveness of such businesses on external markets.

HSF contribution rate applicable on payrolls in Québec

Payroll	Contribution rate
$1 million or less	2.7%
Between $1 million and $5 million	Between 2.7% and 4.26%
$5 million or more	4.26%

❑ This tax relief is available to all SMEs with a payroll of less than $5 million

Any SME with a payroll of less than $5 million that hires a specialized worker will enjoy a holiday from the HSF contribution on the increase in its payroll resulting from such hiring through December 31, 2020. This measure will be available to more than 175 000 SMEs everywhere in Québec and will be applicable from the day following the day of the 2014-2015 Budget Speech.

— Businesses having a payroll of $1 million or less will enjoy a full exemption from HSF contributions on the salaries of new employees.

— For businesses having a payroll between $1 million and $5 million, the holiday from the HSF contribution will be partial and will gradually decrease based on the payroll.

Illustration of the holiday from the HSF contribution for the hiring of specialized workers

An SME hires an additional computer analyst in order to develop a new application.

Assuming that the new employee's annual salary is $65 000 and that the business's HSF contribution rate is 2.7%, this measure will enable the SME to reduce the costs related to the hiring of this specialized worker by $1 755 per year.

− The business will save nearly $12 000 for the duration of the measure.

Illustration of the impact of the holiday from the HSF contribution for an SME with a payroll under $1 million

	Before Budget 2014-2015	After Budget 2014-2015	Difference
Salary of the worker hired ($)	65 000	65 000	0
HSF contribution rate (%)	2.7	0	−2.7
HSF contribution payable (per year)	1 755	0	−1 755
HSF contribution payable (cumulative(1))	**11 554**	**0**	**−11 554**

(1) For the period of application of the measure, from June 2014 to December 2020.

❑ A goal of 45 000 new jobs

It is estimated that this measure will support the creation of nearly 45 000 specialized new jobs by December 31, 2020.

— On average, the holiday from the HSF contribution will enable eligible SMEs to save nearly $7 000 per job created over the period of application of the measure.

❑ $155 million for SMEs

Over five years, this holiday from the HSF contribution will represent nearly $155 million in tax relief for Québec SMEs.

For the government, the financial impact of this measure is estimated at $7.4 million in 2014-2015 and should reach $50.0 million by 2018-2019.

TABLE B.5

Financial impact of the holiday from the HSF contribution to encourage the hiring of specialized workers in SMEs for innovation projects
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Holiday from the HSF contribution	−7.4	−20.3	−33.1	−43.7	−50.0	−154.5

TABLE B.6

Principal parameters of the holiday from the HSF contribution to encourage the hiring of specialized workers in SMEs

Holiday from the contribution	– 100% of the HSF contribution for specialized new jobs in businesses with a payroll of $1 million or less(1)
Eligibility of businesses	– Private sector – Hiring of a specialized employee full-time
Jobs covered	– Natural and applied sciences sector and related fields – New employees who have a diploma usually required to obtain such a job
Ceiling on the holiday	– Growth of the HSF contribution paid
Period of application	– Period beginning the day following the day of the Budget Speech and ending December 31, 2020 – The measure will be evaluated after 5 years

(1) For businesses with a payroll between $1 million and $5 million, the holiday from the contribution is reduced linearly from 100% à 0% of the HSF contribution rate based on the payroll.

❑ Jobs covered

The holiday from the HSF contribution covers innovative new jobs related to natural and applied sciences. To be eligible, the employee must have a diploma usually required to obtain such a job.

List of jobs covered by the holiday from the HSF contribution for SMEs		
– Physicists and astronomers	– Metallurgical and materials engineers	– Civil engineering technologists and technicians
– Chemists	– Mining engineers	– Mechanical engineering technologists and technicians
– Geoscientists and oceanographers	– Geological engineers	– Industrial and manufacturing engineering technologists and technicians
– Meteorologists and climatologists	– Petroleum extraction and refining engineers	– Electronic engineering and electrical technologists and technicians
– Other professionals in the physical sciences	– Aerospace engineers	– Industrial instruments technicians and mechanics
– Biologists and similar scientific personnel	– Computer engineers	– Avionics and aircraft electrical apparatus and instruments mechanics, technicians and controllers
– Forest sciences professionals	– Software design engineers	– Architectural technologists and technicians
– Agronomists, agricultural consultants and specialists	– Other engineers	– Industrial designers
– Civil engineers	– Interactive media programmers and developers	– Drafting technologists and technicians
– Mechanical engineers	– Web designers and developers	– Geomatic and meteorological technical personnel
– Electrical and electronics engineers	– Chemical technologists and technicians	– Architects
– Chemical engineers	– Geological and mineralogical technologists and technicians	– Urbanists and land use planners
– Industrial and manufacturing engineers	– Biological technologists and technicians	– Mathematicians, statisticians and actuaries
– Computer analysts and consultants	– Forest sciences technologists and technicians	– Computer systems evaluators
– Database analysts and data administrators	– Computer network technicians	

1.2 Increasing exports by Québec SMEs

Québec must increase its exports in order to bolster the economic recovery. Although domestic demand supports a large share of the economic activity of Québec SMEs, the way for businesses to broaden their pool of consumers, and thereby foster their long-term growth and prosperity, is to take fuller advantage of the possibilities on external markets.

— Growth prospects for Québec's economy are closely tied to the capability of businesses to export their products to external markets, particularly to emerging countries experiencing an economic boom.

It is thus essential for Québec SMEs to improve their competitiveness both at the national and international levels so as to increase their presence in external markets.

To this end, the government is implementing, as a part of Budget 2014-2015, generally applicable measures that will enable SMEs to free up funds that they can then use to develop their ability to export. These measures are:

— a general reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs;

— an additional deduction in the calculation of taxable income for manufacturing SMEs remote from major urban centres to offset their higher transportation costs.

Moreover, the government is announcing a $20-million increase over three years of the envelope for Export Québec's Export Program.

All in all, these efforts represent investments of nearly $41 million per year on average over the next three years.

TABLE B.7

Financial impact of measures to increase exports by Québec SMEs
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
General reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs	−12.7	−34.1	−35.5	**−82.3**
Additional deduction for transportation costs of remote manufacturing SMEs	−2.3	−8.2	−9.0	**−19.5**
Support for exports: $20 million over three years for Export Québec	−4.0	−8.0	−8.0	**−20.0**
TOTAL	**−19.0**	**−50.3**	**−52.5**	**−121.8**

1.2.1 General reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs

As a part of Budget 2014-2015, the government is announcing a gradual reduction of the tax rate on the income of SMEs in the manufacturing sector.

— The tax rate will be reduced from 8% to 6% starting on the day following the day of the Budget Speech and will be reduced to 4% starting April 1, 2015.

This reduction of the tax burden will foster the growth of manufacturing SMEs by making them more competitive on external markets, which will enable them to take advantage of business opportunities in new markets.

Exports: the key to growth for manufacturing SMEs

The growth of Québec's manufacturing SMEs depends on an increase in their presence on export markets. Already, some 80% of them are present on external markets.[1]

Québec's manufacturing SMEs are facing stiff competition and a more difficult global economic climate. To be able to grow, they must be able to count on a competitive tax system.

Currently, Québec SMEs are disadvantaged compared to those of the other provinces. With an 8% income tax rate in Québec, they are faced with the highest rate of all the Canadian provinces.

The reduction from 8% to 4% of the tax rate for manufacturing SMEs will therefore make it possible to render Québec's tax system more competitive and free up funds that can be used to finance, for example:

- a portion of transportation costs;
- solicitation of customers or buyers;
- efforts to find foreign partners;
- marketing of their products abroad.

1 Institut de la statistique du Québec and Ministère du Développement économique, de l'Innovation et de l'Exportation, *Faits saillants de l'activité hors Québec des PME,* 2009.

❑ A simple measure to support the growth of manufacturing SMEs

The general reduction of the income tax rate for manufacturing SMEs will represent annual tax savings of up to $20 000 per business. Each year, this easily applied measure will benefit nearly 7 500 manufacturing SMEs, whose income tax payable will be reduced by more than 25% on average.

A significant reduction of income tax payable

For a small business in the manufacturing sector reporting $750 000 in taxable income, this initiative will reduce its tax payable by 25%.

- The business will be subject to a 4% tax rate on its taxable income under $500 000, which is eligible for the reduced rate for manufacturing SMEs, compared to the 8% rate in effect before this budget.
- The remaining income eligible for the reduced rate for SMEs, i.e. $250 000, will be taxed at the general tax rate of 11.9%.

In this case, this measure will reduce the business's tax payable by $20 000.

Illustration of the reduction in the tax rate on income of SMEs in the manufacturing sector, when fully implemented
(dollars)

	Before Budget 2014-2015	After Budget 2014-2015 (April 1, 2015)	Difference
Gross income	7 500 000	7 500 000	—
Production cost	6 750 000	6 750 000	—
Taxable income	750 000	750 000	—
Calculation of tax payable at the reduced rate for SMEs			
Cap on income eligible for the reduced rate for SMEs	500 000	500 000	—
Tax rate	8%	4%	–4%
Income tax payable at the reduced rate	**40 000**	**20 000**	**–20 000**
Calculation of tax payable at the general rate			
Taxable income in excess of the cap on income eligible for the reduced rate for SMEs	250 000	250 000	—
Tax rate	11.9%	11.9%	—
Income tax payable at the general rate	**29 750**	**29 750**	**—**
TOTAL INCOME TAX PAYABLE	**69 750**	**49 750**	**–20 000**

❑ A tax rate of 4% by April 1, 2015

The tax rate on the income of manufacturing SMEs will be reduced by two percentage points, i.e. to 6%, on the day following the day of the 2014-2015 Budget Speech and will be reduced by two more percentage points as of April 1, 2015, to 4%.

— Eligible SMEs will have to meet the same criteria as SMEs currently eligible for the reduced rate for SMEs, and the majority of their activities must be related to manufacturing and processing.

This measure will represent a $157-million reduction in the tax burden of manufacturing SMEs over five years.

TABLE B.8

Calendar for and financial impact of the 8% to 4% general reduction in the tax rate for manufacturing SMEs

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Reduced tax rate for SMEs (%)	8.0	6.0	4.0	4.0	4.0	4.0	—
Financial impact (millions of dollars)	—	−12.7	−34.1	−35.5	−36.9	−38.1	−157.3

❑ A reduction that will offer manufacturing SMEs a competitive tax rate

With a 4% income tax rate, Québec's manufacturing SMEs will enjoy a tax rate that is competitive with the rest of Canada.

In addition, Québec's manufacturing SMEs will enjoy a tax rate lower than that levied on Ontario businesses, the principal competitors for Quebec's manufacturing SMEs.

This general reduction in the tax rate for Québec's manufacturing SMEs will make them more competitive with businesses in the other provinces on export markets.

TABLE B.9

Income tax rate for manufacturing SMEs for Québec and the other Canadian provinces(1)
(dollars, unless otherwise indicated)

	Tax rate	Cap on eligible income(2)
Québec — Before Budget 2014-2015	**8.0%**	**500 000**
New Brunswick	4.5%	500 000
Prince Edward Island	4.5%	500 000
Ontario	4.5%	500 000
Newfoundland and Labrador	4.0%	500 000
Québec — After Budget 2014-2015 (April 1, 2015)	**4.0%**	**500 000**
Alberta	3.0%	500 000
Nova Scotia	3.0%	350 000
British Columbia	2.5%	500 000
Saskatchewan	2.0%	500 000
Manitoba	0.0%	425 000

(1) The information presented for the Canadian provinces represents the tax system applicable at the time of the 2014-2015 Budget Speech.
(2) Taxable income in excess of the cap on income eligible for the reduced tax rate for SMEs is taxed at the general tax rate.

1.2.2 Additional deduction for transportation costs of remote manufacturing SMEs

For manufacturing businesses located outside major urban centres, transportation costs related to shipping their products can involve substantial costs that make them less competitive, particularly for sales intended for export markets.

SMEs are particularly affected by this situation since their smaller size implies a lower volume of goods shipped and more “empty returns” for carriers, compared to large businesses.

To recognize the higher transportation costs for manufacturing SMEs remote from major urban centres, Budget 2014-2015 provides for the implementation of an additional deduction in calculating income for tax purposes, corresponding to:

- 2% of gross income, with a $100 000 cap per corporation, for manufacturing SMEs located in the intermediate zone;
- 4% of gross income, with a $250 000 cap per corporation, for manufacturing SMEs located in the remote zone;
- 6% of gross income, with no cap per corporation, for manufacturing SMEs located in the special remote zone.

❑ Assistance adjusted based on distance

Manufacturing businesses operating in the major urban centres of Montréal, Québec and Gatineau have transportation costs representing 7% of their income on average.

Manufacturing businesses operating in territories outside the major urban centres are faced with transportation cost approximately 30% higher. This difference rises to as much as 50% for businesses in the most remote regions.

Thus, in proportion to their income, these businesses bear additional charges of 2% to 4%. These costs can be even higher for special remote regions, since the transportation infrastructures there are less developed.

Overall, the additional deduction makes it possible to offset higher transportation costs due to remoteness from major urban centres. Thus:

- the major urban centres, i.e. the Montréal, Québec and Gatineau census metropolitan areas (CMAs), will not be eligible;

- the intermediate zone will be defined as the territory, delimited by the RCMs, within a radius of 100 kilometres of Gatineau or Québec or within a radius of 150 kilometres of Montréal;

- the remote zone will be defined as the territory, delimited by the RCMs, beyond a radius of 100 kilometres of Gatineau or Québec or beyond a radius of 150 kilometres of Montréal;

- the special remote zone will be made up of territories more isolated from the rest of Québec, i.e. the municipality of L'Île-d'Anticosti, the agglomeration of Îles-de-la-Madeleine, the Golfe-du-Saint-Laurent MRC (Côte-Nord) and the Kativik Regional Government (Nord-du-Québec).

Additional deduction for transportation costs by zone

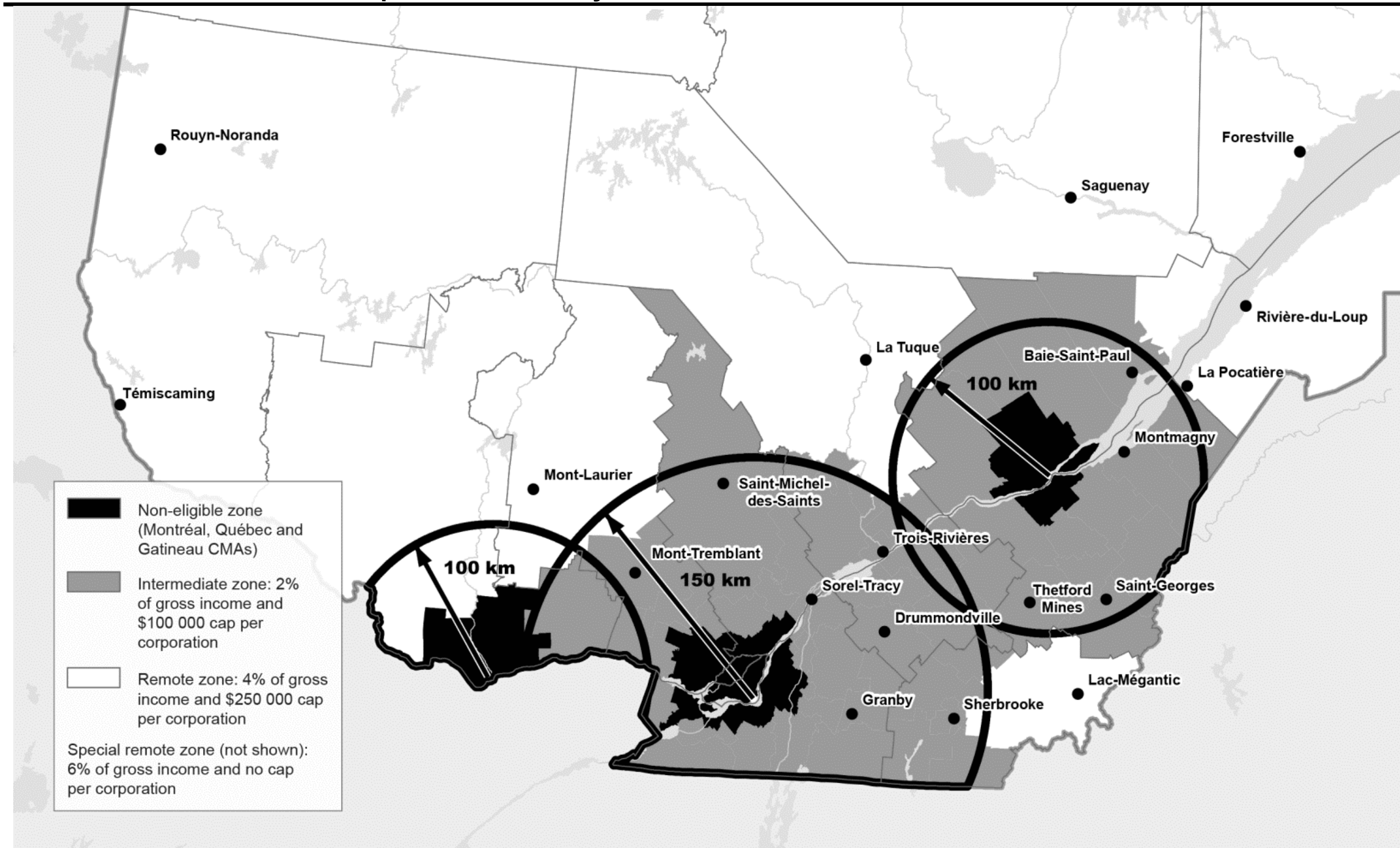

TABLE B.10

Principal parameters of the additional deduction for transportation costs of remote manufacturing SMEs (1)

Territories		Details of calculation by zone: Rate by zone	Details of calculation by zone: Cap per corporation
Non-eligible zone			
– Montréal census metropolitan area		No deduction	
– Québec census metropolitan area			
– Gatineau census metropolitan area			
Intermediate zone			
– Capitale-Nationale(2),(3)	– Chaudière-Appalaches(3)	2% of the corporation's gross income	Maximum of $100 000 per corporation
– Lanaudière(3)	– Laurentides(3)		
– Montérégie(3)	– Centre-du-Québec		
– Western part of Estrie(4)	– Southern part of Mauricie(5)		
– Papineau RCM (Outaouais)			
Remote zone			
– Bas-Saint-Laurent	– Saguenay–Lac-Saint-Jean	4% of the corporation's gross income	Maximum of $250 000 per corporation
– Abitibi-Témiscamingue	– Côte-Nord(6)		
– Nord-du-Québec(7)	– Gaspésie(8)		
– Eastern part of Estrie(9)	– Antoine-Labelle RCM (Laurentides)		
– Agglomeration of La Tuque and Mékinac RCM (Mauricie)	– Pontiac and Vallée-de-la-Gatineau RCMs (Outaouais)		
– Charlevoix-Est RCM (Capitale-Nationale)			
Special remote zone			
– Municipality of L'Île-d'Anticosti	– Agglomeration of Îles-de-la-Madeleine	6% of the corporation's gross income	No cap per corporation
– Golfe-du-Saint-Laurent RCM (Côte-Nord)	– Kativik Regional Government (Nord-du-Québec)		

(1) A manufacturing SME will benefit fully from the additional reduction if at least 50% of its activities consist in manufacturing or processing activities and its paid-up capital calculated on a consolidated basis is $10 million or less.
(2) Excluding the Charlevoix-Est RCM, which is located in the remote zone.
(3) Excluding the municipalities that are part of the Montréal, Québec or Gatineau census metropolitan area (CMA).
(4) Including the city of Sherbrooke as well as the Memphrémagog, Le Val-Saint-François, Les Sources and Coaticook RCMs.
(5) Including the cities of Trois-Rivières and Shawinigan as well as the Les Chenaux and Maskinongé RCMs.
(6) Excluding the Le Golf-du-Saint-Laurent RCM and the municipality of L'Île-d'Anticosti.
(7) Excluding the Kativik Regional Government.
(8) Including the Avignon, Bonaventure, La Côte-de-Gaspé, La Haute-Gaspésie and Le Rocher-Percé RCMs.
(9) Including the Le Granit and Le Haut-Saint-François RCMs.

❑ Illustration of the impact of the additional deduction for remote manufacturing SMEs

The additional deduction for transportation costs will allow manufacturing SMEs remote from major urban centres to obtain a significant reduction on their tax payable. For a typical business with a gross income of $7.5 million and taxable income of $750 000, the tax savings will total:

— $11 900 in the intermediate zone, i.e. a 24% reduction in tax payable;

— $29 750 in the remote zone, i.e. a 60% reduction in tax payable;

— $37 750 in the special remote zone, i.e. a 76% reduction in tax payable.

TABLE B.11

Illustration of the impact of the additional deduction for transportation costs of manufacturing SMEs, according to the eligible territories
(dollars, unless otherwise indicated)

	Major urban centres(1)	Intermediate zone	Remote zone	Special remote zone
Gross income	7 500 000	7 500 000	7 500 000	7 500 000
Estimated transportation costs				
– share of gross income	7%	9%	11%	13%
– amount	525 000	675 000	825 000	975 000
Without additional deduction				
Taxable income(2)	750 000	750 000	750 000	750 000
Tax payable(3)	49 750	49 750	49 750	49 750
With additional deduction				
Rate applicable according to gross income	—	2%	4%	6%
Lesser of:				
– share of gross income	—	150 000	300 000	450 000
– amount of cap	—	100 000	250 000	—
Additional deduction granted	—	100 000	250 000	450 000
Taxable income	750 000	650 000	500 000	300 000
Tax payable(3)	**49 750**	**37 850**	**20 000**	**12 000**
Tax savings	**—**	**11 900**	**29 750**	**37 750**
As a percentage of tax payable	**—**	**24%**	**60%**	**76%**

(1) Corresponding to the Montréal, Québec and Gatineau CMAs.
(2) Based on an average profit equivalent to 10% of gross income.
(3) The first $500 000 in income is taxed at the reduced rate of 4% for manufacturing SMEs applicable as of April 1, 2015, whereas income in excess of that amount is taxed at the general rate of 11.9%.

❑ More than 3 000 manufacturing SMEs will benefit from the measure

The additional deduction for transportation costs will enable more than 3 000 manufacturing SMEs to obtain a tax savings.

All in all, over five years, this measure represents tax relief of approximately $40 million.

TABLE B.12

Financial impact of the additional deduction for transportation costs of remote manufacturing SMEs
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Additional deduction for transportation costs	−2.3	−8.2	−9.0	−9.7	−10.2	**−39.4**

A measure in addition to the reduction of the tax rate for manufacturing SMEs

Remote manufacturing SMEs will benefit from both the additional reduction for transportation costs and the 8% to 4% reduction in the income tax rate.

For example, for a manufacturing SME operating in Saguenay reporting $750 000 in taxable income, the combined effect of these two measures will enable it to reduce its tax payable by more than 70%, i.e. from $69 750 to $20 000.

Manufacturing SMEs in the remote zone – Illustration of the combined effect of the reduction in the income tax rate and the additional deduction for transportation costs
(dollars)

	Before Budget 2014-2015	After Budget 2014-2015	Difference
Gross income	7 500 000	7 500 000	—
Operating costs	6 750 000	6 750 000	—
Additional deduction for transportation costs	—	250 000	250 000
Taxable income	750 000	500 000	–250 000
Tax payable at the reduced rate for SMEs (1)	40 000	20 000	–20 000
Tax payable at the general rate (11.9%)	29 750	—	–29 750
TOTAL TAX PAYABLE	**69 750**	**20 000**	**–49 750**

(1) The reduced rate for manufacturing SMEs will be reduced from 8% to 4% between now and April 1, 2015. It is applicable to the first $500 000 of income.

1.2.3 Support for exports: $20 million over three years for Export Québec

Exports account for 45% of Québec GDP, making them one of the main drivers of the Québec economy. They also help to ensure the development and the sustainability of businesses.

The competition on export markets is stiff. Evaluating the possibilities for exporting to non-traditional markets poses a challenge for many businesses, especially SMEs.

To support these businesses, the government is announcing the creation of Export Québec, as part of Budget 2011-2012. Export Québec's mission is to help Québec businesses develop, consolidate and diversify their markets outside Québec, in particular through the Export Program.

❑ Improving Export Québec's action

As part of Budget 2014-2015, the government intends to improve the effectiveness of the support offered to SMEs in their export projects.

Thus, the envelope available to Export Québec's Export Program will be increased and the support offered under the Program revised to better meet the needs of SMEs.

■ A total envelope of $20 million

Over three years, the envelope for the Export Program will be increased by $20 million.

Thus, additional funding of $4 million in 2014-2015 and $8 million in 2015-2016 and in 2016-2017 will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations.

For 2014-2015, the sums indicated will be drawn from the Contingency Fund.

■ A revision of the Program adapted to the needs of industry

In keeping with the government's commitment to review the effectiveness of all its programs, adjustments will be made, in particular, to the selection criteria and the application details for financial assistance in order to simplify the administrative process and maximize the impact of the Export Program.

Export Québec and the Export Program

Export Québec offers advice, field support and financing to businesses, specifically through the Export Program.

The Export Program offers:

- non-repayable financing to Québec businesses for carrying out projects focusing on development of their markets outside Québec;
- funding to organizations working in partnership with Export Québec, in particular regional export promotion organizations (REPOs).

Impact of the Export Program

The Program produces direct and positive effects for businesses, in terms of exports and socioeconomic spinoff.

- For example, for 2011-2012 and 2012-2013, the Program boosted the sales outside Québec of 71.5% of the businesses supported, helped 64.2% of them to diversify their exports and created 1 541 jobs in Québec.

1.3 Increasing financing for businesses

To support businesses in the financing of their activities, development capital funds, venture capital funds and tax-advantaged funds are essential tools in the financing chain.

In addition to financing, businesses must be able to count on sustained assistance, especially in the first stages of their development, in order to unite all the conditions to guarantee successful growth.

In this context, the government is announcing additional sums earmarked for investment funds that contribute significantly to the start-up of Québec businesses.

In addition, the government will take concrete steps to ensure best practices in the governance of labour-sponsored funds.

Thus, Budget 2014-2015 provides for:

- $375 million to fund venture capital funds;
- financial support for angel investors to recapitalize the Anges Québec Capital fund and support the Anges Québec network;
- renewal of the local investment funds (LIFs);
- more capital for the Chantier de l'économie sociale Trust;
- improved governance of labour-sponsored funds;
- government effort to retain head offices in Québec.

All in all, these measures will make $560 million available for financing businesses and funding venture capital funds.

TABLE B.13

New capital available for businesses
(millions of dollars)

$375 million to fund venture capital funds	375
Recapitalization of the Anges Québec Capital fund	150
Renewal of local investment funds	25
More capital for the Chantier de l'économie sociale Trust	10
Retention of head offices in Québec	—
TOTAL	**560**

Since there is the expectation of a return on these investments, they have no financial impact for the government, except in regard to:

- the five-year holiday from interest on a contribution to the Chantier de l'économie sociale Trust;
- the additional support for the Anges Québec network.

The financial impact of these last two measures is $700 000 per year over the next five years.

❑ A dynamic and diversified venture capital industry

Because of the risky nature and degree of specialization of their activities, high-value-added technology companies often find it very difficult to satisfy their capital requirements through traditional financing vehicles.

Venture capital then becomes essential to finance the growth of emerging technology companies. However, this type of financing is often viewed as being too risky by financial institutions and other traditional investors.

Involvement by the Québec government is therefore important in order to structure the venture capital industry in Québec.

- Moreover, recent results[3] demonstrate the success of the Québec model. Venture capital investments in Québec in 2013 increased by 46% compared to 2012, totalling $588 million. This is the best result since the 2008 financial crisis.
- In addition, $195 million of those investments were provided by foreign investors, an increase of 84% over 2012.

Moreover, the Québec venture capital industry is characterized by the presence of several major funds operating in various sectors. This characteristic benefits Québec businesses by offering them a worldwide network of contacts and assistance tailored to their activity sector.

The Ministère des Finances and the Ministère de l'Économie, de l'Innovation et des Exportations are responsible for the development and monitoring of the government's investments in the Québec venture capital ecosystem. Investissement Québec (IQ) acts as the government's mandatary and cooperates in developing and maintaining a government strategy coherent with the needs of the market.

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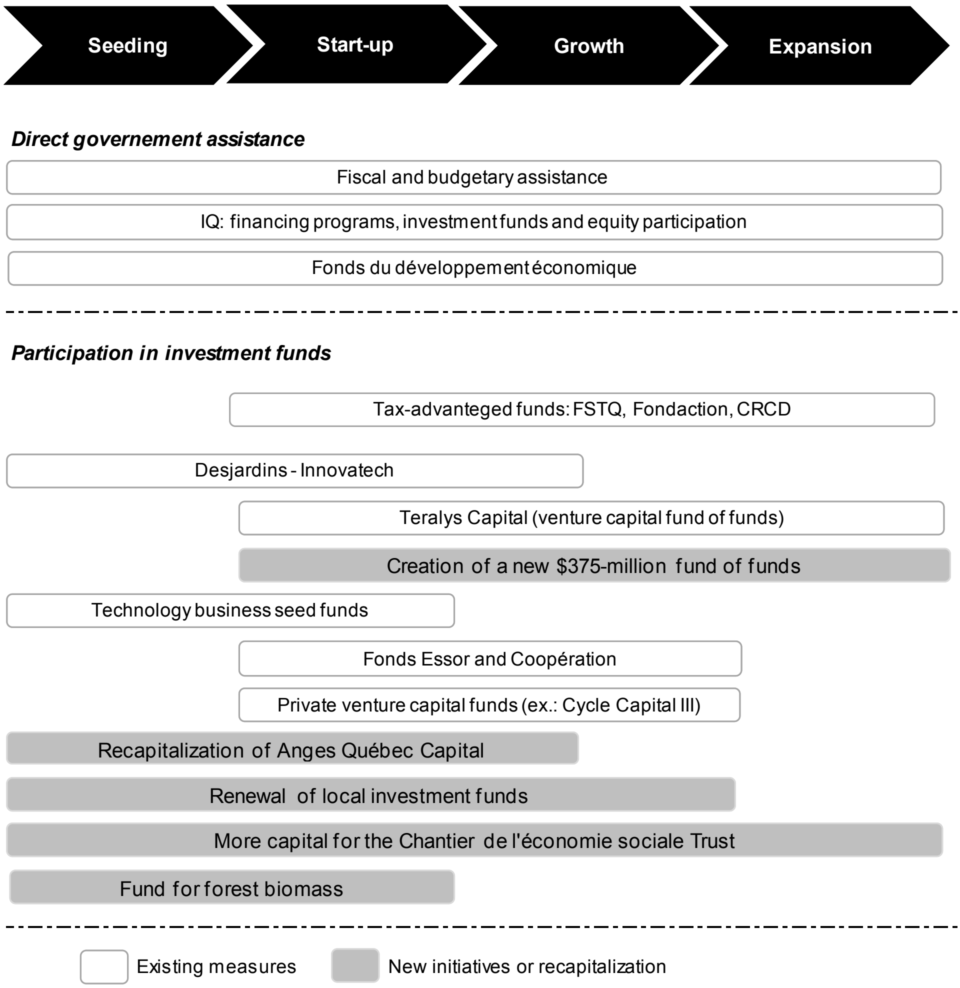
3 Réseau Capital, *Le marché québécois du capital de risque en 2013*, February 2014.

CHART B.1

Illustration of financing and capitalization measures for businesses according to their stage of development



1.3.1 $375 million to fund venture capital funds

Québec is viewed as a venture capital leader in Canada as a result of its trail-blazing public policies fostering the involvement of private investors and the adoption of business models tailored for each activity sector.

— One of these initiatives is the Teralys Capital fund of funds, the largest one in Canada, announced as part of Budget 2009-2010.

In order to pursue the development of the venture capital ecosystem in Québec and thus support high-growth technology companies, the Québec government is confirming that it will invest up to $62.5 million in a new venture capital fund of funds in Québec that will have an overall target size of $375 million.

Headquartered in Québec, this new fund of funds is part of the federal government's Venture Capital Action Plan, in which a $350-million envelope has been set aside to establish large private sector-led funds of funds in Canada.

In addition to the Québec government and the federal government, the Fonds de solidarité FTQ and the Caisse de dépôt et placement du Québec, along with other partners in the private sector, will invest in this initiative.

This fund of funds will focus on investment opportunities in a number of sectors but with an emphasis in the life sciences sector.

Full details concerning this new fund of funds will be unveiled shortly by the Minister of Finance of Québec and the Minister of Finance of Canada.

TABLE B.14

Capitalization of a new fund of funds in Québec
(millions of dollars)

	Commitment
Québec government	62.5
Fonds de solidarité FTQ and Caisse de dépôt et placement du Québec	100.0
Subtotal	**162.5**
Federal government and other private partners	212.5
TOTAL	**375.0**

Leverage effect of venture capital funds of funds

Advantages of a fund of funds

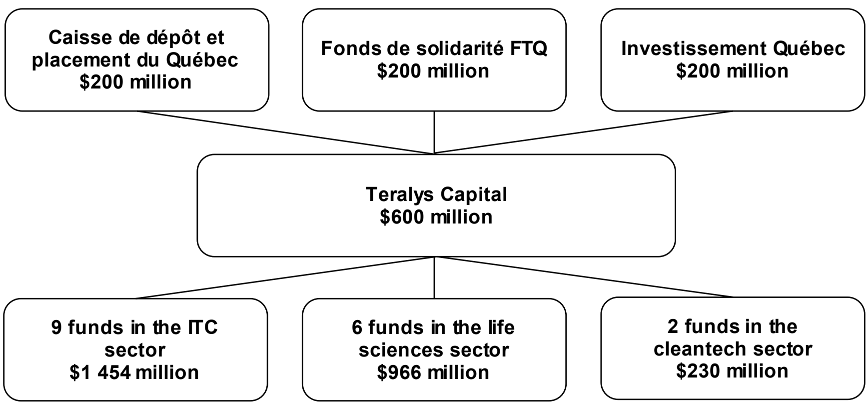
A fund of funds brings together capital from major partners seeking to invest indirectly in venture capital funds. The management team that manages the fund of funds for its partners is made up of investment professionals who possess the sectorial and financial knowledge to select the best performing venture capital funds. These venture capital funds are the entities that invest directly in businesses with high growth potential.

Teralys Capital

When it was created in 2009, it was expected that the Teralys Capital would manage a $700-million fund of funds: $250 million of the Caisse de dépôt et placement du Québec, $250 million of the Fonds de solidarité FTQ and $200 million of Investissement Québec.

To date, Teralys Capital has undertaken to invest nearly $600 million in 17 venture capital funds: 9 funds in the information technologies and communications (ITC) sector, 6 in the life sciences sector and 2 in the cleantech sector. Since the fund of funds invests in collaboration with other investors, nearly $2.7 billion were made available for participation in the financing of businesses in technological sectors. The remaining $100 million provided by contributions from the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ will be invested in the new $375-million venture capital fund.

Leverage effect of the Teralys Capital fund of funds



$2,7 billion avalaible for financing businesses in technological sectors (leverage effect 4.4 times the sums invested by Teralys Capital)

1.3.2 Capitalization of a $100-million fund to support angel investors

Since its creation in 2012, Anges Québec Capital fund has been hugely successful, especially due to the mentoring provided by angel investors to businesses by sharing their knowledge of the business's activity sector as well as their entrepreneurial and management experience.

The Québec government's initial investment in the fund, announced as part of Budget 2011-2012, was $20 million. With that sum, the fund undertook to invest a maximum of $2 for each dollar invested by angel investors in 15 business projects operating is various sectors such as life sciences, industrial technologies and software.

❑ $25-million contribution by the Québec government and Investissement Québec

Thus, to confirm its support for involvement by angel investors in financing start-up businesses, the Québec government is pledging to recapitalize the Anges Québec Capital fund, in cooperation with Investissement Québec. The government is announcing an additional $25 million contribution.

Other partners will participate in this recapitalization, including the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ, which will invest $25 million and $15 million respectively. These new commitments will make it possible to boost the fund's capitalization to $85 million, including the $20 million invested in 2012. The management team's goal will be to increase the size of the fund to $100 million by identifying other potential partners.

The fund will co-invest with angel investors in Québec business projects that are at the seeding and start-up stage and are operating in the information technologies and communications, life sciences, industrial technologies and innovative manufacturing sectors.

Thanks to involvement by angel investors, the leverage effect generated by the fund, taking into account its total capitalization, will make it possible to inject a minimum of $150 million in Québec businesses.

TABLE B.15

Recapitalization of the Anges Québec Capital fund
(millions of dollars)

	Commitment
Initial capitalization by the Québec government – Budget 2011-2012	20.0
New capitalization	
Québec government and Investissement Québec	25.0
Caisse de dépôt et placement du Québec	25.0
Fonds de solidarité FTQ	15.0
Subtotal	85.0
Other partners to be identified by the fund management team	15.0
Fund's capitalization objective	**100.0**
Angel investors (minimum commitment)	**50.0**
TOTAL	**150.0**

❑ Support for the Anges Québec network

Since its creation in 2008, the government has supported Anges Québec, a network that now includes nearly 150 Québec angel investors whose mission is to pool business networks of successful entrepreneurs for the benefit of innovative businesses at the seeding and start-up stages.

In recent years, Anges Québec has demonstrated the advantages that can be offered by a structured network capable of analyzing a large number of start-up business proposals and a platform for discussions with angel investors interested in financing them. In fact, 45 financing projects have been carried out by Anges Québec to date, which represents investments of more than $20 million provided by angel investors in Québec, as well as more than $30 million provided by other investors.

So that the network can continue the activities of its three regional cells, those in Montréal, Québec and Sherbrooke, and also extend it efforts to other regions of Québec, the government is pledging to continue its financial support by providing the Anges Québec network with a sum of $300 000 per year over a period of five years.

To this end, an additional allocation of $200,000 per year over five years will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations. For 2014-2015, the sums indicated will be drawn from the Contingency Fund.

1.3.3 Renewal of the local investment funds through December 31, 2015

Local investment funds (LIFs) seek to stimulate local entrepreneurship by fostering access to capital primarily for the start-up or growth of traditional or social economy businesses.

They are the main tool available to the 120 local development centres (CLDs) to support businesses in their territory. Thus, since they were set up in 1998, the envelope for the LIFs has been recapitalized twice, raising their total capitalization to $172 million.

Under current terms and conditions, the LIFs will expire on December 31, 2014 and the CLDs should no longer be able to provide financial assistance as of January 1, 2015.

However, to guarantee continuity in the support to businesses offered by the CLDs, Budget 2014-2015 is announcing:

- renewal of the LIFs until December 31, 2015;
- streamlining of the terms and conditions for the LIFs to support future entrepreneurs in their efforts to acquire businesses in all regions of Québec.

This measure will allow CLDs to access the necessary funds to maintain their activities in the regions.

With these changes and this deferral, the CLDs will be able to make investments of approximately $25 million in 2015 out of the existing capitalization.

Moreover, in keeping with the government's commitment, this program will also be analyzed by the Commission sur la révision permanente des programmes. A decision as to the advisability of extending the LIFs beyond 2015 will be based on the conclusions of the commission's work.

1.3.4 More capital for the Chantier de l'économie sociale Trust

The chief mission of the Chantier de l'économie sociale Trust is to foster the expansion and development of collective enterprises by improving access to financing for social economy businesses. At the current pace, the Trust will be unable to maintain its level of investment beyond 2015.

To enable the Trust to invest more, the government is confirming the grant of holiday from interest on its contribution to the Trust for an additional five-year period.

The government's additional contribution represents an investment of $500 000 for 2014-2015 and each of the next four years. It will be financed by the Fonds du développement économique.

This increase will enable the Trust to continue investing and will provide financial leverage to obtain additional private-sector contributions of up to $8 million.

The Chantier de l'économie sociale Trust

The Chantier de l'économie sociale Trust is a structuring initiative supporting the development of social economy businesses operating in various activity sectors and in most regions of Québec.

When the Trust was created in 2006, the Québec government's repayable contribution of $10 million and the five-year holiday from interest on that contribution enabled the fund to be set up with an initial capitalization of $49 million available for investment purposes.

The projects funded by the Trust have been varied as to both the types of clients and activities supported and the size of the investments. To date, the Trust has injected $38 million into 116 businesses.

Examples of projects funded

Projects	Activities	Investments by the Trust	Total costs of the projects	Number of jobs supported
Centre d'action, de développement et de recherche en employabilité	Job integration of individuals suffering from mental illness and services to seniors	$485 000	$1 700 000	93
Coopérative funéraire de la Capitale	Offering quality funeral services at the lowest possible price	$450 000	$1 900 000	18
Fondation Travail sans frontières	Supporting individuals in their job search efforts	$777 467	$3 900 000	19

Source: Chantier de l'économie sociale Trust.

1.3.5 **Improved governance of labour-sponsored funds**

Labour-sponsored funds are an important tool of economic development for Québec. They contribute to the financing of Québec SMEs in all economic sectors and foster the creation and maintenance of a great number of jobs in every region of Québec.

The government supports these funds by providing tax benefits, by granting a tax credit for the purchase of shares and also by making such investments eligible for registered retirement savings plans.

For the many players concerned, whether savers, fund partners, taxpayers or businesses, the rules of governance of labour-sponsored funds must correspond to best practices in this field.

Accordingly, the government will propose changes that will be based upon principles of sound governance, namely:

— a common definition, one that is adapted to labour-sponsored funds, of the notion of independent person;

— greater independence of each fund in relation to the labour federation behind its creation;

— establishment of committees of the board of directors having functions related to governance;

— guidelines for the duration of the term of office of members of the board of directors.

Last February, the Fonds de solidarité FTQ unveiled a proposed reform of its governance. The government will evaluate this proposal and, in light of the principles adopted, will propose amendments to the Act establishing the Fund.

Fondaction is also invited to make a proposal to the Minister of Finance by the end of the fall.

The amendments to the Act establishing each fund may differ to take into account its specific reality. However, the changes must comply with all of the principles stated above.

❑ Definition of the notion of independent person

Currently, the notion of independence is absent from the acts establishing the labour-sponsored funds. To this end, the Autorité des marchés financiers, in its report tabled before the Commission des finances publiques, indicated the necessity of adding to the acts establishing the labour-sponsored funds a notion of independence harmonized among the funds, in respect of the members of the board of directors and its committees.

Since this notion is the cornerstone of sound governance, the government will propose legislative amendments to introduce a harmonized notion of independent person into the acts establishing the labour-sponsored funds.

Proposed definition of the notion of independent person

A person qualifies as an independent person if, in the opinion of the governance and ethics committee, he or she has no direct or indirect relations or interests, such as those of a financial, commercial, professional or philanthropic nature, which are likely to interfere with the quality of his or her decisions as regards the interests of the labour-sponsored fund.

A person is deemed not to be an independent person if:

- he or she is or has been, in the preceding three years, an employee or a director of the labour-sponsored fund, of the labour federation behind the creation of the fund, including its sectorial or regional organizations, or of one of its subsidiaries;
- a member of his or her immediate family has been a senior officer of the labour-sponsored fund, of the labour federation behind the creation of the fund, including its sectorial or regional organizations, or of one of its subsidiaries.

❑ Independence of the fund in relation to the labour federation behind its creation

Currently, the labour federations behind the creation of the funds can appoint several members to the board of administration of a fund without their being independent. In certain cases, this might result in an appearance of conflict of interest.

In order to render the funds more independent, changes to the make-up of the board of directors are necessary.

Accordingly, the government will propose legislative amendments so that the labour federation behind the creation of each fund can no longer appoint a majority of members not having an arm's length relationship with the board of directors.

In addition, the provisions concerning the make-up of the board of directors must make room for shareholders in the selection of the directors, or else must ensure diversity of points of view within the board of directors.

❑ Committees having functions related to governance

The governance structure of the labour-sponsored funds includes a number of committees. The number of committees, their role and their make-up differ from one fund to another.

In general, there are a governance and ethics committee and a human resources committee having functions directly related to governance, in particular by establishing the skill and experience profiles of the fund's independent directors and chief executive officer. Their make-up and their principal functions will therefore be fixed by legislation. In addition, the majority of the members of these two committees must be independent. To avoid complicating the labour-sponsored funds' governance structure, the functions of the human resources committee could be assumed by the governance and ethics committee.

In cases where decision-making power over the granting of funding is delegated to a committee other than the board of directors, the role and the make-up of this committee will also be fixed by legislation. The objective will be to ensure that, in such a case, the committee is composed of a majority of independent members.

Role of the committees

Governance and ethics committee

The governance and ethics committee functions primarily to:

- formulate the global skills and experience profile sought by the board of directors;
- examine the candidates' backgrounds;
- fix the procedures of the call for candidates and the criteria to be met by the candidates.

Human resources committee

The human resources committee functions primarily to:

- formulate and propose to the board of directors a skills and experience profile for the appointment of the chief executive officer and the other officers directly under his or her authority;
- establish the terms of employment of the chief executive officer and the other officers directly under his or her authority;
- formulate and propose criteria for the evaluation of the chief executive officer and make recommendations to the board of directors concerning his or her remuneration.

The functions of the human resources committee may, however, be assumed by the governance and ethics committee.

❑ Maximum duration of the term of office of members of the board of directors

To ensure a balance between stability in the board of directors and renewal of skills, limits must be established for the term of office of a member of the board of directors.

To this end, the government will propose changes based on proposals by the funds and the following guidelines:

— for members of the board of directors, a maximum term of four years, twice renewable;

— for the president, a maximum term of five years, twice renewable;

— for the chief executive officer, a maximum term of five years, renewable based on performance, which will be evaluated by the members of the board of directors.

1.3.6 Government effort to retain and develop head offices in Québec

The importance of head offices in Québec is justified by their considerable economic and social contribution, both in terms of jobs and wealth creation.

— In this regard, retaining head offices, and especially corporations considered Québec standard-bearers, is one of the government's chief preoccupations.

In its report made public in February 2014, the Groupe de travail sur la protection des entreprises québécoises, which was mandated to examine the issues related to unsolicited takeover bids, made nine recommendations regarding the *Québec Business Cor porations A ct*, securities regulators and the sustainability of head offices.

While giving consideration to strategic factors identified by the Groupe de travail sur la protection des entreprises québécoises an attractive location for head offices, the government first of all intends to obtain comments from the business and financial community so as to assess the advisability of adopting the proposed measures, particularly the legislative amendments concerning the *Québec Business Corporations Act* and the *Securities Act*.

For the time being, in response to recent incidents involving unsolicited takeover bids, and with a view to supporting Québec businesses facing such situations, the government intends to make full use of the levers at its disposal.

To this end, through the Fonds du développement économique and Investissement Québec, the government could acquire equity interests in the businesses concerned.

— The government intends to act rapidly and in a targeted manner so that it can react, if need be and in a timely manner, to an unsolicited takeover bid.

Moreover, the Caisse de dépôt et placement du Québec, in view of its heightened presence and its determination to play a key role with respect to Québec corporations in all regions, recently announced the creation of a position of first vice-president dedicated to Québec.

— This measure is in keeping with the continuing work in recent years by the Caisse de dépôt et placement du Québec to maximize the impact of its presence in Québec.

Importance of head offices in Québec

In 2011, Québec hosted 578 head offices that generated more than $5 billion in economic activities annually.

In all, 50 000 jobs were directly related to head offices in addition to more than 20 000 indirect jobs created in specialized services businesses.

- Moreover, more than 400 head offices were located in Montréal and directly employed 42 000 persons.

In short, in 2011, head offices generated more than 70 000 jobs in Québec. For each job related to a business's mission, 3.5 additional jobs were generated for administrative services and nearly 2 others for external suppliers.

Source: Groupe de travail sur la protection des entreprises québécoises, *Le maintien et le développement des sièges sociaux au Québec*, February 2014.

1.4 Developing entrepreneurship in Québec

Entrepreneurship and business succession are essential elements for the sustainability of the economy. In addition, they contribute directly to job maintenance and creation, innovation and the development of new sectors of activity.

However, the proportion of Quebecers intending to start a business within the next three years is lower than in the rest of Canada (15.6% for Québec compared to 17.5% for the rest of Canada).[4]

In addition, among newly created businesses, approximately:[5]

— three out of four will be in operation after their first year of activity;

— one out of three will survive past its fifth year.

Despite the progress of entrepreneurship in Québec in recent years, there is still work to be done. Thus, to foster entrepreneurship in Québec, Budget 2014-2015 provides for measures totalling on average more than $2.3 million per year over the next three years, aimed at:

— assisting entrepreneurs more effectively;

— attracting the best foreign entrepreneurs to Québec;

— supporting female entrepreneurship.

TABLE B.16

Financial impact of measures to develop entrepreneurship in Québec
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Accelerators to foster the creation of businesses in the university community	−0.5	−0.5	−0.5	**−1.5**
Attracting the best foreign entrepreneurs to Québec	—	—	—	**—**
Supporting female entrepreneurship				
– Strengthening the Réseau Femmessor	−1.5	−2.0	−2.0	**−5.5**
– New partnership to develop businesses stemming from the Réseau Femmessor	—	—	—	**—**
TOTAL	**−2.0**	**−2.5**	**−2.5**	**−7.0**

4 GLOBAL ENTREPRENEURSHIP MONITOR, *Situation de l'activité entrepreneuriale québécoise*, 2013.

5 MINISTÈRE DU DÉVELOPPEMENT ÉCONOMIQUE, DE L'INNOVATION ET DE L'EXPORTATION, *Taux de survie des nouvelles entreprises au Québec*, 2008.

1.4.1 Accelerators to foster the creation of businesses in the university community

Québec must promote innovation stemming from university research. To do so, it is essential to create an environment favourable to the creation of businesses by more strongly encouraging synergy between the business and university communities.

Currently, university entrepreneurship centres (UECs) are promoting awareness of entrepreneurship among students. In addition, some of them are offering broader services to support students at every stage in the process that will lead to the creation of a business.

In this respect, the Université de Sherbrooke has developed an integrated model of support for student entrepreneurs. Known as the Accélérateur de création d'entreprises technologiques (ACET), this model offers an ongoing and structured service to students with the cooperation of the business community.

❑ A new envelope for university entrepreneurship centres

As part of Budget 2014-2015, the government is announcing that it has set aside an envelope of $500 000 per year, over three years, to support UECs that will apply best practices, particularly those based on ACET's experience. This support will be re-evaluated at the end of the period based on the results.

The UECs that will receive additional funding will be those that will:

— mobilize the business community and the university community to the greatest extent;

— develop a financing package in which the universities and other partners will play an important role;

— further stimulate the emergence of projects of a high technological level;

— present business models integrating quantitative performance indicators such as the number of businesses created, the number of patents associated with the businesses and the financing obtained.

To this end, $500 000 in additional funding will be granted annually to the Ministère de l'Économie, de l'Innovation et des Exportations for 2014-2015, 2015-2016 and 2016-2017.

For 2014-2015, the sums indicated will be drawn from the Contingency Fund.

The details of this measure will be announced at a later date by the Minister of the Economy, Innovation and Exports.

ACET: a university model for business creation

The Université de Sherbrooke has developed the Accélérateur de création d'entreprises technologiques (ACET) model. This model allows graduating university students to submit their final year projects in order to transform them into innovative technological businesses.

ACET, whose operations began in 2011, stands out due to the fact that it relies heavily on structured support activities to guide aspiring entrepreneurs from selection of projects to creation of the business.

- This guidance is made possible thanks to strong support for the project by the Université de Sherbrooke and, especially, the participation of renowned specialists and entrepreneurs from the private sector who provide field expertise and financing.

Principal parameters of the acceleration process

ACET's goal is to accept ten to twelve teams of new aspiring entrepreneurs per year.

- Guidance (mentoring, coaching, professional services and financial assistance) is offered over a period of 24 months.

The acceleration process has four phases:

- phase 1: Attracting the best projects and motivating the best candidates;
- phase 2: Selecting projects and candidates;
- phase 3: Developing skills and resources;
- phase 4: Integrating the business into the economic community.

1.4.2 Attracting the best foreign entrepreneurs to Québec

Québec's venture capital ecosystem is one of the most dynamic in Canada. The presence of a number of well-structured venture capital funds and of a network of very active angel investors contributes to the emergence of promising businesses and the creation of high-value-added jobs.

❑ The Entrepreneur Program

The creation of promising new businesses could be accelerated by facilitating immigration to Québec by talented foreign entrepreneurs that have received the support of one of the actors in this ecosystem.

In Québec, it is the prerogative of the Ministère de l'Immigration, de la Diversité et de l'Inclusion to choose candidates for immigration, including those in the business community.[6] In this respect, the department manages the selection of entrepreneurs through the Entrepreneur Program, whose current parameters do not recognize the contribution of venture capital funds and angel investors.

Overview of the current parameters of the Entrepreneur Program
To be eligible for the Program, the entrepreneur must, in particular: − have net assets of at least \$300 000; − have recent experience in operating a profitable and legal business, including control of at least 25% of the business equity; − submit an application in one of the following two program components: ▪ **Ability to carry out a business project component:** submit a business plan with the purpose of creating or acquiring a business in Québec with the intention of managing it (alone or as a partner), including the control of at least 25% of the business equity (with a value of at least \$100 000). ▪ **Acquisition of a business in Québec component:** have acquired at least 25% of the equity (with a value of at least \$100 000) of a business in Québec and manage the business or participate in it as a partner.

6 If the candidate is selected, he or she then receives a Québec selection certificate (CSQ), and must next apply to the federal government and successfully pass (along with his or her family members) the medical examination and the security and criminal background check required in order to immigrate to Québec.

❑ Making talented foreign entrepreneurs eligible for the Entrepreneur Program

As part of Budget 2014-2015, the government is announcing that the Ministère de l'Immigration, de la Diversité et de l’Inclusion will revise the parameters of the Enterpreneur Program.

The revision of the Program will make foreign entrepreneurs eligible to obtain a Québec selection certificate, provided they present a business plan and have obtained, in particular, a partnership commitment from a recognized group of investors, a venture capital fund or an incubator.

This measure is in keeping with a global process of revision of the Entrepreneur Program that will provide for, in particular, a security deposit in the case where the entrepreneur makes a commitment to carry out a business project in Québec. This revision will help to create a more dynamic entrepreneurial base and accelerate innovation in Québec.

Moreover, this measure will enable Québec to offer the most talented foreign entrepreneurs opportunities similar to those already offered elsewhere in Canada.[7]

The details of this measure will be announced at a later date by the Minister of Immigration, Diversity and Inclusion.

❑ Improving the effectiveness of the Investor Program

The government receives a great number of applications under the Investors Program. The current selection system, which includes a random draw stage, does not guarantee that the best candidates will have their files analyzed.

The system encourages financial intermediaries[8] to submit the largest possible number of candidates, without regard to their quality.

Accordingly, the government will introduce a system for allocating candidate files among financial intermediaries. This new system will make it possible to set quotas for financial intermediaries.

— Each financial intermediary will therefore be responsible for submitting the best possible candidates instead of submitting the greatest number, as is currently the case with the random draw system.

This new approach will therefore improve the quality of the candidate files submitted and, as a result, increase the program’s profitability. The details will be announced at a later date by the Minister of Immigration, Diversity and Inclusion.

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7 Outside Québec, the federal government is responsible for selecting immigrants, including businesspeople.

8 Financial intermediaries are responsible for recruiting and assisting potential candidates for the Investor Program and submitting their applications to the Ministère de l’Immigration, de la Diversité et de l’Inclusion.

Investor Program
To qualify for the Investor Program, a candidate must: − have (alone or with the accompanying spouse) net assets of at least $1.6 million obtained legally; − have management experience of at least two years in the course of the five years preceding the application; − intend to settle in Québec and sign an agreement to invest $800 000 with an authorized financial intermediary. ▪ This sum is deposited in trust with the financial intermediary and is transferred to Investissement Québec if the candidate is selected. Evaluation of applications takes into account other factors, such as the candidate's age, nature and duration of professional training and language skills.

In order to implement the measures to attrict the best foreign entrepreneurs to Québec, legislative amendments will be proposed.

1.4.3 **Supporting female entrepreneurship**

New businesses headed by women have shown a remarkable increase over the past twenty years. Their number has more than doubled. This constitutes an excellent contribution for the economy of Québec and the regions.

However, Québec is faced with an entrepreneurial deficit. It is essential to make up the shortfall in order to achieve greater prosperity. The women of Québec are being called on to contribute even more.

To achieve this objective, the government:

— will increase its support for Québec businesswomen through the Réseau Femmessor;

— is planning a new partnership that will facilitate access to financing for women entrepreneurs.

The Réseau Femmessor
The Réseau Femmessor is a non-profit organization. It has taken on the mission of: − developing and promoting female entrepreneurship as a tool for job creation and economic development; − supporting its members. The Réseau Femmessor is represented in each of the 17 administrative regions of Québec to support the ambitions of women entrepreneurs throughout Québec. Femmessor offers financing, assistance and promotional services, consulting services, training and networking activities adapted to the specific needs of female entrepreneurship. − They guide projects so as to make them viable and profitable. − Their contribution makes possible the creation of a significant number of businesses and jobs. The service offered by Femmessor is intended to be all-encompassing and custom-tailored to meet the specific expectations and needs of women entrepreneurs.

❑ Strengthening the Réseau Femmessor

The government recognizes the important contribution by the Réseau Femmessor, which over the years has become one of the pillars of female entrepreneurship in Québec.

— Since its creation, Femmessor has demonstrated its usefulness by contributing to the development of businesses managed by women and by maintaining them in operation.

— Among other things, thanks to it, more than 600 projects have been carried out and nearly 2 000 jobs have been created and maintained.

The potential for wealth creation by Québec women is immense. To take full advantage of it, the government intends to:

— ensure the sustainability of the Réseau Femmessor;

— increase its contribution to the Réseau.

To this end, $1.5 million in 2014-2015 and $2 million for the next four years will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations.

For 2014-2015, the sums indicated will be drawn from the Contingency Fund.

❑ A new partnership to develop new businesses stemming from the Réseau Femmessor

Budget 2014-2015 is also the opportunity to highlight the new partnership that will facilitate access to capital for women entrepreneurs.

Femmessor has reached a new co-investment agreement with the Capital Croissance PME limited partnership, whose partners are Capital régional et coopératif Desjardins and the Caisse de dépôt et placement du Québec.

This partneship will make it possible to invest, in the form of share capital, in small growing businesses in which women are the majority shareholders, and will offer the necessary training and assistance.

- For each dollar invested by Femmessor, Capital Croissance PME will invest five, for a total capitalization of up to $6 million.
  - The partnership will be able to invest amounts varying from $50 000 to $250 000 in a corporation.
- The $1 million contribution by the Réseau Femmessor will be drawn from a capitalization already granted by the Québec government.

2. EASING THE ADMINISTRATIVE BURDEN ON BUSINESSES

In 2011, the government established the Groupe de travail sur la simplification réglementaire to reduce the burden imposed on businesses, especially on SMEs, by regulations and administrative formalities.

The work of this task force resulted in 63 recommendations. They are aimed essentially at creating an even more competitive business climate in Québec.

To ensure implementation of the recommendations in the report published by the Groupe de travail sur la simplification réglementaire and to ease the administrative burden on entrepreneurs, the government will establish:

— a standing oversight committee on regulatory streamlining;

— a one-stop service provider to meet the needs of Québec businesses.

2.1 Creation of the standing oversight committee on regulatory streamlining

Although regulations are essential to enable the government to discharge its mission, they can sometimes cause undue delays and additional costs. As a result, the administrative burden can undermine the competitiveness of businesses.

It is therefore essential that the regulations in force be effective, so as to create an adequate business environment and thereby foster business creation and growth.

With this in mind, the government is pledging to pursue its efforts to implement the recommendations of the report by the Groupe de travail sur la simplification réglementaire et administrative.

To this end, the government is announcing the creation of the standing oversight committee on regulatory streamlining. This committee will be co-chaired by:

— the Minister for Small and Medium Enterprises, Regulatory Streamlining and Regional Economic Development;

— one of the business association directors who is a member of the committee.

❑ A mandate designed to foster a competitive business environment

The standing oversight committee on regulatory streamlining will be mandated, in particular, to:

- advise the government on measures to be taken to ease the regulatory and administrative burden on businesses;
- identify businesses' problems and needs in respect of the burden imposed by regulations and administrative formalities;
- suggest areas where the regulatory and administrative burden most urgently needs to be addressed;
- propose ways to inform the public, and especially the business community, of the results achieved.

The committee will report annually to Cabinet on the progress of its work.

It should be noted that regulatory streamlining will not be carried out at the expense of the government's commitments, particularly as regards the environment and the welfare of Québec's population.

Members of the standing oversight committee on regulatory streamlining
The standing oversight committee on regulatory streamlining will be made up of the following business association directors and government representatives: – Canadian Federation of Independent Businesses; – Conseil du patronat du Québec; – Fédération des chambres de commerce du Québec; – Manufacturiers et exportateurs du Québec; – Conseil québécois du commerce de détail; – Revenu Québec; – Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques; – Secrétariat du Conseil du trésor; – Services Québec.

2.2 Entreprises Québec: a one-stop service provider for all Québec businesses

Thanks to the development of online services and websites, businesses now have access to a great quantity of information on the various programs and services offered by the government and can conduct certain transactions with the government online.

However, to access such assistance, businesses must sometimes repeat the same formalities and provide the same information to different departments and agencies.

To provide better support for entrepreneurs' efforts, the government is announcing that it will offer all its services to businesses under a single banner, Entreprises Québec.

❑ Creation of Entreprises Québec

Entreprises Québec will be a one-stop service provider that will provide accessible and improved service to any business.

In addition to providing information and referrals, Entreprises Québec will offer guidance for all administrative formalities and all programs of the Québec government.

To do so, the "Businesses" web space on the government web portal will be substantially improved, so as to provide personalized guidance, and a single project manager will offer a tailor-made intervention plan by identifying the assistance programs that meet the client's needs.

Moreover, the "Mon dossier" personal web space on the "Businesses" web space of the government services portal will become "Mon dossier entreprise gouvernemental," a secure web space that will enable businesses to conduct transactions with departments and agencies.

In addition, in line with the implementation of the recommendations in the report by Groupe de travail sur la simplification réglementaire, several measures will be added to supplement the one-stop service provider and single file, in particular:

— evaluation of the possibility of using only one identification number for each business;

— implementation of integrated registration for the processing of application presented when starting a business;

— evaluation of possible approaches for an eventual integrated registration for all three levels of government (federal, provincial and municipal).

3. IMPLEMENTING THE MARITIME STRATEGY

With Québec's first-ever maritime strategy, the government is moving to responsibly develop Québec's maritime potential while acquiring a unique environmental expertise.

This strategy, which will lead to the creation of jobs, private investment and significant economic spinoffs, is one of the pillars of Québec's economic recovery.

It will be beneficial not just for Québec's coastal regions but also for all Quebecers since its primary aim is to stimulate sustainable economic development.

The formation of a departmental committee has already been announced. The committee is to identify opportunities that could arise from our marine natural heritage. These opportunities mainly concern growth in international trade, development of shipyards and enhancing the tourism potential.

However, if this innovative strategy is to succeed, practical steps must be taken now.

Accordingly, as part of Budget 2014-2015, the government is announcing that:

- the strategy to develop tourism along the St. Lawrence will be implemented;
- prefeasibility studies will be carried out to set up a high-value-added logistical hub in Montérégie;
- that incentives will be introduced to foster the modernization and renewal of vessels in Québec;
- additional investments for the blue economy.

TABLE B.17

Financial impact of implementation of the maritime strategy
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Develop tourism along the St. Lawrence	—	−2.0	−3.0	**−5.0**
Foster the implementation of a high-value-added logistical hub in Montérégie	−0.3	—	—	**−0.3**
Incentives to modernize and renew vessels in Québec	−0.1	−0.4	−0.8	**−1.3**
Enter Québec in the blue economy	−0.4	−0.4	—	**−0.8**
TOTAL	**−0.8**	**−2.8**	**−3.8**	**−7.4**

Comprehensive Economic and Trade Agreement between Canada and the European Union

The St. Lawrence, a strategic trade route between North America and Europe

The St. Lawrence occupies a strategic position in the major multimodal goods transportation routes. From the shores of Québec to western shores of Lake Superior, this seaway is the shortest route between the ports of Northern Europe and the American Midwest, two of the most industrialized areas in the world.

The Comprehensive Economic and Trade Agreement between Canada and the European Union

For Québec, the Comprehensive Economic and Trade Agreement between Canada and the European Union is the biggest free-trade agreement since the North American Free Trade Agreement, which came into effect in 1994.

Québec was one of the chief promoters of this new agreement that will provide Québec companies with preferred access to 500 million consumers.

With the Comprehensive Economic and Trade Agreement between Canada and the European Union and the North American Free Trade Agreement, Québec thus has an opportunity to position itself as one of the major logistical hubs for import-export activities between the two continents.

3.1 Develop tourism along the St. Lawrence

While the number of cruise ship passengers is growing, Québec's tourism industry is facing stiff competition from new international destinations.

The tourism potential of the St. Lawrence Seaway must be developed to highlight its myriad attractions.

In addition to the investments planned to redevelop the Dalhousie site, the government is announcing the deployment of the Stratégie de mise en valeur du Saint-Laurent touristique involving total investments of $80 million over three years. The government contribution for these investments will amount to $30 million, for a total investment of $61 million including the redevelopment of the Dalhousie site.[9]

The strategy will present tourists with an integrated offering of tourist attractions that have been developed in the regions along the St. Lawrence in particular. Linking the points of interest of these regions by land and marine routes into ten tourism hubs is central to the tourism development of the St. Lawrence.

In addition, efforts will be deployed to sustainably develop Québec's main tourist attractions as well as strategic marine products, such as international cruises and marine mammal observation activities.

To fund this strategy, $2 million will be allocated to the Ministère du Tourisme in 2015-2016 and $3 million for subsequent years.

The Minister of Tourism will announce the details of this strategy in the near future.

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9 The details of the announcement concerning the Dalhousie site are set out in section 8.2.

3.2 Foster the implementation of a high-value-added logistical hub in Montérégie

The Montérégie-Ouest region lies directly on the axis connecting the Québec-Ontario Trade Corridor with the American Midwest. For illustration, roughly 70% of containers currently carried by truck, train or from the Port of Montréal pass through the region.

Accordingly, to support the expected development of the Québec-Ontario Trade Corridor, the government is announcing a plan to implement a high-value-added multipurpose logistical hub in Montérégie.

— The logistical hub will consist of distribution logistical centres, warehouses and regional offices. In addition, it must have fast access to highways 30 and 40, proximity to the Port of Montréal and the trunk lines of Canadian National (CN), Canadian Pacific (CP) and CSX Transportation.

— In this regard, the government is considering extending boulevard de l'Assomption to improve access to the Port of Montréal.

With this integrated transportation network, the government intends to make the Montérégie-Ouest region one of the most favourable locations for the shipment of goods in North America.

Development of a logistical hub in Montérégie, along highway 30, will create one of the major North American trade logistical hubs for goods handling. It will act chiefly as a powerful attraction for manufacturing and industrial businesses looking to locate in zones known for fluid goods transportation.

❑ A concerted approach to development

Over the coming months, the Minister of the Economy, Innovation and Exports and the Minister for Transport and the Implementation of the Maritime Strategy will consult industry players and have prefeasibility studies carried out for the success of this structuring project for Québec's economy.

To that effect, $250 000 will be allocated to the Ministère du Conseil exécutif in 2014-2015 to carry out these studies.

International examples of logistical hubs

Logistical hubs are points of convergence of railways, highways, airports and seaways and feature a strong focus on multimodal transportation to foster:

- lower costs inherent in transhipment;
- less time needed for handling and distribution.

These advantages are major attractions for manufacturing and industrial businesses.

There are many international examples of logistical hubs.

Port of Savannah, Georgia, United States

The Port of Savannah, covering 565 hectares, consists of two terminals, one specializing in container handling and the other in other types of goods (vehicles and heavy freight).

With direct access to two railways and two highways, shipments forwarded via the Port of Savannah can quickly reach many markets in the United States.

The Port of Savannah accounts for 10% of all container exports from the United States and sustains 352 000 jobs throughout Georgia. It generates revenue in excess of $18.5 billion and $2.5 billion in taxes.

Dallas Logistic Hub, Texas, United States

The Dallas Logistic Hub opened in 2007. It offers a range of services to businesses, including the possibility of renting premises ready for use for warehousing or manufacturing purposes, or as office space.

The Hub also focuses on multimodal transport, being close to four highways, a railway and a commercial airport.

The site, with 2 400 hectares, has enabled the creation of thousands of jobs. It has helped the region experience significant demographic and industrial growth.

Bremen Cargo Transportation Centre (GVZ), Bremen, Germany

The 496-hectare Bremen GVZ is located near close to three major European ports, namely Hamburg, Bremerhaven and Wilhelmshaven.

Direct access to a highway and proximity to an airport equipped to handle containers make the GVZ an ideal place to take advantage of multimodal transport.

The site hosts some 150 companies that generate 8 000 jobs.

3.3 Incentives to modernize and renew vessels in Québec

To achieve the objectives of the maritime strategy, a fleet of modern and efficient vessels that satisfy the most demanding environmental requirements is needed. However, the existing fleet of vessels in Québec is aging, with vessels averaging between 35 and 40 years of age.

Accordingly, to encourage Québec shipowners, including cruise and excursion companies, to modernize and renew their fleet of vessels at a Québec shipyard, Budget 2014-2015 is introducing:

— an additional capital cost allowance of 50% for the construction or renovation of vessels;

— the creation of a tax-free reserve to fund maintenance, renovation or construction work of vessels.

In addition to making the marine transportation industry more competitive, these measures will support the creation or maintenance of jobs in shipyards in Québec's regions.

3.3.1 Additional capital cost allowance of 50% for the construction or renovation of vessels in Québec

To encourage the growth of activities in Québec's shipyards, Budget 2014-2015 is introducing an additional allowance of 50% for construction or renovation work on vessels carried out on behalf of Québec shipowners.

— Accordingly, for contracts entered into after the day of the 2014-2015 Budget Speech and before January 1, 2024, a business may deduct in calculating its income 150% of the cost of the eligible work.

This measure will have an immediate impact on shipowners, allowing them to quickly obtain cash resources and thus facilitating the financing of the work to be done.

The additional allowance will help encourage the reduction in greenhouse gas emissions through the use of more environmentally sensitive technologies, such as propulsion systems using liquefied natural gas or clean diesel fuel.

For Québec shipowners, this incentive will be in addition to the accelerated depreciation of 33 1/3% calculated on a straight-line basis currently stipulated for the acquisition of a new vessel built and registered in Canada or for the renovation of a vessel carried out in Canada.

Accordingly, the additional 50% deduction will enable a business that awards the construction or renovation work on such a vessel in a Québec shipyard, to amortize the investments over a shorter period and receive additional tax savings.

TABLE B.18

Parameters of the depreciation measures encouraging shipowners to undertake the building or renovation of vessels in Québec

Capital cost allowances for the construction or renovation of a vessel(1)	Place where construction or renovation of a vessel is carried out		
	Québec	Canada	Rest of the world
– Rate of the deduction(2)	33 1/3%	33 1/3%	33 1/3%
– Additional deduction(3)	50%	—	—
– Depreciation method	Straight-line	Straight-line	Declining-balance
– Depreciation period	3 years(4)	4 years	30 years

(1) Means a vessel that is built and registered in Canada and was not used for any purpose before being acquired.
(2) For the year of acquisition, the tax rules stipulate half the rate of depreciation.
(3) The additional deduction will apply for work done in a Québec shipyard under a contract entered into after the day of the 2014-2015 Budget Speech and before January 1, 2024.
(4) Considering the impact of the 50% additional deduction that makes it possible to accumulate by the third year a tax reduction corresponding to the one that would be obtained at the end of the depreciation period without such additional deduction.

❑ Illustration of the additional deduction of 50% for the construction or renovation of vessels in Québec

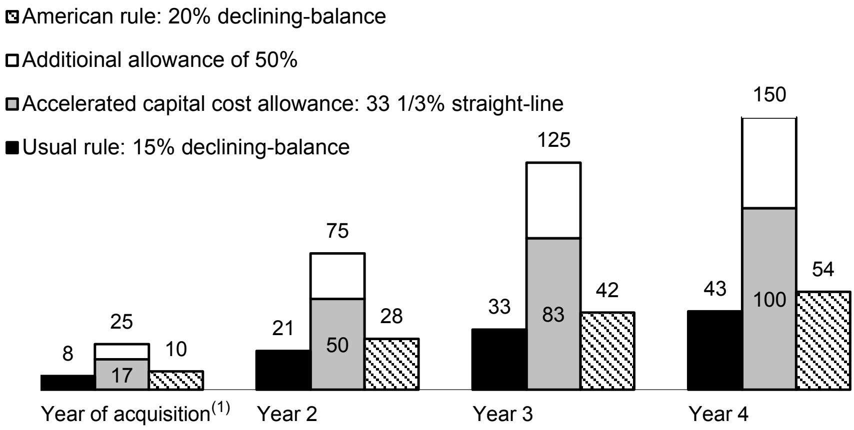
The combined effect of the additional deduction of 50% and the accelerated depreciation of 33 1/3% will enable a business, after four years, to claim deductions corresponding to 150% of the cost of acquisition of a vessel compared with 43% under the usual rule.

— The usual rule for depreciating a vessel stipulates a deduction of 15% using the declining-balance method. This rate applies regarding the acquisition of a vessel outside Canada.

Accordingly, investment will be fully amortized by the third year, a very short time compared to the useful life of vessels, and the shipowner will receive additional tax assistance.

CHART B.2

Illustration of the impact of the additional deduction of 50% for the construction or renovation of vessels in Québec
(accumulated depreciation and additional allowance, as a percentage of acquisition cost)



(1) For the year of acquisition, the tax rules stipulate half the rate of depreciation.

For a Québec shipowner who awards a $50-million contract to build a vessel to a Québec shipyard, the additional deduction of 50% will enable it to obtain tax assistance of almost $3.0 million, i.e. 6% of the cost of acquisition of the vessel, and to shorten the depreciation period of the vessel.

— With the additional deduction, the reduction in the shipowner's tax payable will be $8.9 million after four years, compared with nearly $6.0 million currently.

TABLE B.19

Tax savings realized by a Québec shipowner for the construction of a $50-million vessel in a Québec shipyard
(thousands of dollars)

Capital cost allowances (CCAs)	Year of acquisition(1)	Year 2	Year 3	Year 4	Total four years
Before Budget 2014-2015					
CCA of 33 1/3%, straight-line	8 333	16 667	16 667	8 333	**50 000**
Tax reduction(2)	**992**	**1 983**	**1 983**	**992**	**5 950**
After Budget 2014-2015					
CCA of 33 1/3%, straight-line	8 333	16 667	16 667	8 333	**50 000**
Additional deduction of 50%	4 167	8 333	8 333	4 167	**25 000**
Total	12 500	25 000	25 000	12 500	**75 000**
Tax reduction(2)	**1 488**	**2 975**	**2 975**	**1 488**	**8 925**
ADDITIONAL TAX SAVINGS	**496**	**992**	**992**	**496**	**2 975**

(1) For the year of acquisition, the tax rules stipulate half the rate of depreciation.
(2) Calculated at the general rate of 11.9%

3.3.2 Incentive for shipowners to create a tax-free reserve

Looking at the long-term development of Québec's marine industry, the government will encourage Québec shipowners to set up a reserve to accumulate capital tax-free in order to award work for the maintenance, renovation or construction of vessels to a Québec shipyard.

— In particular, eligible work will include converting vessels to liquefied natural gas engine propulsion system and the installation of equipment to reduce greenhouse gas emissions.

The funds accumulated in such reserve may be used to carry out maintenance, improvement or renewal work on vessels in Québec and will thus provide a tax benefit for customers.

The income from interest, capital gains and dividends on the deposits accumulated in the reserve will not be taxable, provided the withdrawals are used to have eligible work done in a Québec shipyard.

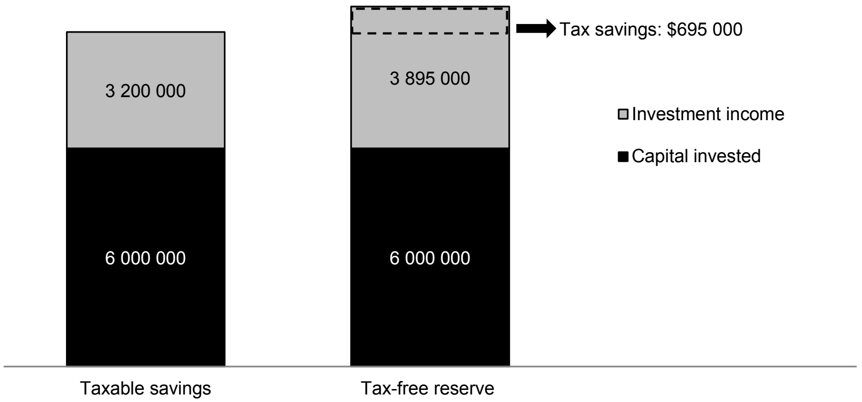
By setting up a reserve, the amounts a Québec shipowner deposits in the reserve will grow free of tax, offering substantial tax savings over a long period.

Advantages of a tax-free reserve

Considering the tax holiday allowed in relation to setting up a reserve for the maintenance, construction or renovation of vessels in Québec, a shipowner who deposits $25 000 per month in his reserve for 20 years, will have $695 000 more available than had it deposited the same amount in a traditional savings account at an annual rate of return of 4% after federal and Québec tax.

This gain is attributable to the accumulation of interest, dividends and capital gains free of tax, generating higher investment income over a long period.

Tax savings available to Québec shipowners by setting up a tax-free reserve
(dollars)



(1) Assuming monthly deposits of $25 000 for 20 years and an annual rate of return of 4% after federal and Québec tax in relation to a taxable savings account.

3.4 Enter Québec in the blue economy

The blue economy applies to everything that has to do with exploitation and development of sea products. This industry is growing internationally and offers a significant opportunity for economic growth for Québec's coastal regions, where the blue economy is emerging.

Québec has strengths to take a strategic position in this industry, in particular in the marine biotechnology sector.

Marine biotechnology applications make it possible to reach very lucrative markets in the pharmaceutical sector, among others. Indeed, two institutions are in the forefront in this area:

— the Centre de recherche sur les biotechnologies marines (CRBM) in Rimouski;

— the Institut des sciences de la mer de Rimouski (ISMER).

❑ Invest in research and development to hold a strategic position

To continue developing the blue economy, the government is announcing additional investments of $800 000 over two years in research and development, in particular in the marine biotechnology field.

These investments will support the activities of CRBM and ISMER.

Accordingly, additional funding of $400 000 in 2014-2015 and 2015-2106 will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations. For 2014-2015, the stipulated amounts will be drawn from the Contingency Fund.

Two promising institutions

The Centre de recherche sur les biotechnologies marines (CRBM)

The mission of the CRBM is to support the industrial growth of marine biotechnology through research and development. It has technological and scientific facilities in research, development and innovation that satisfy the most demanding operating standards of businesses in the biotechnology sector.

Its main specific objectives are:

- to support technological innovation and the transfer of new technologies and products to businesses;
- to undertake and carry out research, technology development, business services and technology monitoring in the field of biotechnology, more specifically marine biotechnology.

The Institut des sciences de la mer (ISMER)

Attached to the Université du Québec à Rimouski (UQAR), ISMER is the largest francophone university research centre in ocean sciences in Canada.

- It has an international reputation.

UQAR-ISMER professors and students carry out research throughout the world. This research has advanced knowledge in many fields, including the impact of climate change, aquatic resources and aquaculture, the state of health of marine ecosystems, the impact of contaminants on coastal ecosystems and the marine geology of Est-du-Québec.

Sources: Centre de recherche sur les biotechnologies marines and Université du Québec à Rimouski.

4. RELAUNCHING THE PLAN NORD

Development of Northern Québec's natural resources represents a powerful engine of growth for all of Québec's regions. The government is moving swiftly to bring back the plan for development north of the 49th parallel and maximize the economic benefits across all regions of Québec. This will be done in keeping with the principles of environmental protection and sustainable development.

The government is continuing and enhancing the work initiated under the Plan Nord.

In relaunching the Plan Nord, the government will ensure in particular that:

- the conservation objectives for the territory are met;
- local and Aboriginal communities will be better equipped to take part in the project and derive greater benefits from natural resource development in the territory;
- equipment manufacturers and other Québec enterprises will benefit from development projects in Northern Québec, particularly in the mining sector;
- vocational training programs throughout Québec will train more skilled workers to meet the labour force needs north of the 49th parallel;
- Québec will be on the cutting edge of research and innovation relating to the North;
- Northern Québec will become a world-class travel destination.

As a first step, Budget 2014-2015 announces the creation of the Société du Plan Nord and the following substantial investments:

- $1 billion for the creation of Capital Mines Hydrocarbures;
- $100 million for training for Aboriginal populations;
- $20 million for a study to develop a new rail line to improve access to the Labrador Trough;
- $3.2 million to support implementation of the Québec Tourism Strategy North of the 49th Parallel;
- $3 million to help establish a new northern development research centre.

In the coming months, the government will unveil the details of its vision and directions as well as the governance structure for redeployment of the Plan Nord.

❑ A new ministerial committee for the Plan Nord

To support sustainable development of Northern Québec, the government has formed a ministerial committee (Comité ministériel du Plan Nord) to relaunch the Plan Nord and all of its components: economic, social and environmental.

The Comité ministériel du Plan Nord
Chaired by the Minister of Energy and Natural Resources and Minister responsible for the Northern Plan, the Comité ministériel du Plan Nord was formed in May 2014 and is made up of 14 ministers. The committee is tasked with: – determining and submitting guidelines to the government for relaunching the Plan Nord, and advising the government on all matters relating to sustainable development of the North; – ensuring all regions derive maximum economic benefits from the Plan Nord and that local and Aboriginal communities are respected and involved; – planning the infrastructures required for economic and social development of the territory covered by the Plan Nord; – ensuring that the workforce training required for sustainable development of the North is available, especially in Aboriginal communities; – ensuring alignment between government policies and measures relating to the territory covered by the Plan Nord while coordinating the actions of the government, its departments and the principal stakeholders in the territory; – planning the creation of the Société du Plan Nord; – helping promote the Plan Nord around the world to attract investments.

The Comité ministériel du Plan Nord, which is already operating, can rely on support from the Secrétariat au Plan Nord, which is performing the functions of the Société du Plan Nord until the latter is created.

The Secrétariat au Plan Nord
The Secrétariat au Plan Nord is under the responsibility of the Minister of Energy and Natural Resources and Minister responsible for the Northern Plan. Its mission is to establish and submit guidelines for relaunching the Plan Nord, including establishment of the Société du Plan Nord. It acts as the link between economic and social development in the Plan Nord territory respecting the principles of sustainable development and between the different players carrying on those activities. It is responsible for optimizing all public resources available to northern regions to facilitate harmonious, ethical and respectful development with the populations concerned.

4.1 Establishment of the Société du Plan Nord

To ensure responsible development of the North, with involvement of and respect for the local and Aboriginal communities, the government pledges to make the establishment of the Société du Plan Nord a priority.

The Société du Plan Nord will report to the Minister of Energy and Natural Resources and Minister responsible for the Northern Plan.

❑ Mandate of the Société du Plan Nord

The Société du Plan Nord will play a key role in the implementation of the government strategy for responsible and sustainable development of Northern Québec's natural resources. It will be responsible for coordinating the territory's development in consultation with all partners, including local and Aboriginal communities to ensure their support.

The mandate of the Société du Plan Nord will be to coordinate government action with the departments and agencies concerned to:

— ensure that existing government programs meet the needs of the different local and Aboriginal stakeholders in the Plan Nord;

— open up the territory through strategic infrastructure fostering Northern Québec's economic development;

— put the necessary conditions in place to foster greater involvement of northern peoples in the development of their territory;

— stimulate socioeconomic projects north of the 49th parallel;

— ensure equitable distribution of the economic benefits among the local and Aboriginal communities and Quebecers as a whole so that the Plan Nord becomes a unifying project.

The Société du Plan Nord will work collaboratively with the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques and the other departments concerned to foster biodiversity conservation, in particular to achieve the goal of protecting 50% of the area north of the 49th parallel.

Adequately conserve and manage the North's biodiversity
A rich and diverse biodiversity The vast northern territory of Québec harbours a great diversity of natural ecosystems and habitats that enriches our ecological heritage, including some 40 extremely rare plants designated as threatened or vulnerable species in Québec or even worldwide. Certain animal and plant species are vital to local communities. This biodiversity is of great importance to the culture, traditions and very subsistence of Aboriginal peoples. It is just as important to everyone who enjoys a unique experience doing any of the many activities offered in the North. The North's rich and diverse ecosystems and high biological diversity are equally fragile. The many opportunities for developing and exploiting the territory's natural resources must be managed sustainably and responsibly based on reliable and recent scientific knowledge. Integrating ecological planning into sustainable, responsible resource development and exploitation will ensure exemplary economic development in the Plan Nord territory.

The Société du Plan Nord will develop a strategic plan to give effect to the government's commitments as well as the necessary action and capital spending plans.

The Société du Plan Nord will be financed primarily through the Northern Plan Fund.

The bill establishing the Société du Plan Nord will be tabled in the coming months.

Northern Plan Fund

The Northern Plan Fund will be reserved for funding strategic infrastructure, social measures and measures to develop and protect the territory covered by the Plan Nord.

The Fund will be financed primarily by a portion of the tax spinoffs from economic activity north of the 49th parallel.

The local populations will thus share in the benefits derived from resource development in their territory.

Through its operations, the Fund will support economic diversification in northern communities.

The allocation to the Fund will be determined annually taking into account the tax spinoffs attributable to investments made in the Plan Nord territory to develop the natural resources found there and to build public infrastructure.

The following will be taken into account:

- direct tax spinoffs from mining projects;
- direct and indirect spinoffs arising from Hydro-Québec projects, including the public utilities tax;
- direct and indirect spinoffs from public infrastructure projects.

To reflect changes in the projects undertaken in the territory and the associated spinoffs, the allocation to the Fund will be revised annually.

For fiscal year 2014-2015, the government plans to allocate $63 million to the Northern Plan Fund.

Between now and 2035, total funding of around $2 billion will be set aside for the Northern Plan Fund to support development initiatives for Northern Québec.

❑ A new marketing office

The Société du Plan Nord will include a marketing office charged with informing Québec businesses in both southern and northern Québec of the supply and equipment needs of prime contractors.

— The office will be responsible for, among other functions, networking between mining equipment manufacturers and prime contractors.

— Its activities will be financed out of the funding allocated to the Société du Plan Nord.

To support machine suppliers, equipment manufacturers and industrial subcontractors, Investissement Québec will be mandated to identify the needs of prime contractors and assist businesses in their development.

— Futhermore, to foster development of equipment manufacturers, the latter will have access to government and Investissement Québec programs.

4.2 Strategic investment to foster the development of and access to the territory

The government, through the Northern Plan Fund, intends to support strategic investment that will foster the development of and access to the territory, for the benefit of the local and Aboriginal communities. To that end, Budget 2014-2015 provides for:

— new investments in local training for Aboriginal people;

— creation of the Institut nordique du Québec;

— a study to develop a new rail line to improve access to the Labrador Trough;

— relaunching of the Québec Tourism Strategy North of the 49th Parallel;

— the supply of natural gas to the Côte-Nord region and the rest of the territory covered by the Plan Nord.

4.2.1 Investment of $100 million to train Aboriginal people

Education is vital to Northern Québec's economic development.

Currently, the ability of northern communities to derive benefits from the economic activity created by the Plan Nord can be limited by the lack of educational facilities and scarce supply of vocational training matching the needs of the labour market. The government intends to address this issue by:

- establishing suitable educational facilities that will contribute to the academic and vocational success of people living in the North, in particular Aboriginal people;
- train a greater number of skilled workers to meet the extra labour needs created by deployment of the Plan Nord.

For that purpose, Budget 2014-2015 provides for investments totalling $100 million to:

- improve the training supply in the North and upgrade some of the existing infrastructure;
- better equip vocational training centres across Québec to meet needs in the North.

Training needs

Existing infrastructure in need of upgrading

At the moment, the school facilities run by the Cree and Kativik school boards are not in suitable condition to support the projected increase in students in the coming years.

- For example, the number of students enrolled in the Cree School Board is expected to grow by nearly 20% by 2024.

Vocational training supply in need of improvement

Not a lot of vocational training is either available or accessible to the Aboriginal population and what is could be better adapted to the local labour needs.

This situation compels many young Aboriginal people to leave home and move further south to study in urban centres.

Young people with proper job training are crucial to the development of northern communities.

❑ $90 million for developmental projects that benefit Aboriginal people

As part of Budget 2014-2015, the government is announcing new investments totalling $90 million to fund developmental projects within the Cree School Board and the Kativik School Board, such as:

— expansion or construction of elementary and secondary schools;

— inclusion of adult general education and vocational training programs adapted to the needs of the local job market in the study programs offered by some of the school board's existing schools;

— construction of Aboriginal adult education and vocational training centres.

These investments will be financed by the Northern Plan Fund, up to $15 million.

The remainder of the funding will come from the Ministère de l'Éducation, du Loisir et du Sport (MELS) and the federal government and be determined according to the projects selected.

These new investments are in addition to the $19.4 million already allocated in the financial framework of the Plan Nord for a series of measures promoting vocational training for Aboriginal people, namely:

— construction of a multipurpose centre in Sept-Îles;

— renovation of a multipurpose training centre in Chibougamau;

— acquisition and fitting out of a modular, mobile metallurgy plant-school in Chibougamau;

— a feasibility study on a planned mining school specializing in surface deposits.

❑ $10 million to train skilled workers

There are not enough vocational training centres in the North to meet the high needs for skilled workers.

To fill the local labour gap, the government is announcing the injection of $10 million in new funding to enable vocational training centres in the other regions of Québec to address the labour shortage in the North.

The new funding will enable vocational training centres throughout Québec to train more skilled workers to meet the labour needs of firms doing business in Northern Québec.

A training supply that is better matched to the needs of the northern job market will support development activities in the North.

The $10 million in funding will be provided by MELS. The details of this investment will be announced soon by the Minister of Education, Recreation and Sports.

4.2.2 A new northern development research centre

The government is delivering on its promise to support research and development to advance knowledge about northern regions.

As part of the revived Plan Nord, the government is announcing the creation of the Institut nordique du Québec, a new interdisciplinary and inter-institutional research and innovation centre that will:

— strategically position Québec as a research and innovation hub for issues and matters relating to the North;

— make Québec a major centre for important international scientific events.

The mission of the Institut nordique du Québec will be to fuel scientific discussion about sustainable development of Northern Québec and stimulate innovation and wealth creation.

— It will help provide government, community and private-sector decision makers with the scientific knowledge and technical expertise needed to develop Northern Québec in a sustainable manner.

The Institute will bring together experts in the fields of natural sciences, social sciences, health sciences and engineering.

— The Institute's work will be headed by Université Laval and conducted in cooperation with the main players in northern development, including local and Aboriginal communities, established university centres and public and private sector partners.

— It will be located on the Université Laval campus in Québec City.

The sum of $3 million over three years, taken out of the Northern Plan Fund, will be allocated to the creation of this new research centre.

4.2.3 Study to develop a new rail line to improve access to the Labrador Trough

Developing the mining potential of the Labrador Trough is a cornerstone of Northern Québec's economic development.

With the relaunching of the Plan Nord, the existing rail capacity may not be sufficient to support the region's development or meet the anticipated transportation needs.

To ensure adequate service, a new multi-user rail line from the Port of Sept-Îles to the Labrador Trough might be necessary.

— Construction of a new rail line could be very beneficial to Québec SMEs, including mining equipment manufacturers.

— Rail transport produces less greenhouse gas than other modes of transportation.

Undertaking the necessary work to better assess this option is crucial.

❑ Study to determine the optimal railway option

In the coming months, the government hopes to evaluate the need for a new rail link to the Labrador Trough and, if so, determine the optimum features of the new infrastructure.

— The option of modifying existing rail lines to increase their capacity will also be evaluated and taken into account in determining the need for a new railway line.

The government is setting aside a maximum of $20 million from the Northern Plan Fund to contribute financially to a study to determine the optimum rail option for:

— meeting the anticipated transportation needs between Sept-Îles and the Labrador Trough, considering the concerns of all potential users;

— enable a multi-user system;

— favour the conclusion of a joint investment agreement between private sector partners to implement this option.

❑ Call for expressions of interest by private partners

Several mining companies are conducting mineral exploration in the Labrador Trough. Some of them might be interested in participating in the study and benefiting from the results.

In the short term, the Secrétariat au Plan Nord, working with the Ministère des Finances, the Ministère de l'Énergie et des Ressources naturelles, the Ministère des Transports and the Ministère de l'Économie, de l'Innovation et des Exportations, will be holding a call for expressions of interest to identify private partners interested in contributing to the study and helping prepare the specifications.

— Proceeding in this way will help garner support for the project and make it possible to share the costs with other private partners.

The contribution of private partners could take the form of financial support or even past studies or technical data in their possession.

— The government will contribute up to $20 million.

❑ A joint venture to see the study through

Depending on the number of partners interested in participating in the study, the government will evaluate the possibility of creating a joint venture as early as this summer to:

— consolidate the contributions of each partner;

— move quickly in conducting a study that reflects the interests of all partners.

Based on the information compiled with the partners and the available funding, the study could aim to:

— confirm the need for a new rail link;

— find the optimal railway alignment for the purpose of developing the Labrador Trough or options for optimizing existing infrastructure;

— determine the technical parameters (type of railway, load capacity, etc.) based on environmental and geotechnical studies;

— estimate construction costs;

— define operation and management terms that enable access to all projects.

4.2.4 Québec Tourism Strategy North of the 49th Parallel

The government plans to make Northern Québec a world-class travel destination providing an authentic and exceptional tourism experience.

To that end, the government is reviving the Québec Tourism Strategy North of the 49th Parallel: Cultures and Wilderness to Discover announced in November 2011.

The objectives of the strategy, which is to build on dynamic, qualified stakeholders and vital communities, are to:

— diversify and stimulate the economy of northern regions by starting or consolidating travel companies;

— increasing tourism receipts and creating jobs in the territory covered by the Plan Nord.

The government is announcing funding of $3.2 million in 2014-2015 to support the implementation of the Québec Tourism Strategy North of the 49th Parallel as well as hiring in the Nunavik, Côte-Nord and James Bay–Eeyou Istchee regional tourism associations. The funding will come from the Northern Plan Fund.

4.2.5 Natural gas supply for the Côte-Nord region

Developing Northern Québec is a large-scale project the benefits of which the government wants to maximize. A natural gas supply would be of great asset to the Northern Québec and Côte-Nord regions.

— From an environmental standpoint, natural gas produces fewer greenhouse gas (GHG) emissions than fossil fuels, the source of energy currently used by the majority of industries.

— From an economic standpoint, this is an advantage for existing industries and an incentive for industries contemplating setting up business in the Côte-Nord and Northern Québec regions, as using natural gas will make them more competitive.

❑ Acceleration of liquefied natural gas distribution

The government is looking to accelerate the supply of natural gas to the Côte-Nord and Northern Québec regions and ensure rapid distribution as of 2016. Several options are possible. A number of companies have shown an interest in transporting liquefied natural gas (LNG) by sea or land.

An interministerial committee will be struck to ensure that the best possible infrastructure for consumers is set up. The committee will be under the responsibility of the Secrétariat au Plan Nord and be composed of the Minister of Finance, the Minister of Energy and Natural Resources and the Minister of the Economy, Innovation and Exports.

— The committee will be tasked with reviewing projects to serve the Côte-Nord and Northern Québec regions with liquefied natural gas.

— Once the environmental and financial profitability of each project has been demonstrated, the committee will select the projects that are best for Québec as a whole.

A gasification facility will need to be built for any new industrial client that uses LNG. These facilities are subject to environmental impact assessment and review under the *Environment Quality Act*.

— The assessment and review process can take up to 15 months and could delay LNG distribution.

To ensure faster distribution to the Côte-Nord and Northern Québec, temporarily and for LNG only, the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques will ensure that the Bureau d'audiences publiques sur l'environnement (BAPE) has the means necessary to fast-track the review process in order to supply consumers with LNG as soon as it becomes available.

Chamouchouane–Bout-de-l'Île Project

Hydro-Québec (H-Q) is responsible for supplying electricity to all Quebecers. The bulk of that electricity is produced in the territory covered by the Plan Nord. The government corporation makes annual investments to maintain and improve the quality of its services.

H-Q's investments have a significant impact on Québec's economy. A number of projects are currently being developed north of the 49th parallel to make H-Q TransÉnergie's transmission grid more efficient. The Chamouchouane–Bout-de-l'Île Project represents an investment of $1.1 billion by H-Q TransÉnergie, the bulk of which will be made between 2016 and 2018.

The project will have an estimated economic impact of $133 million, including the creation of 1 000 jobs over five years. The economic benefits will arise primarily from the construction of the new transmission line, modifications to Chamouchouane substation and work on Bout-de-l'Île substation.

The growing demand in the east end of the island of Montréal and the southern part of the Lanaudière region made new infrastructure necessary to ensure quality service and a reliable electrical supply in these regions.

The Chamouchouane–Bout-de-l'Île Project consists in building a new 735-kV transmission line, 400 km long, between Chamouchouane substation in the Saguenay and Bout-de-l'Île substation in the Montréal area, with commissioning planned for September 2018.

- H-Q TransÉnergie held public consultations on the project in 2013 to inform communities in the regions concerned.
- H-Q TransÉnergie submitted its environmental impact statement to the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs in December 2013.
- In April 2014, H-Q TransÉnergie submitted a request to the Régie de l'énergie for the 735-kV Chamouchouane–Bout-de-l'Île line.
- The Bureau d'audiences publiques sur l'environnement will make its recommendations following the review process.

The Chamouchouane–Bout-de-l'Île Project is necessary to ensure the reliability and security of the power system, especially during the peak demand period in winter.

In addition, new electricity supply sources need to be integrated, including the Romaine hydroelectric complex north of the 49th parallel and the wind farms arising from the call for tenders issued in 2005 for 2 000 MW of wind energy.

4.3 Creation of Capital Mines Hydrocarbures

The government is confirming the creation of Capital Mines Hydrocarbures (CMH), a fund whose mission will be to acquire equity interests in companies that extract mineral substances from land in the domain of the State.

The fund will be established within the Ministère de l'Économie, de l'Innovation et des Exportations and receive an allocation of $1 billion:

— $500 million to acquire equity stakes in projects in the territory covered by the Plan Nord;

— $500 million to acquire equity stakes in projects throughout Québec.

By creating this fund, the government is reaffirming its desire to encourage responsible development of non-renewable natural resources for the benefit of all Quebecers.

❑ Management of the Capital Mines Hydrocarbures fund

The CMH fund will be managed by Ressources Québec, a subsidiary of Investissement Québec. Ressources Québec, working with the Minister of the Economy, Innovation and Exports, will be the gateway for businesses. Its mandate will be to review planned investments and then make and manage the investments.

To fulfil its mandate, the Minister of Finance, the Minister of the Economy, Innovation and Exports and the Minister of Energy and Natural Resources will work in concert to devise an investment policy for financial activities. The policy will be submitted to the government for approval.

Ressources Québec will have to submit its analyses and recommendations to the three ministers mentioned above, who may give it directives regarding investment projects.

The equity stakes taken by the government, through the Economic Development Fund, in the mining and oil and gas sector, will be transferred to CMH.

Briefly, the $1-billion allocation to CMH will be in addition to Ressources Québec's authorized capital of $250 million announced in Budget 2012-2013, raising the total allocation for activities in the non-renewable natural resource sector to $1.25 billion.

TABLE B.20

Activity funding under Ressources Québec's management (mining and oil and gas)
(millions of dollars)

Funding allocation of the Capital Mines Hydrocarbures fund	
– Amount for the Plan Nord territory	500
– Amount for all of Québec	500
Total – Funding allocation of the Capital Mines Hydrocarbures fund	**1 000**
Authorized capital for Ressources Québec(1)	**250**
TOTAL	**1 250**

(1) Excluding the portfolios transferred from Investissement Québec to be under Ressources Québec's management as soon as the latter has been established.

5. Supporting the forest industry

Natural resources have always been central to Québec's economic development, especially in the regions. Québec has a rich abundance of diverse natural resources, but it is crucial that they be exploited in a responsible and sustainable manner. Its forests are a prime example.

Covering over 45% of the territory of Québec and roughly 2% of the world's total forested area, Québec's forests constitute a collective heritage that also generates a significant number of jobs for Québec families.

However, the forest industry has struggled in recent years, faced with complex issues of competitiveness and productivity.

Reviving the forest sector is vital and requires:

- modifying the composition, quality and yield of forests to better meet the industry's needs;
- enhancing all components of the forest resource, in particular residual material.

On April 29, 2014, the government announced an additional injection of $42 million a year into the budget allocated to silvicultural work, raising the total funding for this component to $225 million a year.

With Budget 2014-2015, the government is taking further action to:

- ensure sustainable forest harvesting;
- support the acquisition of forestry equipment;
- foster development of the forest biomass sector.

The announced measures to revive the forest industry will be self-funded from the government's spending growth objective.

5.1 Funding to achieve sustainable forestry

The forest industry is important in Québec, particularly in the regions. The forest sector provides over 55 000 jobs and generates total revenue of nearly $17 billion.

In 2014-2015, the government invested $570 million to foster sustainable development of Québec's forests and ensure lasting employment in the sector as well as the economic vitality of forestry-reliant regions.

The considerable sums devoted to silvicultural work and forest development and management will not only preserve Québec's forest heritage for future generations, but also stimulate economic activity in resource regions and improve the standard of living of our workforce.

TABLE B.21

Net government contribution to sustainable forestry
(millions of dollars)

	2013-2014	2014-2015
Royalties and dues payable for harvested timber	**226**	**266**
Expenditure		
Silvicultural work	166	225
Forest development and management(1)	346	345
Total – Expenditure	**512**	**570**
NET CONTRIBUTION	**–286**	**–304**

(1) Including seedling production.

Funding for sustainable forestry is ensured through the revenue generated by the royalties and dues payable for timber harvesting and through budgetary appropriations.

These sums cover expenditures on silvicultural work to maintain forest capacity, seedling production, the activities of the Société de protection des forêts contre les insectes et les maladies (SOPFIM) and the Société de protection des forêts contre le feu (SOPFEU), as well as the various forest development and management programs.

TABLE B.22

Funding of sustainable forestry
(millions of dollars)

	2013-2014	2014-2015
From royalties and dues	220	239
From budgetary appropriations	292	331
TOTAL	**512**	**570**

5.2 Supporting the acquisition of forestry equipment

In order for the forest sector to renew itself, modernization and access to more-sophisticated and more-efficient equipment are vital.

Purchasing this kind of equipment represents significant investments on the part of developers, but access to financing can be problematic.

Budget 2014-2015 includes government support for the forest industry by making it easier for companies and forestry cooperatives to obtain financing to purchase equipment.

❑ $20 million to support the forest industry

For the forest industry to be in a better position to overcome challenges relating to productivity and competitiveness, financing costs must remain reasonable.

To that end, the government is announcing the broadening and enhancement of the ESSOR program.

Broadening the program will enable forest and silvicultural contractors and transporters to be eligible for assistance.

— They will be eligible for loan guarantees on loans of up to $600 000.

— In the event of a loss, the government will cover up to 80% of the amount owing, up to $160 000.

A total of $20 million over three years will be allocated to the carrying out of financial activities. The required sums will come out of the funding allocated to the Ministère des Forêts, de la Faune et des Parcs and the Ministère de l'Économie, de l'Innovation et des Exportations.

5.3 $20 million in new funding to foster development of the forest biomass sector

Residual forest biomass constitutes another renewable energy source for heating. Thus, the target market for the forest biomass sector is complementary energies to non-renewable, polluting energy sources such as light and heavy fuel oil and propane.

The government is announcing an investment of $10 million to set up a new fund to accelerate development of this new and promising sector. Investissement Québec will be the government's mandatary.

In addition to the government's investment, Fondaction will invest $10 million and the Fédération québécoise des coopératives forestières (FQCF), $200 000, raising the total capitalization of the fund to $20.2 million.

TABLE B.23

Total capitalization of the new fund
(millions of dollars)

	Amount of contribution
Fondaction	10.0
Québec government	10.0
FQCF	0.2
TOTAL	**20.2**

The purpose of the fund will be to, among other things, finance the physical conversion of heating installations using fossil fuels to heating installations using residual forest biomass, new heating installations if it is demonstrated that the alternative would have been to use fossil fuels and new installations, or upgrading of biomass processing and conversion centres.

Financed projects will contribute to the economic development of Québec's regions as well as environmental conservation, while creating partnership opportunities with forestry cooperatives.

The fund will be a limited partnership and investments will be in the form of loans and quasi-equity. The terms will be negotiated on a case by case basis given the wide range of potential projects.

The details of the fund will be announced soon by the Minister of the Economy, Innovation and Exports and the Minister of Forests, Wildlife and Parks.

6. DEVELOPING ALL NATURAL RESOURCES

Québec is rich with natural resources and their development is a source of collective wealth. Developing the natural resources sector is important for Québec's economy.

— The mining sector has the potential to make a major contribution to Québec's economic growth over the coming years provided the situation in Québec is favourable for its expansion.

— The oil sector holds promise. However, to act prudently and transparently, the government wants more information on the issues and best practices relating to oil and gas development.

To develop Québec's natural resources, the government is acting to implement a favourable situation for the mining sector by taking an approach that encourages its development and stabilizing investment conditions.

In addition, to learn more about the consequences associated with oil and gas development in Québec, the government will conduct two strategic environmental assessments.

Lastly, to provide local and aboriginal communities with leverage to help them take charge of their economic development, the government is reviving the program to purchase electric power from small hydroelectric plants.

TABLE B.24

Financial impact of the development of all natural resources
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Stable mining tax regime				
– Inclusion of hydrometallurgy in calculating the processing allowance	−1.0	−1.0	−1.0	**−3.0**
– Adjustment to the grading of precious stones	0.1	0.1	0.1	**0.3**
– Transfer of tax audit activities of mining corporations to Revenu Québec	—	—	—	**—**
Subtotal	**−0.9**	**−0.9**	**−0.9**	**−2.7**
Strategic environmental assessments concerning oil and gas	−3.0	−2.0	—	**−5.0**
Regulation respecting water protection and removal	−1.5	—	—	−1.5
Revival of the program to purchase electric power from mini hydroelectric plants	—	—	—	**—**
TOTAL	**−5.4**	**−2.9**	**−0.9**	**−9.2**

6.1 Stable mining tax regime

Developing and operating a mine requires long-term planning. The mining investments being made in Québec today are designed to develop a deposit for many years.

Stable conditions for the development of a deposit are therefore essential to attract mining investments and ensure the development of this important sector for Québec's economy.

Accordingly, the government is confirming that the mining tax regime announced on May 6, 2013 and in force since January 1, 2014 will continue to apply, and it will bring forward legislative amendments to that end.

— Following 18 months of instability in Québec's mining sector, the government intends to put in place a favourable context for mining development in Québec.

Advisory committee
The Québec government favours transparency and cooperation in managing mining development because it considers such an approach essential to successful development. Accordingly, the Ministère de l'Énergie et des Ressources naturelles will work to tighten links and facilitate communication among the various mining development stakeholders. More specifically, it will set up an advisory committee charged with making recommendations to support mining development for the benefit of all.

Following consultations with the industry, it appears that three adjustments must be made to the mining tax regime to foster mining projects and the processing of ore in Québec. Accordingly, the government:

— will include hydrometallurgy in calculating the processing allowance;

— will adjust the procedures for the grading of precious stones;

— will consolidate, as of April 1, 2015, audit activities relating to corporate tax and the mining tax within Revenu Québec.

To facilitate public access to information on this sector, the Québec government will participate in the federal government's initiative on mandatory reporting standards for extractive companies.

Moreover, the Québec Taxation Review Board may make recommendations to the government on possible adjustments to the mining tax regime to further foster the sector's development.

The mining tax regime

This new mining tax regime has been in force since January 1, 2014. The major changes to the regime are:

- introduction of a minimum mining tax;
- introduction of a progressive mining tax on profit;
- enhancement of the processing allowance.

Under the mining tax regime, corporations pay either the minimum mining tax or the mining tax on profit, whichever is greater. The mining tax regime also includes a provision under which the more profitable an operator is, the higher the marginal tax rate applicable to the mining profit.

- The tax rate ranges from 16% to 28%, depending on the profit margin.

The minimum mining tax payable for a fiscal year is carried forward to be applied against the mining tax on future profit, in the form of a non-refundable minimum mining tax credit.

To encourage the processing of ore in Québec, the new regime enhances the processing allowance.

- Where the mine operator carries out processing activities in Québec, the rate applicable on eligible assets in Québec is 20%.
- The rate applicable on eligible assets in Québec is lower, i.e. 10%, where the mining operator carries out concentration activities exclusively.

The maximum processing allowance corresponds to the greater of 75% of the annual earnings or 30% of the output value at the mine shaft head regarding the mine.

Parameters of the new mining tax regime
(per cent)

	Applicable rates
Minimum mining tax	
– On the first $80 million of output value at the mine shaft head	1
– On the output value at the mine shaft head in excess of $80 million	4
Mining tax on profit by profit margin bracket(1)	
– From 0% to 35%	16
– From 35% to 50%	22
– From 50% to 100%	28

(1) Mining profit of the operator divided by the total of the gross value of annual output for all the mines it operates.

6.1.1 Inclusion of hydrometallurgy in calculating the processing allowance

To support ore processing requiring the use of a hydrometallurgical process, the government is announcing changes to the calculation of the processing allowance to include the cost of hydrometallurgical assets.

— Hydrometallurgy is a purification process that involves dissolving the various metals contained in ore or concentrate to separate them and eliminate impurities.

While hydrometallurgy is a primary processing activity, the assets used in the course of the process are currently not considered for determination of the mining tax regime's processing allowance.

— Hydrometallurgy is an increasingly widespread technology and is used, among others, in processing rare earths and lithium.

— Accordingly, this processing technique could contribute to the emergence of new export markets for Québec's mining companies developing new substances in Québec.

Broadening the processing allowance in this way will result in a reduction in mining duties of $1 million per year.

TABLE B.25

Inclusion of hydrometallurgy in calculating the processing allowance
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Inclusion of hydrometallurgy	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0

The processing allowance

The purpose of the processing allowance is to zero-rate the profit resulting from the processing or ore by allowing a theoretical return on processing assets.

- The amount of the processing allowance depends on the cost, the type of assets, the annual earnings and the output value at the mine shaft head regarding the mine.

Currently, the *Mining Tax A ct* defines processing as any activity involving the concentration, smelting or refining of a mineral substance and any activity involving pelletization, production of powder or production of steel billets.

Activities eligible for the processing allowance

Processing stages	**Ore extraction and processing**	**Primary processing of metals**
Activities	– Comminution – Crushing – Grinding – Sifting – Concentration – Gravimetry – Magnetic separation – Electrostatic separation – Flotation	– Smelting and refining – Hydrometallurgy(1)

(1) Activity now eligible.

6.1.2 Adjustment to the grading of precious stones

The activities related to the development of precious stones in Québec take place in geographically remote regions, adding to the complexity and cost of the grading process.

— The *Mining Tax Act* stipulates that precious stones must be graded on the mine site before they are cut and polished, once they have been sorted and cleaned.

The costs of the grading process are borne by the mining company. The mining company must reimburse the Minister of Energy and Natural Resources for the expenses paid in return for the services provided by the grader mandated by the Minister.

To reduce the costs associated with the grading process that mining companies must cover, the government intends to be flexible regarding where precious stones are graded while ensuring that the grading process is rigorous.

— Accordingly, this reduction in production costs will lead to a rise in mining duties and income tax collected by the government.

Budget 2014-2015 stipulates that the *Mining Tax Act* will be amended to allow precious stones to be graded outside the mine site provided the authorization of the Minister of Energy and Natural Resources is obtained.

— Regardless of where grading takes place, the grading process must be rigorous and enable the Ministère de l'Énergie et des Ressources naturelles to ensure its integrity.

This measure will add $100 000 per year to the government's revenues from mining duties.

TABLE B.26

Adjustment to the grading of precious stones
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Adjustment to the grading process	0.1	0.1	0.1	0.1	0.1	0.5

6.1.3 Transfer of mining company tax audit activities to Revenu Québec

In Québec, mining tax audits are carried out by the Ministère de l'Énergie et des Ressources naturelles, while Revenu Québec enforces all of Québec's other tax laws.

To bolster the efficiency of interactions between the government and mining companies regarding taxation, the government is announcing that responsibilities relating to the enforcement of the *Mining Tax Act* will be transferred to Revenu Québec.

With this administrative change, the government is moving to simplify its relations with mining companies. This measure will have many advantages since it will:

— allow the government to become more efficient by consolidating expertise within the tax administration, thus making its audit activities more consistent;

— provide mining companies with an integrated service as far as their relations with the government with respect to taxation are concerned.

The changes will take effect on April 1, 2015.

Mandatory reporting standards for the extractive sector

The federal government recently brought forward an initiative concerning new information disclosure standards for Canadian extractive companies. Mining company representatives have shown interest in these standards.

- This initiative reflects a global trend to foster transparency in the extractive industries and reduce cases of abuse by multinational companies active in developing countries.

Among other things, the standards would require Canadian extractive companies in the oil, gas and mining sectors to publish annual reports of payments of $100 000 or more on a project-level basis made to all levels of government, including aboriginal band councils. The standards would be harmonized with American and European requirements.

Accordingly, the Ministère des Finances and the Ministère de l'Énergie et des Ressources naturelles will work with the Autorité des marchés financiers to implement this initiative in Québec.

6.2 Strategic environmental assessments concerning oil and gas

Oil and gas exploration and development activities have raised questions and concerns among Quebecers.

Nonetheless, developing Québec's oil and gas potential could represent a significant lever for economic development and should not be set aside. Gaspésie, Anticosti Island and the Old Harry formation in the Gulf of St. Lawrence show promising indicators of the presence of oil.

The government wishes to move to assess the potential of these regions and, if the potential is confirmed, develop them. Before doing so, however, it wants to ensure that the work will be done according to best practices, in particular regarding the environment and social acceptability.

Accordingly, it is crucial that the government act prudently and transparently to oversee and control oil and gas exploration. Accordingly, it is essential that additional information be obtained on the environmental, social, economic and safety issues relating to oil and gas development.

Thus, as the Minister of Energy and Natural Resources and the Minister of Sustainable Development, the Environment and the Fight Against Climate Change announced last May 30, the entire oil and gas sector will be subject to a comprehensive strategic environmental assessment (SEA) process. Two SEAs will be carried out:

- the first will cover the entire oil and gas sector in Québec;
- the second will focus on Anticosti Island.
  - This assessment will be carried out in tandem with the exploratory work scheduled for Anticosti Island in the summer of 2014.
  - The government will monitor operators throughout their work to ensure the work is done in compliance with existing regulations and best practices.

Budget 2014-2015 earmarks $4.5 million in 2014-2015 and $2 million in 2015-2016 to carry out the SEAs and additional related work. Accordingly:

- $1 million in 2014-2015 and $1 million in 2015-2016 will be allocated to the Ministère de l'Énergie et des Ressources naturelles (MERN);
- $3.5 million in 2014-2015 and $1 million in 2015-2016 will be allocated to the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC).

For 2014-2015, the stipulated amounts will be drawn from the Contingency Fund.

❑ Comprehensive strategic environmental assessment of the oil and gas sector

A comprehensive SEA will be carried out for the entire oil and gas sector in Québec. It will deal with exploration and development issues, both offshore and onshore, as well as issues relating to transportation and infrastructures.

The work will help to:

— assess the likely consequences of oil and gas development, in particular on water, air, greenhouse gas emissions, ecosystems, and the health and safety of persons;

— assess how the technologies used influence these effects and what are the best ways to mitigate or eliminate negative consequences;

— estimate the economic effects of development of the oil and gas sector in Québec, as well as suggest ways for Québec society as a whole to receive a reasonable share of the profits.

The SEA will be carried out in two stages:

— the first will review the literature and studies relating to the oil and gas sector and determine what information is needed to produce a comprehensive study;

  — this stage should be completed by the end of 2014;

— the second stage is designed to complete existing studies and respond to problems specific to Québec;

  — the second stage should be completed by the summer of 2015.

The work will be done by a mixed team of university and government specialists, in particular from the MERN, the MDDELCC and the Ministère des Finances. Public consultations will also be held.

Through this SEA, the government undertake a comprehensive review and modernization of the legislative and regulatory framework specific to oil and gas to ensure development that satisfies best practices.

— The government is aiming to table a complete and integrated bill on oil and gas in 2015.

Funding of the work of the Bureau d'audiences publiques sur l'environnement on shale gas

The comprehensive SEA on the oil and gas sector will rely in particular on studies and work done or underway in Québec, including those of the Bureau d'audiences publiques sur l'environnement (BAPE).

The BAPE is currently investigating and holding public hearings on the issues relating to shale gas exploration and development of the Utica Shale in the St. Lawrence lowlands.

— It relies on the 73 studies carried out in the course of the SEA on shale gas, whose report was released last February 17.

The first part of the hearings, designed to inform the public, is over. The second part, beginning in June, will enable the public to give its views.

— The BAPE is expected to file its report with the Minister of Sustainable Development, the Environment and the Fight Against Climate Change no later than November 28, 2014.

To support the BAPE's work, Budget 2014-2015 stipulates an allocation, from the Contingency Fund, of $1 million in 2014-2015 to the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques.

Strategic environmental assessment of shale gas

In the course of the BAPE's work, a committee was formed to carry out a strategic environmental assessment of shale gas.

– The committee's mandate was chiefly to document the social, environmental and economic impacts of unconventional gas development in Québec.

The committee released its report on February 17, 2014. The report makes no recommendations. It summarizes 73 studies on the social, environmental and economic impacts of shale gas development.

Nonetheless, a number of observations emerge from this report. Many are factual, while some present avenues of deliberation that may be applicable if shale gas is sustainably developed in the future. In particular, these avenues of deliberation focused on the need to:

– monitor scientific studies, continue to document and publish knowledge that is acquired, in order to maximize prevention of potential risks relating to unconventional gas development;

– closely monitor the various phases of development of projects to document possible impacts on the affected community or habitat with respect to its specific features;

– further study the technological risk to lower the possibility of accidents and mitigate their consequences;

– hold consultations prior to the development of projects, led by a public body to enable greater public participation in the decision-making process;

– ensure better social acceptability through:

  ▪ structured exchanges with the public, so it can be informed of the sector's development;

  ▪ mitigation measures that take the public's concerns into account.

❑ Regulation respecting water protection and utilization

The work done in the course of the SEAs may in particular support the revision and modernization of the legal and regulatory framework relating to oil and gas exploration and development activities.

The Minister of Sustainable Development, the Environment and the Fight Against Climate Change is expected to release the new draft regulation respecting water protection and utilization in the coming weeks. It will, in particular, introduce provisions in relation to safe separation distances between drill holes and private water intakes.

Accordingly, as part of Budget 2014-2015, the government is allocating, from the Contingency Fund, $1.5 million to the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques in 2014-2015 to implement the regulation respecting water protection and utilization.

❑ Strategic environmental assessment specific to Anticosti Island

In tandem with the comprehensive SEA, the government will carry out a specific SEA on oil and gas exploration and development on Anticosti Island. This assessment will focus on practical studies. The authorized exploration work will help acquire information on the true potential of Anticosti Island.

In particular, the SEA will include studies on:

— aquifers and groundwater;

— the social and economic impacts of oil and gas development on Anticosti Island and harmonization of uses (hunting, fishing, tourism, forestry, etc.);

— the eventual shipment of oil and gas to markets.

The work will help identify:

— best practices and technologies available for drilling with hydraulic fracturing on Anticosti Island;

— preferred prevention and mitigation measures;

— measures to foster local economic spinoffs.

The SEA will be supplemented by stratigraphic surveys on Anticosti Island planned for the summer of 2014. A ministerial decision will set the necessary conditions to ensure public safety and environmental protection.

— The local and regional populations and aboriginal communities will be kept informed throughout the work.

— In addition, resources will be made available to the general population to stay informed, including a website and a 24-hour telephone line.

— The work will be rigorously monitored and coordinated by the Ministère de l'Énergie et des Ressources naturelles and the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques.

The SEA report will be submitted to the Minister of Energy and Natural Resources and Minister of Sustainable Development, the Environment and the Fight Against Climate Change in March 2015.

— Its conclusions will be taken into account by the comprehensive SEA.

6.3 Revival of the program to purchase electric power from mini hydroelectric plants

The operation of a mini hydroelectric plant represents significant economic development leverage for local and aboriginal communities.

— Projects of this kind allow local and aboriginal communities to increase their income and invest in various ways in their development, in particular through a development fund, a road or ecotourism infrastructures.

In addition, these plants produce clean and renewable electricity at an attractive cost compared to other production sources.

Accordingly, the government is announcing that the mini hydroelectric plant projects that were cancelled in February 2013 may be reactivated by their promoter.

It should be noted that six projects had to be discontinued, depriving the communities acting as promoters of this economic development tool.

Program to purchase electric power from mini hydroelectric plants

Under the 2009 program to purchase electric power from mini hydroelectric plants, Hydro-Québec approved 13 projects.

When the program was cancelled, four projects were active, two had been withdrawn by the promoters, one had been authorized while six others were discontinued.

Projects discontinued under the 2009 program to purchase electric power from mini hydroelectric plants

Projects discontinued	Power (MW)	Municipality	Project structure
Chute Sainte-Anne	23.2	Saint-Joachim	51% municipal and 49% private
Chute du Six Milles	13.2	Forestville	100% aboriginal
Chute du Quatre Milles	5.5	Forestville	100% aboriginal
Centrale Saint-Gabriel	3.3	Shannon	100% municipal
Onzième Chute	16.0	Notre-Dame-de-Lorette and Girardville	100% community
Manouane Sipi	22.0	La Tuque	100% community
TOTAL	**83.2**		

The projects satisfied the program's criteria and had been selected by Hydro-Québec. The government is therefore undertaking to analyze them with a view to allocating the waterpower required for these projects.

The promoters will have to ensure that their project satisfies the most demanding environmental and social acceptability criteria in addition to generating economic spinoffs for the benefit of local and aboriginal populations.

The orientations concerning the development of new mini hydroelectric plant projects will be made public in the upcoming energy policy.

The Minister of Energy and Natural Resources will announce the revival of the selected projects in the coming weeks.

7. ENCOURAGING ACTIVE LIVING FOR SENIORS

Given current demographics, the government wants to act on certain of its commitments concerning seniors, in order to encourage active aging and contribute to an improved urban environment better suited to their needs. Accordingly, Budget 2014-2015 provides for:

— enhancement of the tax credit for experienced workers, to further encourage seniors to remain in or re-enter the labour market;

— the introduction of a new refundable tax credit for seniors' activities;

— enhancement of the Québec-Municipalités – Municipalité amie des aînés infrastructure program.

In addition, Budget 2014-2015 provides for preliminary work to start on the future implementation of a loan program for seniors intended to facilitate the payment of property taxes.

TABLE B.27

Financial impact of the measures to encourage active living for seniors
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total over three years
Tax credit for experienced workers	−3.3	−14.6	−15.0	**−32.9**
Refundable tax credit for seniors' activities	−3.0	−5.0	−5.0	**−13.0**
Québec-Municipalités – Municipalité amie des aînés	−2.0	−3.0	−3.0	**−8.0**
TOTAL	**−8.3**	**−22.6**	**−23.0**	**−53.9**

7.1 Enhancement of the tax credit for experienced workers

In the years to come, Québec will see a decline in its labour force, namely, among individuals aged 15 to 64. That decline will accelerate, depriving the Québec economy of many experienced workers.

It is therefore important to encourage workers who are able to continue working to prolong their participation in the labour market.

❑ The tax credit for experienced workers: backgrounder

To encourage experienced workers to remain in the labour market, Budget 2011-2012 provided for the gradual implementation, as of January 1, 2012, of a non-refundable tax credit for experienced workers 65 and over.

The maximum eligible amount was to be increased gradually, from $3 000 in 2012 to $10 000 as of 2016. However, Budget 2013-2014 announced that this amount would be maintained at $3 000 indefinitely.

Tax credit for experienced workers
Since January 1, 2012, workers 65 and over have been entitled to a non-refundable tax credit intended to offset the Québec income tax payable on the $3 000 of work income exceeding the first $5 000. The tax 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 $3 000, a worker 65 or over may claim a tax credit equivalent to 15.04%. For example, an experienced worker with $15 000 in earned income will receive a tax credit of $451.[1] The cost of the measure in 2013 is estimated at $43 million; approximately 110 000 workers availed themselves of the measure, for an average tax reduction of $390.

1 The tax credit of $451 is obtained by multiplying the rate of the tax credit, 15.04%, by the lesser of the following two elements:
- income in excess of $5 000, that is, $10 000;
- the income cap of $3 000.

❑ Increase of $1 000 in the amount eligible for the tax credit for experienced workers

Budget 2014-2015 provides for a $1 000 increase, to $4 000 as of January 1, 2015, in the maximum amount eligible for the tax credit for experienced workers.

Consequently, an experienced worker will receive a maximum tax credit of $602, which represents an increase of $150 over the previous threshold. It is anticipated that the increase will prompt 25 000 to 30 000 workers or former workers to remain in or re-enter the labour market.

CHART B.3

Maximum amount eligible for the tax credit for experienced workers, by taxation year
(dollars)

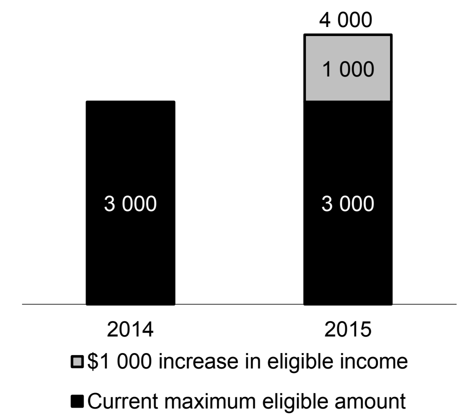
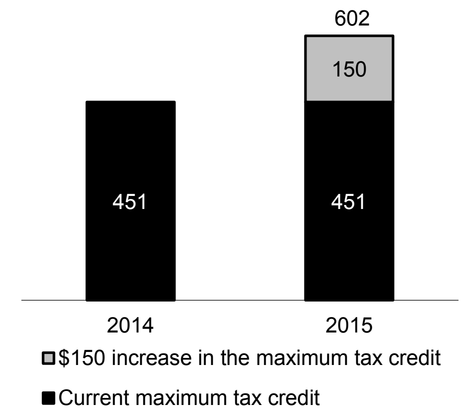


CHART B.4

Maximum tax credit for experienced workers, by taxation year(1)

(dollars)



Note: The figures have been rounded off, so they may not add up to the total indicated.
(1) The rate applicable to income eligible for the tax credit for experienced workers is 15.04%.

7.2 A new refundable tax credit for seniors' activities

As of a certain age, seniors must cope with significant changes in physical health and social participation. As they grow older, so rises the risk of sedentariness, loss of independence, and isolation, especially when they reach 70 years of age.

It has been clearly established that regular participation in physical, artistic, cultural and recreational activities fosters healthy aging. Such activities are beneficial for both the physical and mental health of seniors. They:

— enhance their functional abilities, enabling them to delay the onset of a critical loss of independence;

— decrease the risk of premature death and of falling;

— reduce social exclusion and isolation;

— heighten the feeling of well-being and social integration.

Despite the benefits of such activities for seniors, only 27% engage regularly in sports activities and just 19%, in recreational activities with other people.

Seniors' health, the cost of such activities, and travelling to and from the place where an activity is held are among the main obstacles preventing more seniors from taking part in activities.

❑ A new tax credit to foster active aging

Budget 2014-2015 provides for the introduction of a refundable tax credit to support the participation of seniors in physical, artistic, cultural and recreational activities. This tax assistance will apply to eligible expenses paid as of the day after Budget Speech 2014-2015.

The tax credit will represent 20% of eligible expenses not exceeding $200 a year and target seniors 70 and over with an individual income of $40 000 or less.

Close to an estimated 300 000 seniors will participate in structured activities, accounting for tax assistance totalling $5 million a year.

Activities eligible for the tax credit

To qualify for the tax credit, an activity must generally be:

- engaged in weekly for at least eight consecutive weeks;
- structured, that is, it must enable seniors to participate in an activity in a specific setting.

A physical activity must also enable seniors to develop or maintain their cardiorespiratory endurance, their muscular strength or endurance, their flexibility or their balance.

An artistic, cultural or recreational activity must enhance seniors' ability to develop or improve their dexterity, coordination, cognitive skills, social integration or psychological well-being.

Examples of structured activities eligible for the tax credit

Physical activities		Artistic, cultural and recreational activities	
Dance	Tai chi	Computers	Chess
Curling	Aquafitness	Singing (e.g. choir)	Painting
Swimming	Bowling	Arts and crafts	Knitting

7.3 Enhancement of the Québec-Municipalités – Municipalité amie des aînés infrastructure program[10]

Aging is generally associated with retirement, illness and dependence, whereas, in fact, most older adults wish to remain independent and actively participate in the social, economic, cultural, intellectual and civic life of our society.

Concrete action can be taken in this regard to encourage active aging, by fostering, among other things, the development of a municipal urban environment that facilitates the integration of seniors into their communities.

❑ Encouraging more municipalities to join the Age-Friendly Municipalities initiative

The government already provides financial support to municipalities seeking recognition as an Age-Friendly Municipality (MADA), through the MADA initiative assistance program and the Québec-Municipalités – Municipalité amie des aînés infrastructure program.

— The MADA initiative assistance program is intended to provide financial support to municipalities and regional county municipalities (RCMs)[11] so that they can adapt their policies, services and structures to meet the consequences of population aging head-on and give concrete form to the vision of a society for all ages.

— The Québec-Municipalités – Municipalité amie des aînés infrastructure program provides financial assistance to municipalities so that they can carry out small-scale infrastructure or urban planning projects that meet the needs of seniors. The program has operational funding of $3 million a year.

Over 700 municipalities and RCMs have joined the MADA initiative, and, since 2010, 137 projects have received funding under the Québec-Municipalités – Municipalité amie des aînés infrastructure program. The government has set itself the objective of increasing membership in the MADA initiative to 860 municipalities by 2017.

[10] The Québec-Municipalités – Municipalité amie des aînés infrastructure program is administered by the Ministère des Affaires municipales et de l'Occupation du territoire.

[11] The program is for municipalities with fewer than 100 000 inhabitants, RCMs and First Nations communities.

The MADA recognition process
For a municipality to be considered part of the MADA initiative, the Minister responsible for Seniors must recognize the quality of the municipality's process permitting seniors to remain active as they grow older. **A seven-stage process** – Obtain the elected officials' agreement and name a person in charge of seniors issues, preferably the person already responsible for family issues. – Set up a steering committee whose members include seniors involved in their communities or organizations that represent seniors' interests. – Perform a diagnosis of the community, including a profile of the territory concerned, identify the services available to seniors in the community, and conduct a needs analysis with input from seniors. – Prepare a plan of action providing for the annual renewal of the actions. – Implement the actions, ensuring participation by the various partners. – Evaluate the process and actions on an ongoing basis. – Draw up a communications plan aimed at promoting the project and playing up successful experiences.

❑ Increased funding for the Québec-Municipalités – Municipalité amie des aînés infrastructure program

To meet the growing infrastructure needs stemming from the increase in the number of municipalities having joined the MADA initiative, Budget 2014-2015 provides for an increase in the annual operational funding allocated to the Québec-Municipalités – Municipalité amie des aînés infrastructure program of $2 million in 2014-2015 and $3 milllion a year as of 2015-2016.

With this assistance, more than 50 new urban planning projects a year for seniors will be carried out.

7.4 Loan program for seniors to facilitate the payment of property taxes

The average price of homes in Québec has risen substantially in the past decade. In some cases, the rise has led to an increase in property taxes that far exceeds the increase in the income of long-time home-owners whose property is located in a sought-after neighbourhood. Consequently, some owners may have difficulty paying their property taxes.

The government plans to bring in a loan program for seniors to help with the payment of property taxes, namely, municipal and school taxes. The cooperation of financial institutions will be necessary to implement the loan program.

As part of Budget 2014-2015, the government is announcing that it will begin talks with financial institutions and the other stakeholders with a view to rapidly agreeing on the eligibility criteria, the necessary features of this type of loan, and the attendant terms and conditions of repayment. The government plans to implement the program by the end of 2014.

8. Maintaining support for the municipalities and the regions

The government acknowledges the important contribution of the municipalities in the economic, social and cultural development of every region of Québec.

The municipalities have detailed knowledge of the issues specific to their communities and, for that reason, the government will continue to support them to maintain and improve public services.

In addition to the measures contributing to regional economic development announced previously, the government is reiterating in Budget 2014-2015 the importance of the Québec-municipalities partnership by taking immediate steps to:

— support Montréal, an international metropolis;

— support Québec, a distinctive capital;

— review the relationship between the government and the municipalities;

— promote the electrification of public transit.

TABLE B.28

Financial impact of the measures to support the municipalities and the regions
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total over three years
Montréal, an international metropolis				
– Providing Montréal with the tools necessary to fully play its role as Québec's largest city	−7.8	−7.8	−7.8	**−23.4**
– Support for the celebrations marking the 375th anniversary of the founding of Montréal	−2.4	−15.5	−21.7	**−39.6**
– Support for the development of Saint-Joseph's Oratory	—	—	—	**—**
Québec, a distinctive capital				
– Redevelopment of the Dalhousie site	—	—	—	**—**
Support for training part-time volunteer firefighters	−3.5	−4.0	−4.0	**−11.5**
Promoting the electrification of public transit	—	—	—	**—**
Improvement to the tax credit to foster the modernization of the tourism accommodation offering in the regions(1)	−0.1	−0.2	−0.2	**−0.5**
TOTAL	**−13.8**	**−27.5**	**−33.7**	**−75.0**

(1) This measure is presented in the budget document *Additional Information on the Fiscal Measures 2014-2015* of Budget 2014-2015

8.1 Montréal, an international metropolis

The fundamental role played by Montréal in Québec's development is undeniable. The visibility of the metropolis benefits all Quebecers and, for that reason, the government wants to support the city in modernizing its governance and infrastructure.

The government acknowledges the special role of the metropolis and intends to support its development. To that end, the government plans to:

— provide Montréal with the tools necessary to fully play its role as Québec's largest city;

— support the celebrations marking the 375th anniversary of the founding of Montréal;

— improve access to the Port of Montréal;

— assess the feasibility of the project to cover a portion of Autoroute Ville-Marie.

8.1.1 Providing Montréal with the tools necessary to fully play its role as Québec's largest city

As a large metropolis, Montréal must have its own tools and the means it needs to effectively shoulder the responsibilities that fall to it.

To provide Montréal with modernized governance, the government has committed itself to undertake work aimed at identifying the specific characteristics of the Ville de Montréal that require a review of the city's legislative framework. This work will make it possible to address the various issues that are common to the government and the metropolis.

Also with a view to ensuring that Montréal has the resources necessary to fulfil its responsibilities as Québec's largest city, the financial support provided for to help the Ville de Montréal to deliver the specific services stemming from its special role is being reinstated at $25 million.

Accordingly, additional appropriations of $7.8 million will be granted from 2014-2015 to 2016-2017 to the Ministère des Affaires municipales et de l'Occupation du territoire.

8.1.2 Support for the celebrations marking the 375th anniversary of the founding of Montréal

As early as 2012, the government announced its intention to support the celebrations marking the 375th anniversary of the founding of Montréal. The celebrations will also mark the 150th anniversary of the Canadian Confederation. In addition to a celebration, 2017 must be a pivotal year in the development and affirmation of Montréal as Québec's economic hub and a showcase for Québec internationally.

❑ Celebrating Montréal's 375th anniversary

Montréal 2017 will provide an opportunity to present an inclusive and unifying program based on the identity, history, culture and heritage of Montréal. To that end, the Society for the Celebration of Montréal's 375th Anniversary, set up by the municipal government, is pursuing the objective of strengthening Montrealers' sense of pride and belonging through events that will help to raise the city's profile.

The Ville de Montréal must start preparing immediately to hold this major event and, for this purpose, the government will offer financial support of $2.4 million as of 2014-2015 so that the program for the celebrations can start to be drawn up.

To that end, additional appropriations of $2.4 million will be granted in 2014-2015 to the Ministère des Affaires municipales et de l'Occupation du territoire.

In addition, by 2017, the government will offer financial support totalling up to $60 million if the Ville de Montréal, the federal government and private partners commit to providing substantial financial support for the celebrations.

❑ Offering Québec's largest city a major legacy

To provide Québec's metropolis with support for implementing forward-thinking projects, the government has offered the Ville de Montréal a number of major legacies.

In recent months, government support for the tourism development project at Saint Joseph's Oratory has been called into question.

Owing to the importance of this institution in the economic development of the city of Montréal, the government confirms that it will invest up to $26.4 million in this project, which will require total investments of nearly $80 million.

Of great tourism and historical importance, the Oratory attracts over two million pilgrims and visitors a year from around the world. Over the years, and due to ever-bigger crowds, the Oratory facilities have become outdated and inefficient in satisfying the needs of the growing number of visitors.

The federal government, the Ville de Montréal and the Oratory will be invited to complete the financing for this project.

Accordingly, the federal government's contribution might be drawn from the funds still available for Québec under the Building Canada Fund 2007-2014 program.

In addition, as part of the 2017 celebrations, the Montréal Museum of Archaeology and History plans to begin a new expansion phase of Pointe-à-Callière by creating the Montréal Archaeology and History Complex. The project will require total investments of some $100 million. Accordingly, the government is undertaking to conduct a study of the Pointe-à-Callière expansion project.

8.1.3 **Improving access to the Port of Montréal**

In setting up a high-value-added logistical hub in Montérégie, the government intends to improve access to the Port of Montréal. This objective is part of the maritime strategy the government is implementing in order to develop the potential of the St. Lawrence River in a sustainable manner.

In this regard, the government confirms that it will invest the funds needed to study the extension of Boulevard Assomption. This priority project for the Ville de Montréal reflects its desire to develop a strategic sector enabling access to and use of industrial land.

8.1.4 **Assessing the feasibility of the project to cover a portion of Autoroute Ville-Marie**

The covering of a portion of Autoroute Ville-Marie, as proposed by the Ville de Montréal, is a major infrastructure project. The government has implemented a framework for rigorous management of major public infrastructure projects in order to make good investment choices that will provide it with quality infrastructure in keeping with established investment limits.

Accordingly, the government is announcing that it will invest the funds needed to assess the advisability of implementing the project to cover a portion of Autoroute Ville-Marie.

8.2 Québec, a distinctive capital

The national capital plays a major role in Québec's economy and, because of its distinctive character, it is a recognized and preferred international tourist destination.

The government acknowledges the role played by the Ville de Québec, as well as the need to support the national capital's development. As part of Budget 2014-2015, the government therefore intends to:

- acknowledge the unique character of the national capital;
- support the Ville de Québec in carrying out developmental infrastructure projects;
- initiate the necessary steps to widen Autoroute Henri-IV.

8.2.1 Acknowledging the unique character of the national capital

The special role played by the Ville de Québec requires a legislative framework adapted to the status of a national capital. A review of the governance of the Ville de Québec thus appears to be necessary to provide the city with the special tools it needs to assume the responsibilities associated with its status.

Accordingly, the government has undertaken to review the role of Québec's municipal administration. In particular, the goal is to make the sharing of the responsibilities assumed by the Ville de Québec and the government more effective.

8.2.2 Support for the Ville de Québec in carrying out developmental infrastructure projects

The government intends to support projects that will harness the vast collective wealth of the St. Lawrence River. Accordingly, the Ville de Québec wants to enhance its ability to attract cruise ship passengers, with a view to boosting the economic contribution of cruise activities.

The redevelopment of the Dalhousie site is a promising project that will be integrated into the maritime strategy being introduced by the government. This project will enable the Ville de Québec to offer a distinctive image to tourists who put in at Québec City and to provide residents of the national capital with renewed access to the river.

The government is thus confirming an investment of up to $31 million for the redevelopment of the Dalhousie site. The Ville de Québec will round out the funding for the project, which will require investments totalling $39 million.

In addition, the construction of an indoor ice skating oval is a project that would provide the city with a major sports facility for hosting national and international competitions and offer a high-level training site for Québec athletes. This project would also enhance the type of sports infrastructures available to the residents of Québec City.

Therefore, the government is announcing a study of the project for an indoor ice skating oval in Québec City.

8.2.3 Initiating the necessary steps to widen Autoroute Henri-IV

To avoid hampering the development of the Capitale-Nationale region, essential infrastructure, such as major highways, must be adapted to the new realities of population growth and movement. In this regard, the traffic congestion and flow problems affecting Autoroute Henri-IV may be a factor in the economic development of Québec City and the quality of life of its residents.

The government is of the view that consideration must be given to the project to widen this major roadway. To that end, the government is announcing that it will invest the funds needed to study the project.

8.3 Reviewing the relationship between the government and the municipalities

The Québec government and the municipalities share common interests and challenges regarding economic development, sound management of public finances and public services. To address these issues, the government wants to foster a partnering relationship that respects the autonomy of municipal governments and supports regional and local development while ensuring more effective management of public funds.

Accordingly, to support the municipalities, the government intends to:

- undertake discussions to reach a new Québec-municipalities agreement;
- intervene to ensure the sustainability of municipal sector retirement plans;
- support training for part-time volunteer firefighters.

8.3.1 Undertaking discussions to reach a new Québec-municipalities agreement

Under the Agreement on a New Fiscal and Financial Partnership with the Municipalities for the years 2007-2013, which was renewed for 2014, the government will have paid nearly $4.6 billion.

In the context of restoring fiscal balance, the government must review its programs as a whole. Nevertheless, it wants to maintain its support for the municipalities. Therefore, the government and its municipal partners will undertake discussions to reach a new Québec-municipalities agreement.

The government's objective in reaching a new agreement will be to provide municipalities with predictable financial levers over several years that will supplement their own-source revenue and provide them with the financial means to offer quality services to their citizens.

This new agreement will have to be reached in conformity with the government's financial framework and its objectives for returning to a balanced budget.

8.3.2 Intervening to ensure the sustainability of municipal sector retirement plans

To reduce the effects of the financial crisis, the government allowed the use of temporary relief measures to enable municipalities to reduce the repayment of the actuarial deficits of their retirement plans.

At the time, these measures sought to prevent a temporary deterioration in the financial situation of these plans from overly affecting municipal spending and, ultimately, to avoid a fiscal shock for taxpayers.

The government is concerned about the situation of municipal retirement plans and considers that adjustments must be made to meet the challenges facing them. It has thus become necessary to put the financial situation of these retirement plans back on track in order to bolster their long-term stability as soon as possible.

The government is thus committed to tabling a bill regarding the municipal sector retirement plans to improve their financial situation, in particular through deficit sharing, while taking into account taxpayers' ability to pay.

8.3.3 Support for training part-time volunteer firefighters

Even though they are volunteers or work part-time, these firefighters play a front-line role in small municipalities in Québec. They are subject to strict requirements and must undergo hundreds of hours of training, the cost of which is often paid or reimbursed by the municipalities, but is sometimes entirely borne by the aspiring firefighter.

To ensure that Québec's municipalities and RCMs can respond effectively to disasters, the government is creating a program with funding of \$3.5 million for 2014-2015 and \$4 million for each subsequent year to provide financial assistance for the training of part-time volunteer firefighters in municipalities and RCMs.

To that end, additional appropriations will be granted to the Ministère de la Sécurité publique.

8.4 Promoting the electrification of public transit

The government wants Hydro-Québec (H-Q) to contribute to the development of projects for electrically powered public transit by providing transit authorities with financial support.

— For projects selected by the government, H-Q Distribution will grant financial assistance to public transit bodies.

— This support will cover a large share of the cost of the electrical infrastructure needed to power the projects' rolling stock (e.g. cables, overhead wires, transformers).

However, public transit bodies will continue to be responsible for infrastructure. The government corporation will not take on the ownership, operation or maintenance of facilities.

The financial assistance granted will be amortized over the useful life of equipment. Therefore, there will be no major impact on electricity rates.

Legislative amendments will be made to implement this measure.

9. STRENGTHENING THE SOCIAL FABRIC AND DEVELOPING QUÉBEC'S CULTURAL SECTOR

9.1 Increased envelope for the Sports and Physical Activity Development Fund

The Sports and Physical Activity Development Fund, which is funded through revenues from the specific tax on tobacco products, is aimed, among other things, at supporting the construction, renovation, development and upgrading of sports and recreational facilities, as well as the organization of international or pan-Canadian sporting events.

The government wishes to allocate an additional envelope of $50 million to fund more projects, such as indoor and outdoor skating rinks, pools, tennis courts, soccer fields, sports arenas, multisport facilities and various other projects.

To finance this new measure, the amount drawn annually from revenues from the specific tax on tobacco products will be increased by $5 million from 2014-2015 to 2024-2025, thus raising the funding through this tax from $55 million to $60 million until 2023-2024 and from $3 to $8 million in 2024-2025.

To that end, legislative amendments must be made to the *Act to establish the Sports and Physical Activity Development Fund*, in order to increase the portion of tobacco tax proceeds that will be paid to the Fund.

9.2 Indexing of the parental contribution for childcare services

9.2.1 Childcare services

Since 1997, the Québec government has been gradually making reduced-contribution childcare services available for preschool-age children. The network has developed at a steady pace, causing substantial growth in the budget allocated to it.

❑ A daily rate that has not changed in a decade

Despite a sharp rise in costs, the daily rate has remained the same over the last ten years.

— The parental contribution has not been raised since it was increased from $5 to $7 in 2004. This rate freeze since 2004 has created an imbalance in the funding of childcare services.

— To illustrate, in constant 2004 dollars, the childcare rate now represents $5.89 a day.

Consequently, the share of the parental contribution has dropped gradually from 17.2% in 2004-2005 to 13.5% in 2013-2014.

TABLE B.29

Change in the funding of reduced-contribution childcare services
(millions of dollars)

	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2011-2012	2012-2013	2013-2014
Government subsidy(1)	1 165	1 393	1 578	1 800	2 087	2 240	2 253	2 333
Parental contribution	171	289	317	333	350	356	357	363
Total funding	1 337	1 682	1 895	2 133	2 437	2 596	2 610	2 696
Share of the parental contribution	**12.8**	**17.2**	**16.7**	**15.6**	**14.4**	**13.7**	**13.7**	**13.5**

Note: The figures have been rounded off, so they may not add up to the total indicated.
(1) Includes operating subsidies, infrastructure funding for childcare centres (CPEs) and the pension plan of CPE and subsidized-daycare staff.
Source: Ministère de la Famille.

❑ The parental contribution: an ever-decreasing share

While the annual subsidy for an educational childcare space rose on average from $7 630 in 2004-2005 to $10 699 in 2013-2014, a 40% rise, the parental contribution remained unchanged at $1 820 over the same period.

— The average government subsidy that was four times the parental contribution in 2004-2005 is now almost six times higher than the annual parental contribution.

— Consequently, the parental contribution to the funding of childcare services has steadily declined.

TABLE B.30

Change in the average subsidy and the parental contribution for a childcare space
(dollars)

	2004-2005			2013-2014		
	Government subsidy(1)	**Parental contribution(2)**	**Subsidy/ parental contribution**	**Government subsidy(1)**	**Parental contribution(2)**	**Subsidy/ parental contribution**
Childcare centre	9 867	1 820	**5.4**	13 988	1 820	**7.7**
Home childcare	5 573	1 820	**3.1**	7 264	1 820	**4.0**
Subsidized daycare	8 172	1 820	**4.5**	11 230	1 820	**6.2**
WEIGHTED AVERAGE	**7 630**	**1 820**	4.2	**10 699**	**1 820**	5.9

(1) Includes operating subsidies, infrastructure funding for childcare centres (CPEs) and the pension plan of CPE and subsidized-daycare staff.
(2) To illustrate, a contribution of $7/day over 260 days is used.

❑ Development in line with the actual capacity to create spaces in the network

Budgets 2011-2012 and 2013-2014 provided for the creation of 30 000 additional spaces. These spaces will be over and above the 220 000 spaces already planned, bringing the total number of spaces to 250 000 on completion of the network.

— Budget 2011-2012 provided for the creation of 15 000 childcare spaces, 70% of which were to be in CPEs and the remainder, in subsidized daycare centres. In fall 2011, a call for projects was launched with a view to completing this phase in 2015-2016.

— Subsequently, Budget 2013-2014 provided for the creation of 15 000 additional childcare spaces, 85% of which were to be in CPEs and the remainder, in subsidized daycare centres. In February 2013, a call for projects was launched with a view to completing the network in 2016.

However, the pace of development of reduced-contribution spaces must take into account the actual capacity of the childcare services network to follow through on the new spaces.

Despite all of the measures taken, the creation of childcare spaces has occurred at an average rate of nearly 3 200 spaces a year since 2006-2007, which is much slower than the pace provided for in the previous development plan.

TABLE B.31

Number of spaces created per year

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Annual average
Number of spaces	1 988	2 560	4 657	4 196	4 785	2 530	1 750	2 899	3 170

Source: Calculation by the Ministère des Finances du Québec on the basis of Ministère de la Famille data.

In this budget, the government is announcing an adjustment to the development rate of new spaces in the network. For 2014-2015, the number of new spaces will be set at 6 300 to allow for the completion of projects already under way. In subsequent fiscal years, the development plan for childcare spaces will be brought more into line with the average pace of development. This approach will be more consistent with the network's actual capacity to follow through on these new spaces, and with the government's financial capacity.

Thus, the creation of new spaces will be spread over seven years, according to the pace shown in the table below.

The new development plan provided for in this budget enables the government to fulfil, in 2016-2017, Budget 2011-2012's commitment to complete the creation of 15 000 new spaces.

TABLE B.32

Development plan for the 30 000 new spaces bringing the total spaces available to 250 000

	Before 2014-2015	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Number of spaces(1)	1 983	8 283	12 283	16 283	20 283	24 283	28 283	30 000	30 000
FINANCIAL COST ($M)	**10**	**47**	**147**	**229**	**298**	**377**	**460**	**536**	**575**

(1) In 2013-2014, 2 899 spaces were created. These spaces include 1 983 spaces that are part of the 30 000 additional spaces provided for in budgets 2011-2012 and 2013-2014.

❑ Indexing of the parental contribution

To optimize the funding of childcare services, the government committed itself to indexing the parental contribution. Accordingly, in this budget, the government is announcing that the indexing of the reduced contribution for educational childcare services will be tied to the rate of growth in the cost of childcare services.

— As of October 1, 2014, the parental contribution will be raised to $7.30 a day.

— As of September 1, 2015, the parental contribution will be raised by a factor equivalent to the annual growth in the cost of childcare services.

Furthermore, this indexing principle, tied to the change in the cost of childcare services, will enable families to benefit from the network's productivity gains.

TABLE B.33

Illustration of the indexing of the parental contribution
(dollars per childcare day)

		Rate	
	Current rate	**At October 1, 2014(1)**	**At September 1, 2015(2)**
Parental contribution	7.00	7.30	7.55

(1) Rate set.
(2) Estimated rate.

Indexing the parental contribution will have a financial impact of $42 million as of 2016-2017.

TABLE B.34

Financial impact of indexing the parental contribution
(millions of dollars)

	2014-2015	**2015-2016**	**2016-2017**
Financial impact	8	24	42

❑ Examination of all costs

Moreover, the government mandated the Ministère de la Famille to carry out a thorough examination of all the costs of the CPE network, in collaboration with the partners in the childcare network, for the purpose of increasing the efficiency of the CPE network, thereby generating savings for Québec taxpayers and reducing the increases that will have to be assumed by parents who use childcare services.

In that regard, the report of the task force on the quality, sustainability and optimal funding of childcare services (Chantier sur la qualité et la pérennité des services de garde et sur l'optimisation de leur financement), filed in December 2013, proposes several possible solutions for optimizing the amounts invested by the Québec government in the subsidized childcare services network.

9.2.2 Childcare at school

Since the introduction of reduced-contribution childcare services, the rate for childcare at school has always been harmonized with that of childcare services.

— For example, in 2004, the rate for regular attendance in childcare at school was raised to $7 when the parental contribution to childcare services rose to $7.

However, even though the share of the parental contribution in the funding of childcare at school is higher than at CPEs,[12] that share is expected to decline over time, as is the case with childcare services.

12 In 2012-2013, the share of the parental contribution in childcare at school was 55% compared to 13.7% for childcare services.

Budget 2014-2015 provides for the indexing of the rate for childcare at school.

- Accordingly, as of October 1, 2014, the reduced contribution will be set at $7.30 a day.
- For subsequent years, as of September 1, 2015, the parental contribution will be determined so as to keep parents' share in the total funding of childcare services at a minimum.

TABLE B.35

Illustration of the indexing of the parental contribution to childcare at school
(dollars per childcare day)

		Rate	
	Current rate	**At October 1, 2014(1)**	**At September 1, 2015(2)**
Parental contribution	7.00	7.30	7.45

(1) Rate set.
(2) Estimated rate.

Indexing the parental contribution for childcare at school will have a financial impact of $27 million as of 2016-2017.

TABLE B.36

Financial impact of indexing the parental contribution for childcare at school
(millions of dollars)

	2014-2015	**2015-2016**	**2016-2017**
Financial impact	8	20	27

Determination of indexing rates

The Ministère de la Famille and the Ministère de l'Éducation, du Loisir et du Sport will be required to announce the indexing rates at least two months before the application date of the rate increases.

In the case of the rate for childcare services, the indexing rate will correspond to the annual growth in the cost of childcare services, which includes all government subsidies and the parental contribution.

In the case of the rate for childcare at school, the indexing rate will be determined so as to keep parents' share in the total funding of childcare services at a minimum.

Indexing rates will be calculated according to real observed costs.

❑ Required amendments

Amendments will be made rapidly to the *Reduced Contribution Regulation* so that the new rates apply as of October 2014.

9.3 An investment of $250 million to build 3 000 social housing units and combat homelessness

Housing is often a household's biggest spending item. In the case of low-income families, high rent reduces their ability to meet other basic needs.

To support economically disadvantaged households, the government is announcing the construction of 3 000 new social, community and affordable housing units under the AccèsLogis Québec program. Of these units:

— 500 will be set aside for people who are homeless or at risk of homelessness;

— 2 500 will be set aside for other groups, with priority to be given to seniors and Aboriginal people.

This initiative, which covers all regions of Québec, will provide housing for less fortunate households, in particular low-income households and those with special needs.

TABLE B.37

Investments in the construction of social, community and affordable housing units, provided for in Budget 2014-2015
(units and millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	Other years	Total
Number of units	—	—	—	1 500	1 500	**3 000**
Financial impact(1)	—	—	—	106.5	144.9	**251.4**

(1) Including the subsidy under the rent supplement program.

AccèsLogis Québec
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 modest-income households and for people with special needs. Under the program, the government, the project developer and the community (generally the municipality) cover 50%, 35% and 15% respectively of a project's maximum eligible costs. The amount of financial assistance depends on the territory, target group and number of rooms in the housing unit. For example, the eligible construction cost of a two-bedroom unit in a large urban centre is $134 200, broken down as follows: – $67 100 for the Québec government; – $46 970 for the developer; – $20 130 for the community. Given the target group for these housing units, the rent is set below the median market rent.

❑ More than 14 000 housing units to be completed in the coming years

As at April 30, 2014, 11 059 housing units were in progress, that is:

— 6 085 to be delivered in the near future;

— 4 974 others in preparation.

Taking into account the 3 000 new housing units announced, an additional 14 059 social housing units will be made available in the coming years.

TABLE B.38

Construction of social, community and affordable housing units

	In progress	In preparation	New announcements	Total
Number of units	6 085	4 974	3 000	**14 059**

9.3.1 Specific efforts to combat homelessness

In this budget, the government is confirming that 500 of the 3 000 new social housing units will be set aside for people who are homeless or at risk of homelessness.

Moreover, the government is committing itself to continuing the annual investments of more than $8 million provided for in the 2010-2013 interdepartmental action plan on homelessness.

Examples of initiatives provided for in the 2010-2013 interdepartmental action plan on homelessness

Introduction of assertive community treatment for persons with severe mental disorders:

- creation of new intervention teams in Montréal, comprised in particular of nurses, psychiatrists and social workers;
- intervention in the living environment of people in crisis due to a mental disorder, so as to avoid hospitalization;
- consolidation of emergency residential spaces for men, women and people of Aboriginal origin in shelters such as Mission Bon Accueil, The Old Brewery Mission, Le Chaînon and Aboriginal projects in Québec.

In a parallel initiative, a re-examination of the government's action will soon be undertaken in order to identify the most efficient avenues for combating homelessness.

9.4 Sustainable funding for cultural organizations

Budget 2014-2015 confirms the creation of the Fonds Avenir Mécénat Culture to provide sustainable funding for the Mécénat Placements Culture program. To that end, the fund will receive, beginning in 2014-2015, $5 million annually from the revenues from the specific tax on tobacco products. In addition, the budgetary appropriations allocated to the Ministère de la Culture et des Communications to fund the Mécénat Placements Culture program will be dedicated exclusively to the Fonds Avenir Mécénat Culture. This fund will be created as part of the budget omnibus bill.

9.5 Implementation of Québec's digital culture strategy

The business model in culture is being turned completely upside down by technological change, from creation to commercialization. It is therefore necessary to move swiftly to create the conditions that will enable businesses in the cultural sector to occupy the digital space and thus consolidate thousands of jobs in this sector of the Québec economy.

❑ Roll-out of Québec's digital culture strategy

The result of exceptional collaboration between the artistic and cultural communities, the roll-out of Québec's digital culture strategy is a signature action, key to helping these communities adapt to the digital technologies.

— This strategy will enable creators to take advantage of the opportunities afforded by technological change to position Québec cultural works and products in all regions and internationally.

To ensure that Québec culture is increasingly present in the digital space, additional appropriations of $2 million in 2014-2015 and $4 million in 2015-2016 and 2016-2017 will be allocated to the Ministère de la Culture et des Communications. For 2014-2015, the amounts will be drawn from the Contingency Fund. In addition, $100 million will be set aside for the Québec Infrastructure Plan.

The Minister of Culture and Communications will soon unveil the details of the strategy.

10. MAKING GOVERNMENT ACTION MORE EFFECTIVE AND FIGHTING TAX EVASION

Making its action more effective and fighting tax evasion are paramount goals for the government. It is establishing two bodies for that purpose:

— the Ongoing Program Review Committee; and

— the Québec Taxation Review Committee.

In addition, the government wants to modernize health information systems to improve financial reporting and enable better monitoring and management of the health workforce.[13]

Lastly, to improve fairness for taxpayers who pay their full taxes, and clean up practices in certain sectors of economic activity, the government is announcing new measures to fight tax evasion and unreported work.[14]

TABLE B.39

Making government action more effective and fighting tax evasion
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Ongoing Program Review Committee	—	—	—
Québec Taxation Review Committee	–2.5	—	—
Improvement of health information systems and patient-based funding	–5.0	–20.0	–20.0
Fight against tax evasion	–10.0	–15.0	–15.0
TOTAL	**–17.5**	**–35.0**	**–35.0**

13 For more information on the measures to improve health funding information and on patient-based funding, see subsection 3.4.3 of Section A of the Budget Plan.

14 For more information on the efforts to fight tax evasion, see subsection 2.1 of Section A of the Budget Plan.

APPENDIX: FINANCIAL IMPACT OF THE MEASURES IN BUDGET 2014-2015 FOR THE ECONOMIC RECOVERY OF QUÉBEC

TABLE B.40

Financial impact of the measures in Budget 2014-2015 for Québec's economic recovery
(millions of dollars)

	Financial impact for the government		
	2014-2015	2015-2016	2016-2017
1. Accelerating private investments, including investments by SMEs			
LogiRénov tax credit	−201.0	−132.0	—
Making SMEs more innovative			
– Implementation of the Créativité Québec program with a $150-million envelope over three years	−5.3	−5.8	−9.0
– Holiday from the HSF contribution to encourage the hiring of specialized workers in the SMEs for innovation projects	−7.4	−20.3	−33.1
Increasing exports by Québec SMEs			
– General reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs	−12.7	−34.1	−35.5
– Additional deduction for transportation costs of remote manufacturing SMEs	−2.3	−8.2	−9.0
– Support for exports: $20 million over three years for Export Québec	−4.0	−8.0	−8.0
Increasing financing for businesses			
– $375 million to fund venture capital funds	—	—	—
– Capitalization of a $100-million fund to support angel investors			
▪ $25-million contribution by the Québec government and Investissement Québec	—	—	—
▪ Support for the Anges Québec network	−0.2	−0.2	−0.2
– Renewal of the local investment funds through December 31, 2015	—	—	—
– More capital for the Chantier de l'économie sociale Trust	−0.5	−0.5	−0.5

TABLE B.40

Financial impact of the measures in Budget 2014-2015 for Québec's economic recovery (continued)

(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
1. Accelerating private investments, including investments by SMEs (continued)			
Developing entrepreneurship in Québec			
– Accelerators to foster the creation of businesses in the university community	−0.5	−0.5	−0.5
– Attracting the best foreign entrepreneurs to Québec	—	—	—
– Supporting female entrepreneurship			
▪ Strengthening the Réseau Femmessor	−1.5	−2.0	−2.0
▪ A new partnership to develop new businesses stemming from the Réseau Femmessor	—	—	—
Subtotal	**−235.4**	**−211.6**	**−97.8**
2. Easing the administrative burden on businesses			
Creation of the standing oversight committee on regulatory streamlining	—	—	—
Entreprises Québec: a one-stop service provider for all Québec businesses	—	—	—
Subtotal	**—**	**—**	**—**
3. Implementing the maritime strategy			
Develop tourism along the St. Lawrence	—	−2.0	−3.0
Foster the implementation of a high-value-added logistical hub in Montérégie	−0.3	—	—
Incentives to modernize and renew vessels in Québec			
– Additional capital cost allowance of 50% for the construction or renovation of vessels in Québec	−0.1	−0.3	−0.7
– Incentive for shipowners to create a tax-free reserve	—	−0.1	−0.1
Enter Québec in the blue economy	−0.4	−0.4	—
Subtotal	**−0.8**	**−2.8**	**−3.8**

TABLE B.40

Financial impact of the measures in Budget 2014-2015 for Québec's economic recovery (continued)
(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
4. Relaunching the Plan Nord[1]			
Establishment of the Société du Plan Nord	—	—	—
Investment of $100 million to train Aboriginal people	—	—	—
A new northern development research centre	—	—	—
Study to develop a new rail line to improve access to the Labrador Trough	—	—	—
Québec Tourism Strategy North of the 49th Parallel	—	—	—
Natural gas supply for the Côte-Nord region	—	—	—
Creation of Capital Mines Hydrocarbures	—	—	—
Subtotal	—	—	—
5. Supporting the forest industry			
Funding to achieve sustainable forestry[2]	—	—	—
Supporting the acquisition of forestry equipment[2]	—	—	—
$20 million in new funding to foster development of the forest biomass sector	—	—	—
Subtotal	**—**	**—**	**—**
6. Developing all natural resources			
Stable mining tax regime			
– Inclusion of hydrometallurgy in calculating the processing allowance[3]	−1.0	—	—
– Adjustment to the grading of precious stones[3]	0.1	—	—
– Transfer of mining company tax audit activities to Revenu Québec	—	—	—
Strategic environmental assessments concerning oil and gas	−3.0	−2.0	—
Regulation respecting water protection and removal	−1.5	—	—
Revival of the program to purchase electric power from mini hydroelectric plants	—	—	—
Subtotal	**−5.4**	**−2.0**	—

(1) For the measures related to the relaunching of the Plan Nord, the required sums are already included in the government's financial framework.
(2) The financial impact of this measure is taken into account in the government's spending growth objective.
(3) Since the full amount of the revenues generated by the mining regime will be deposited in the Generations Fund as of 2015-2016, this measure does not affect the government's financial framework from 2015-2016 onward. It affects only the revenues of the Generations Fund.

TABLE B.40

Financial impact of the measures in Budget 2014-2015 for Québec's economic recovery (continued)

(millions of dollars)

	Financial impact for the government		
	2014-2015	**2015-2016**	**2016-2017**
7. Encouraging active living for seniors			
Enhancement of the tax credit for experienced workers	−3.3	−14.6	−15.0
A new refundable tax credit for seniors' activities	−3.0	−5.0	−5.0
Enhancement of the Québec-Municipalités – Municipalité amie des aînés infrastructure program	−2.0	−3.0	−3.0
Subtotal	**−8.3**	**−22.6**	**−23.0**
8. Maintaining support for the municipalities and the regions			
Montréal, an international metropolis			
– Providing Montréal with the tools necessary to fully play its role as Québec's largest city	−7.8	−7.8	−7.8
– Support for the celebrations marking the 375th anniversary of the founding of Montréal	−2.4	−15.5	−21.7
– Renovation of Saint Joseph's Oratory	—	—	—
Québec, a distinctive capital			
– Redevelopment of the Dalhousie site	—	—	—
Support for training part-time volunteer firefighters	−3.5	−4.0	−4.0
Promoting the electrification of public transit	—	—	—
Improvement to the tax credit to foster the modernization of the tourism accommodation offering in the regions	−0.1	−0.2	−0.2
Subtotal	**−13.8**	**−27.5**	**−33.7**

TABLE B.40

Financial impact of the measures in Budget 2014-2015 for Québec's economic recovery (continued)

(millions of dollars)

	Financial impact for the government		
	2014-2015	2015-2016	2016-2017
9. Strengthening the social fabric and developing Québec's cultural sector			
Increased envelope for the Sports and Physical Activity Development Fund	−5.0	−5.0	−5.0
An investment of $250 million to build 3 000 social housing units and combat homelessness	—	—	—
Sustainable funding for cultural organizations	−5.0	−5.0	−5.0
Implementation of Québec's digital culture strategy	−2.0	−4.0	−4.0
Subtotal	**−12.0**	**−14.0**	**−14.0**
10. Making government action more effective and fighting tax evasion			
Ongoing Program Review Committee	—	—	—
Québec Taxation Review Board	−2.5	—	—
Improvement of health funding information and patient-based funding	−5.0	−20.0	−20.0
Fight against tax evasion	−10.0	−15.0	−15.0
Subtotal	**−17.5**	**−35.0**	**−35.0**
TOTAL – PLAN FOR QUÉBEC'S ECONOMIC RECOVERY	**−293.2**	**−315.5**	**−207.3**
Impact of the revenue measures	**−240.8**	**−224.8**	**−108.6**
Impact of the program spending measures	**−52.4**	**−90.7**	**−98.7**

Note: A negative amount indicates a cost for the government.

Section C

QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2014 AND 2015

1. ECONOMIC OUTLOOK FOR QUÉBEC

1.1 Faster economic growth forecast for 2014 and 2015

The Québec economy is expected to grow at a faster pace in 2014 and 2015, with real GDP expanding by 1.8% and 2.0% respectively. The acceleration will be enabled by the anticipated dissipation of the temporary factors that contributed to the poor economic performance in 2013.

— There should be a revival of business investment as confidence improves and the U.S. economy recovers.

— As well, exports should continue to expand thanks to the lower Canadian dollar and the stronger economies of Québec's main trading partners.

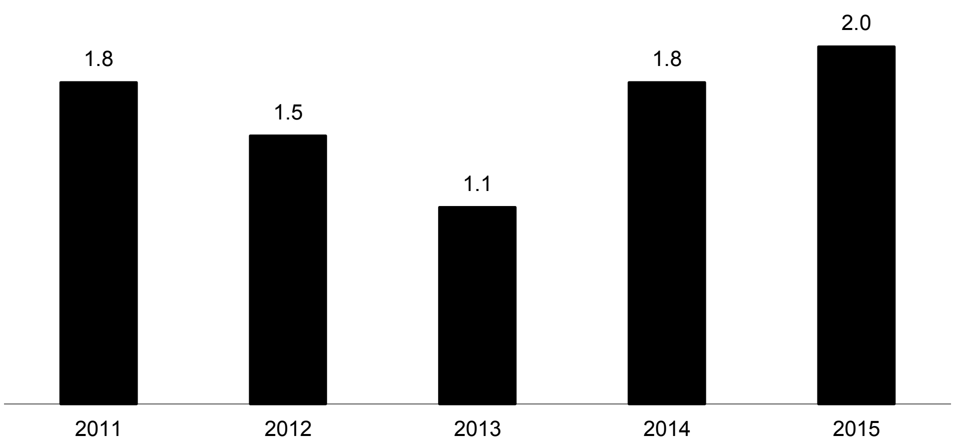
Furthermore, the Québec economy experienced a slowdown in 2013. After increasing by 1.5% in 2012, real GDP grew by just 1.1% in 2013.

— The weaker economy stems from a deceleration in domestic demand due, in particular, to a marked decline in business investment.

— On the other hand, economic growth in 2013 benefited from a contribution from the external sector, due to depreciation in the Canadian dollar.

CHART C.1

Economic growth in Québec
(real GDP, percentage change)



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

1.2 Gradual increase in prices

Most of the advanced economies experienced weak inflation in 2013. In Québec, the consumer price index (CPI) grew at a much slower pace, edging up just 0.7% in 2013 after increasing by 2.1% in 2012.

Furthermore, Québec saw a sharper deceleration in prices than Canada as a whole, where the CPI rose by 0.9% in 2013.

The dampened growth in prices is attributable, among other things, to:

— moderate growth in domestic demand, which exerted little pressure on prices;

— over-supply, in Québec as well as worldwide, which led to lower demand for labour and smaller wage increases by businesses. Nominal wage growth was 2.2% in 2013, compared with 5.2% in 2011 and 3.7% in 2012;

— stiffer competition in the retail trade, reflected in the price of consumer goods.

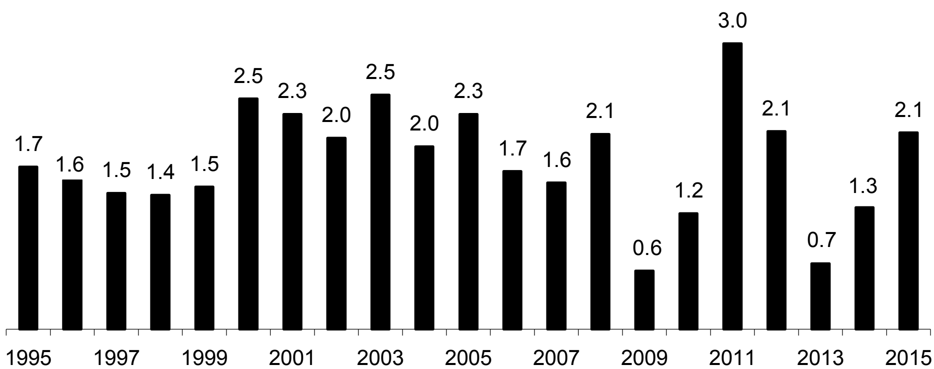
Inflation should gradually rise to 1.3% in 2014 and 2.1% in 2015, driven by greater pressure on prices by the following factors:

— the anticipated strengthening of domestic demand and exports, which should lead to a higher rate of capacity utilization;

— depreciation in the Canadian dollar, which should drive up prices through imports.

CHART C.2

Consumer price index in Québec
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Faster growth in nominal GDP

Nominal GDP, which measures the value of output accounting for the impact of prices, grew by just 1.9% in 2013.

— In 2013, weak growth in nominal GDP resulted from a 1.1% increase in real GDP and a 0.8% increase in prices for goods and services produced or imported in Québec (GDP deflator).

This slowdown was reflected in the changes in the government's key tax bases. In nominal terms:

— household income rose by a mere 2.4% in 2013, after increasing by 4.1% in 2012;

— growth in wages and salaries slowed to 2.2% in 2013, compared with 3.7% growth in 2012;

— corporate profits were down 7.1% in 2013, compared with a decline of 0.6% in 2012.

A stronger real economy in 2014 and 2015, coupled with a price acceleration, will further drive growth in nominal GDP.

— Real GDP growth of 1.8% in 2014 and 2.0% in 2015, accompanied by price increases of 1.5% in 2014 and 1.9% in 2015, should result in nominal GDP growth rates of 3.4% in 2014 and 3.9% in 2015.

TABLE C.1

Economic growth in Québec
(percentage change)

	2012	**2013**	**2014**	**2015**
Real GDP	1.5	1.1	1.8	2.0
Prices – GDP deflator	2.1	0.8	1.5	1.9
Nominal GDP	3.6	1.9	3.4	3.9

Note: Figures in this table have been rounded off.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.3 Growth supported by renewed business investment and exports

Real GDP growth of 1.8% in 2014 and 2.0% in 2015 will be buoyed by renewed business investment and exports.

— Exports improved in 2013, due to a lower Canadian dollar and an increase in U.S. imports. Export growth should continue to be robust in 2014 and 2015, translating to a positive contribution from the external sector to economic growth.

— Concurrently, domestic demand will make a larger contribution to real GDP in 2014 and 2015.

  — Growth in household spending should continue at a moderate pace.

  — After a marked contraction in 2013, growth in non-residential business investment should accelerate.

  — Total spending by all governments stabilized in real terms in 2013. Moreover, the Québec government is maintaining a high level of infrastructure spending.

  — The downturn in residential investment that began in 2013 should ease gradually between now and 2015. A slowdown in housing starts will be offset by increased investment in home renovation spurred by LogiRénov, the new tax credit for home renovation announced by the Québec government.

TABLE C.2

Real GDP and its major components
(percentage change)

	2013	2014	2015
Contribution from domestic demand	**0.6**	**1.5**	**1.7**
Household consumption	2.1	2.2	2.0
Residential investment	–5.1	–0.5	–0.4
Non-residential business investment	–6.0	1.3	5.3
Government spending and investment	1.1	0.2	0.1
Contribution from foreign trade	**1.4**	**0.4**	**0.6**
Total exports	3.8	3.0	3.8
Total imports	0.5	1.9	2.1
Contribution from inventories	**−0.9**	**−0.1**	**−0.3**
REAL GDP	**1.1**	**1.8**	**2.0**

Note: Figures in this table have been rounded off.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.4 Expected rally in job creation

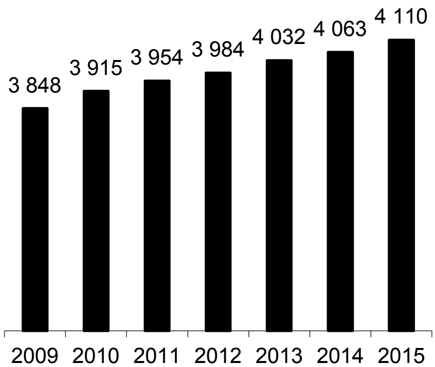
After stagnating for over 12 months, job creation should firm up as economic growth improves, rising by 0.8% in 2014 and 1.1% in 2015.

— As a result, 31 300 jobs will be created in 2014 and another 46 300 in 2015.

— The unemployment rate should continue to show gradual improvement. After standing at 7.6% in 2013, it is expected to fall to 7.5% in 2014 and 7.2% in 2015.

CHART C.3

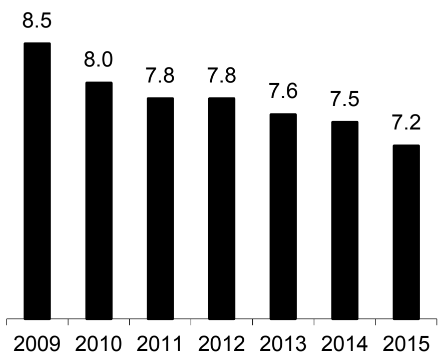
Jobs in Québec
(thousands)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.4

Unemployment rate in Québec
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

Stagnation in the labour market in 2013

Employment statistics can fluctuate significantly over the course of a year. Indeed, employment statistics are taken from Statistics Canada's Labour Force Survey (LFS), which is a monthly survey.

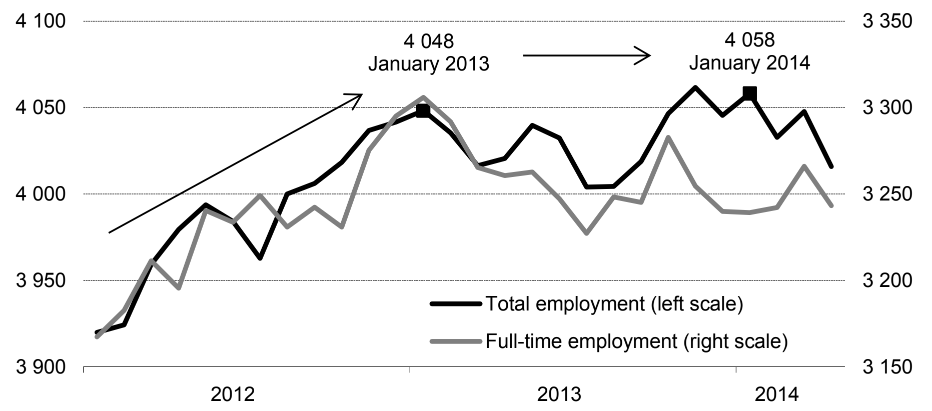
According to the annual employment data released by Statistics Canada, which correspond to the average of monthly data, 47 800 jobs were created in Québec in 2013 compared with 2012. Approximately half of these, i.e. 20 300 jobs, where part-time jobs.

- In comparison, in 2012, all 30 800 jobs created where full-time jobs.

Moreover, the average annual job creation statistic does not reflect the reality of the changes in employment, which has stagnated since January 2013, when the employment level in Québec reached 4 048 200.

- In January 2014, i.e. one year later, the level of employment was still at 4 058 200.
- In April 2014, the total number of jobs stood at 4 015 800, which was not much different than the level seen at the end of 2012.
- Full-time employment faced a similar stagnation, remaining at around 3 250 000 full-time jobs throughout 2013.

Employment level
(thousands of jobs)



Sources: Statistics Canada and Ministère des Finances du Québec.

Job creation in Québec, Ontario and Canada, by sector

Job creation concentrated in the construction and public sectors[1]

From 2007 to 2013, most of the jobs created in Québec, Ontario and Canada were in the construction and public sectors. These two sectors alone accounted for approximately 70% of the jobs created in Québec and Canada, and 80% in Ontario.

- Construction jobs rose by 4.8% a year on average in Québec, compared to 1.9% in Ontario and 3.1% in Canada.
- Public sector jobs increased by 2.1% a year on average in Québec, versus 2.7% in Ontario and 2.3% in Canada.

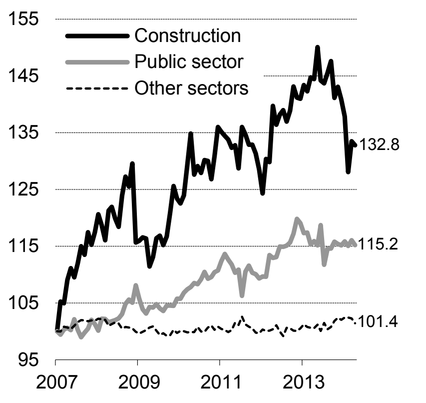
Job creation by different sectors of activity – 2007 to 2013
(thousands of jobs and average annual growth in per cent)

	Québec		Ontario		Canada	
	Jobs	%	Jobs	%	Jobs	%
Construction	71.7	4.8	57.7	1.9	257.3	3.1
Public sector	141.6	2.1	286.0	2.7	643.6	2.3
Other sectors	76.4	0.4	87.0	0.3	420.1	0.5
TOTAL	**289.7**	**1.1**	**430.7**	**0.9**	**1 321.0**	**1.1**

Source: Statistics Canada.

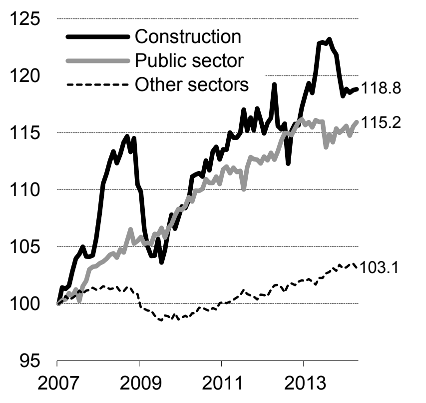
The contribution of other sectors[2] to job creation during this period was thus disappointing, in Québec as well as in Canada and Ontario, with average annual growth rates of 0.4%, 0.3% and 0.5%, respectively.

Job creation in Québec
(index, January 2007 = 100)



Source: Statistics Canada.

Job creation in Canada
(index, January 2007 = 100)



Source: Statistics Canada.

1 Public sector jobs correspond to the sum of the three industries related to the public sector, i.e. heath care and social services, educational services and public administrations.
2 “Other sectors” corresponds to total employment less employment in the construction and public sectors.

1.5 Sustained household consumption

Household disposable income showed a modest increase in 2013, growing by 1.4% in real terms, compared with an average annual growth rate of 3.0% from 2000 to 2010.

— Household disposable income is expected to increase by 1.6% in 2014 and 1.8% in 2015.

Growth in household consumption expenditure generally follows the same trend as growth in disposable income. However, short-term differences can occur and reflect changes in the propensity of households to consume or save.

— Growth in household consumption was 2.1% in real terms in 2013. By comparison, from 2000 to 2010, consumer spending grew by an average annual rate of 2.9%.

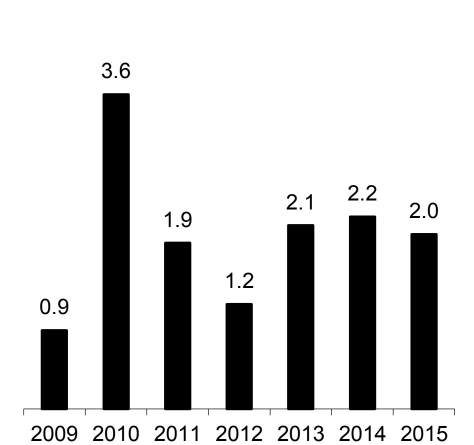
Household consumption expenditure is expected to increase by 2.2% in 2014 and by 2.0% in 2015.

— Therefore, in 2014 and 2015 growth in consumer spending should continue to outpace growth in household disposable income, reflecting higher consumer confidence.

— Indeed, a strengthening in household confidence was seen in the last few months.

CHART C.5

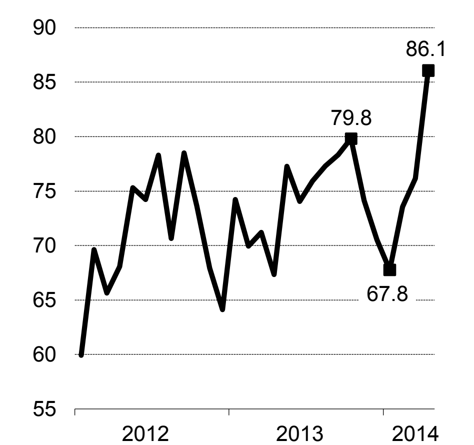
Household consumption expenditure in Québec
(percentage change, in real terms)



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

CHART C.6

Québec consumer confidence index
(index level, 2002 = 100)



Source: Conference Board of Canada.

1.6 Slight decrease in residential investment

Québec's residential sector contracted by 5.1% in 2013. The downturn is primarily the result of the successive measures to tighten mortgage lending rules in an effort to limit the expansion of mortgage credit in Canada.

Residential investment will decrease slightly in 2014 and 2015, by 0.5% and 0.4% respectively.

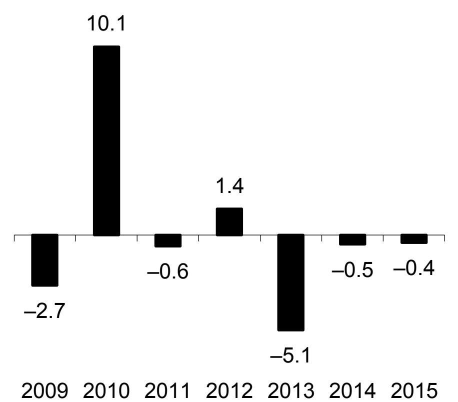
— Consequently, housing starts should stand at 37.5 thousands of units in 2014 and 35.7 thousands of units in 2015, equivalent levels to those of household formation in Québec, which is around 40 000 a year.

— On the other hand, spending on renovations should rise by 5.2% in 2014 and 3.1% in 2015, spurred by the home renovation tax credits introduced by the Québec government.

Furthermore, residential investment will continue to be supported by the low mortgage rates, which are expected to see only gradual increases.

CHART C.7

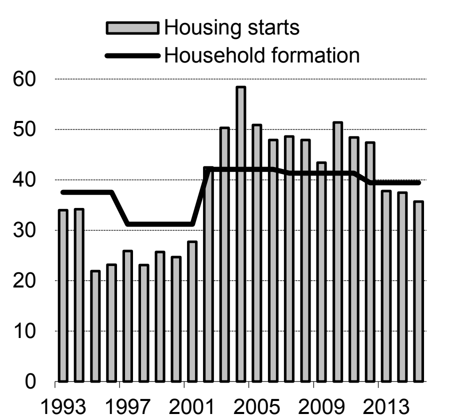
Residential investment in Québec
(percentage change, in real terms)



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

CHART C.8

Housing starts and household formation in Québec
(thousands of units)



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

1.7 Upturn in non-residential investment

After expanding by 11.3% in 2012, the value of total non-residential investment in Québec declined by 2.0% in 2013. Investments were negatively affected by lower business confidence, lower corporate profits, depreciation in the Canadian dollar and lower commodity prices.

Heightened consumer confidence, brighter economic outlook for the United States and the anticipated increase in corporate profits should spur growth in non-residential investment in Québec in the coming months.

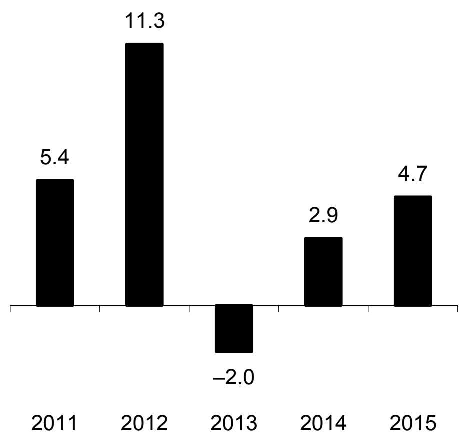
— The value of total non-residential investment, including by governments and businesses, should thus rise by 2.9% in 2014 and 4.7% in 2015, topping $57 billion.

The growth in total non-residential investment will be sustained in particular by the rebound in non-residential business investment.

— After shrinking by 4.7% in 2013, non-residential business investment is expected to pick up gradually in 2014 and 2015.

CHART C.9

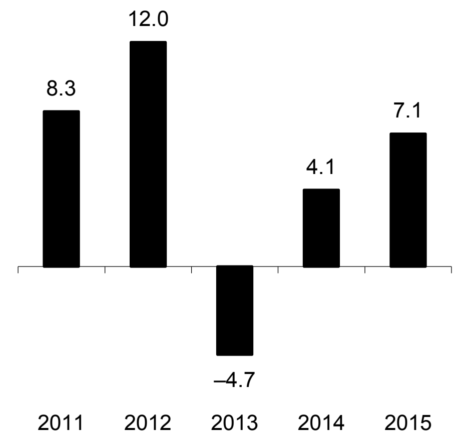
Total non-residential investment in Québec
(percentage change, in nominal terms)



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

CHART C.10

Non-residential business investment in Québec
(percentage change, in nominal terms)



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

❑ Rebound in non-residential business investment

Following two consecutive years of strong growth, Québec businesses cut their investments substantially in 2013.

— In nominal terms, non-residential business investment fell by 4.7% in 2013 after climbing by 12.0% in 2012, going from $34.8 billion in 2012 to $33.2 billion in 2013.

— In the sub-category of machinery and equipment, investment was down 5.8%, from $12.7 billion in 2012 to $12.0 billion in 2013, and in the sub-category of non-residential construction, it was down by 4.0%.

Business investment should gradually pick up against the backdrop of better economic conditions and heightened confidence.

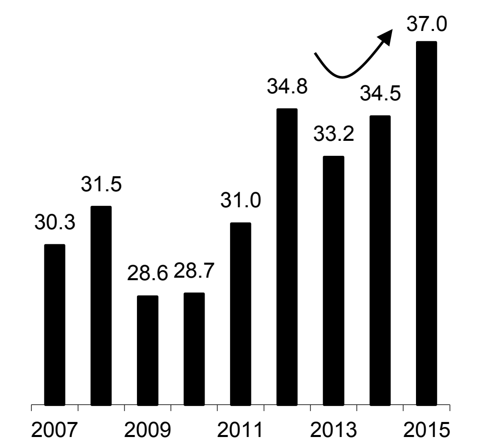
— The value of non-residential investment by businesses is expected to increase by 4.1% in 2014 and 7.1% in 2015, to reach $37.0 billion in 2015.

  — The value of investments in machinery and equipment will grow by 5.3% in 2014 and a projected 6.6% in 2015, to reach $13.5 billion.

  — By comparison, the value of non-residential construction is expected to climb by 3.7% in 2014 and 8.0% in 2015.

CHART C.11

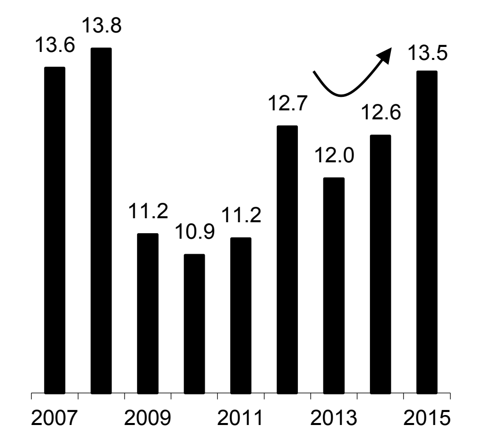
Non-residential business investment in Québec
(billions of dollars, in nominal terms)



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

CHART C.12

Business investment in machinery and equipment in Québec
(billions of dollars, in nominal terms)



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

Renewed growth in corporate profits

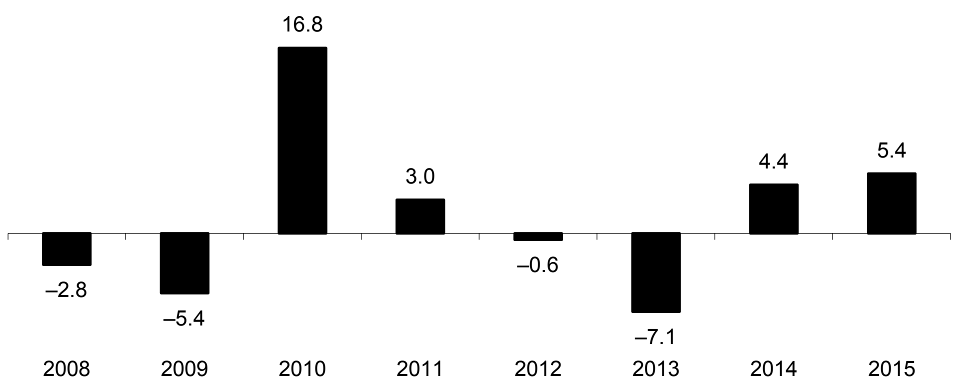
Since 2012, growth in corporate profits has been limited in Canada. In Québec, corporate profits contracted by 0.6% in 2012 and 7.1% in 2013. Several factors contributed to the lower profit levels:

- generally weak prices;
- the moderate economic growth recorded by Québec's main trading partners and stiff competition from emerging economies on foreign markets;
- regarding domestic demand, moderate growth in consumption and the faltering residential sector have also dampened growth in profits;
- in addition, even if commodity prices remain high, they have been following a downtrend since 2011. The decline in metal prices, in particular gold, aluminum and copper, put a drag on corporate profits in the mining and primary metal processing sectors.

The situation should pick up as consumer confidence improves and exports and prices recover. Indeed, stronger growth among Québec's main trading partners should lead to greater demand for Québec export products, which will also benefit from a weaker Canadian dollar.

- Corporate profits should therefore rise in nominal terms by 4.4% in 2014 and 5.4% in 2015.

Net operating surplus of Québec corporations
(percentage change, in nominal terms)



Note: According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

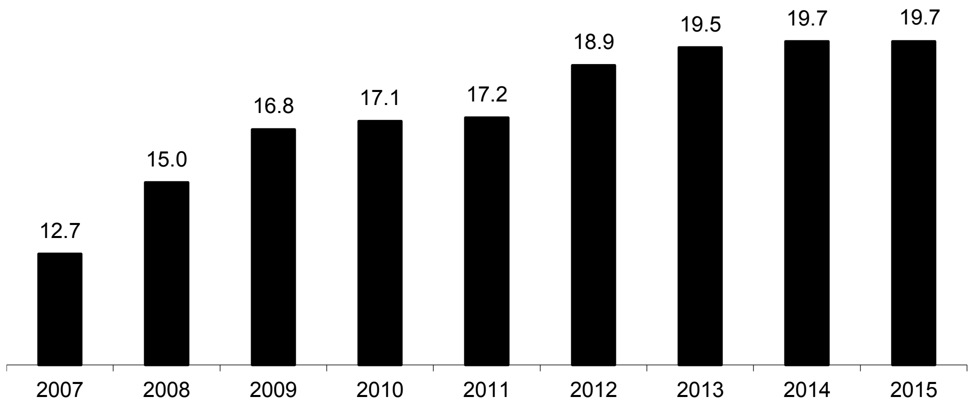
❑ Government investments remain high

While continuing their efforts to restore fiscal balance, all public administrations in Québec continue to maintain a high level of infrastructure investment.

Investments by public administrations (federal, provincial and local) will reach nearly $20 billion in 2014 and 2015, which is over 50% higher than in 2007.

CHART C.13

Government investments in Québec
(billions of dollars, in nominal terms)



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

1.8 Continued growth in exports

The Québec economy is open to the world. Export growth is largely influenced by the situation of Québec's trading partners.

Québec's international exports strengthened in 2013, growing by 5.1% in nominal terms.

— Keeping its exports strong is a challenge Québec has no choice but to meet if it wants to maintain and improve Quebecers' standard of living.

In 2014 and 2015, exports should further benefit from faster economic growth, particularly in the United States, as well as from a Canadian dollar at levels favouring exporters.

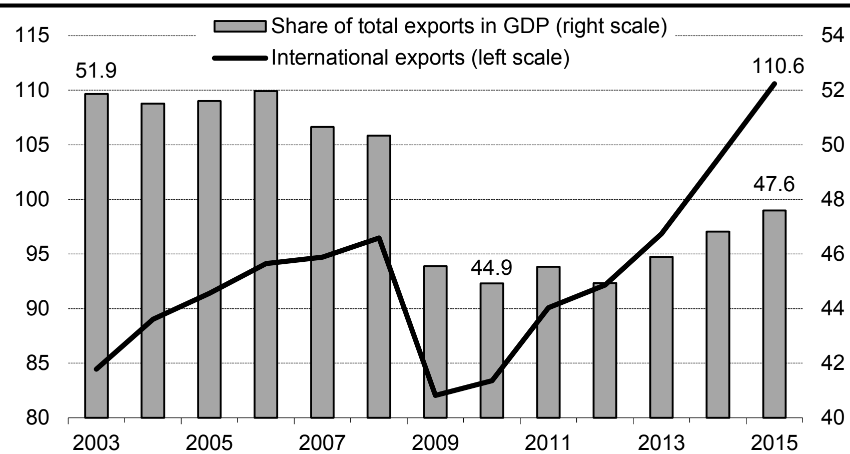
The impact of these factors should foster continued growth in Québec exports in the coming years.

— The value of international exports is expected to expand by 7.1% in 2014 and 6.6% in 2015.

Consequently, the value of Québec's total exports should reach nearly 48% of GDP in 2015. This is a gradual improvement over previous years, when the share of exports in GDP fell from 52% to 45%.

CHART C.14

Québec exports
(international exports in billions of dollars, in nominal terms, and share of total exports in nominal GDP, in per cent)



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

❑ Exports

Total exports were more robust in 2013, rising by 3.8% in real terms. The depreciation of the Canadian dollar, which fell from an average of 100.1 U.S. cents in 2012 to 96.6 U.S. cents in 2013, and the increase in U.S. imports, favoured Québec exports.

Exports should continue to grow in the coming years, driven by a weaker dollar and a stronger economy among Québec's main trading partners.

— Exports should grow by 3.0% in real terms in 2014 and by 3.8% in 2015.

❑ Imports

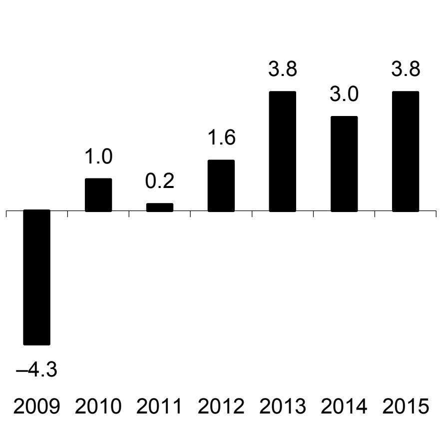
Québec mainly imports consumer goods, machinery and equipment and inputs for the manufacture of products.

— In 2013, imports increased by only 0.5% in real terms. This is a considerable slowdown from 2012 and reflects the more modest growth in domestic demand, particularly investments.

More robust domestic demand and exports are expected to drive growth in imports to 1.9% in 2014 and 2.1% in 2015.

CHART C.15

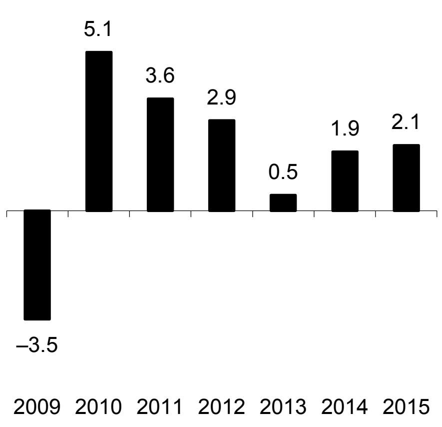
Québec's total exports
(percentage change, in real terms)



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

CHART C.16

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



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

Québec and Canadian exports did not benefit fully from the increased U.S. and international demand

The index of U.S. demand for Québec products (IUSDQP) measures U.S. economic activity, weighted by Québec trade. It reflects the impact of economic growth in the United States on Québec exports.

Historically, the IUSDQP has highlighted the close ties existing between Québec exports and U.S. demand for Québec products. However, a gap has been noticed since 2011, although it closed slightly with the recent depreciation in the Canadian dollar.

- Since 2011, the IUSDQP has increased by 12.4%. By comparison, real exports of Québec goods have risen by 4.9% over the same period.

The same phenomenon was seen in Canada, where the Bank of Canada's foreign activity index outstripped Canadian exports.

- The foreign activity index has risen by 11.2% since 2011, compared with 4.4% growth in real exports of Canadian goods.

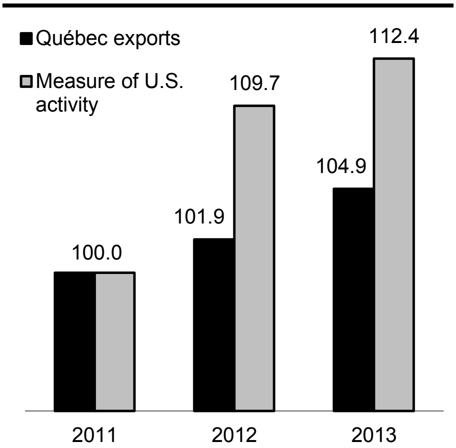
These results show that Québec and Canadian firms face strong global competition. If they want to benefit from the heightened foreign demand, they will have to invest to become more competitive.

U.S. demand for Québec products expected to firm up

In the coming years, Québec exports will benefit from the favourable economic outlook for the United States. The depreciation in the Canadian dollar vis-à-vis the U.S. dollar should also be good for Québec exports.

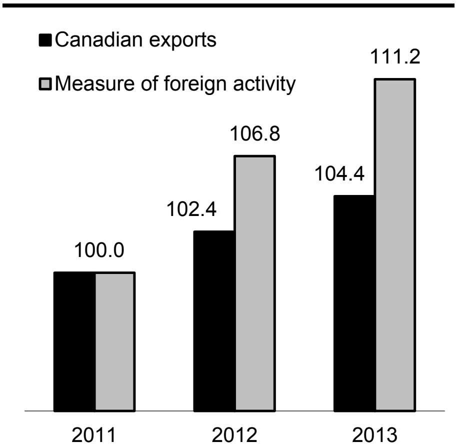
- After growing by 2.5% in 2013, U.S. demand for Québec products is expected to rise by 2.7% in 2014 and 5.8% in 2015.

Change in Québec exports and the IUSDQP
(index, 2011 = 100, in real terms)



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

Change in Canadian exports and foreign activity
(index, 2011 = 100, in real terms)



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

❑ Positive contribution of exports to economic growth

Net exports, which include changes in exports and imports, contributed 1.4 percentage points to economic growth in 2013.

— The positive contribution of the external sector in 2013 stems from a combination of faster growth in exports and a sharp slowdown in imports.

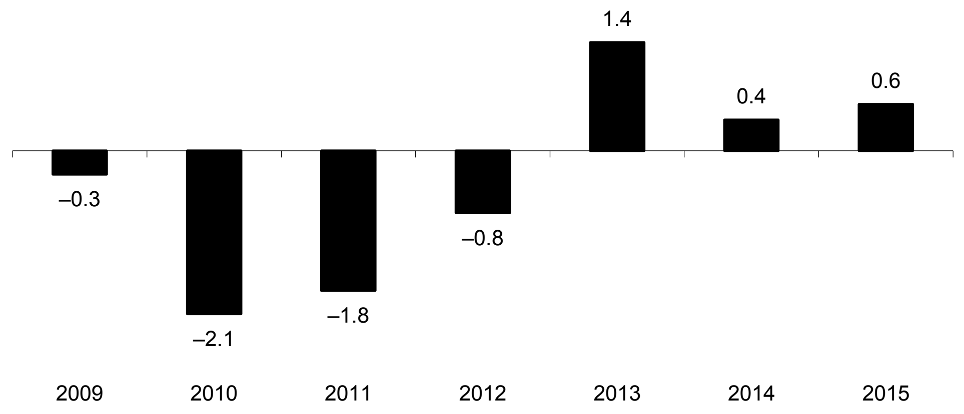
Net exports should continue to buoy economic growth in 2014 and 2015, albeit to a lesser extent than in 2013 due to the anticipated strengthening of imports.

The positive contribution of the external sector to economic growth is a major change from the situation observed in recent years.

— Between 2002 and 2012, imports grew at a faster pace than exports and caused the external sector to contribute negatively to GDP growth.

CHART C.17

Contribution of net exports to Québec's real GDP growth
(percentage points)



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

1.9 Comparison with private sector forecasts

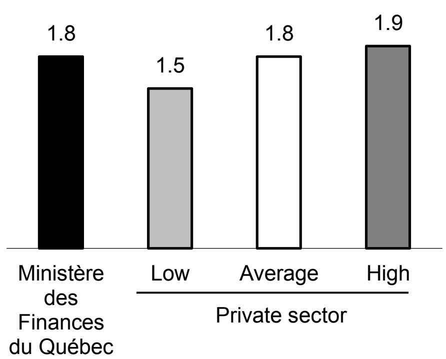
The economic growth forecast of the Ministère des Finances du Québec for 2014 and 2015 is similar to the average private sector forecast.

— The 1.8% growth in real GDP forecast for 2014 is equivalent to the average private sector forecast.

— The forecast growth in real GDP for 2015 is 2.0%, which is the same rate as that forecast by the private sector.

CHART C.18

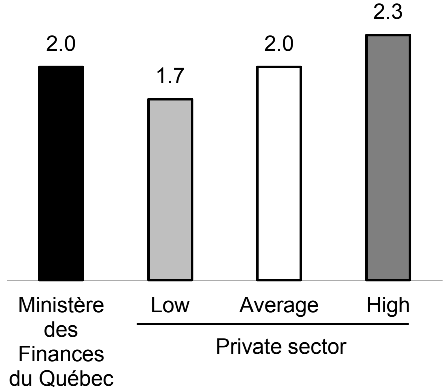
Economic growth in Québec in 2014
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of May 26, 2014, which includes the forecasts of 11 private sector institutions.

CHART C.19

Economic growth in Québec in 2015
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of May 26, 2014, which includes the forecasts of 11 private sector institutions.

TABLE C.3

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

	2013	2014	2015
Output			
Real gross domestic product	1.1	1.8	2.0
Nominal gross domestic product	1.9	3.4	3.9
Nominal gross domestic product ($ billion)	364.6	376.9	391.8
Components of GDP (in real terms)			
Household consumption	2.1	2.2	2.0
Government spending and investment	1.1	0.2	0.1
Residential investment	–5.1	–0.5	–0.4
Non-residential business investment	−6.0	1.3	5.3
Exports	3.8	3.0	3.8
Imports	0.5	1.9	2.1
Labour market			
Population (thousands)	8 155	8 227	8 284
Population aged 15 and over (thousands)	6 691	6 735	6 775
Jobs (thousands)	4 032	4 063	4 110
Job creation (thousands)	47.8	31.3	46.3
Job creation	1.2	0.8	1.1
Unemployment rate (%)	7.6	7.5	7.2
Employment rate (%)	60.3	60.3	60.7
Other economic indicators (in nominal terms)			
Household consumption	3.1	3.4	3.8
– Excluding food and rent	2.9	3.3	3.7
Housing starts (thousands of units)	37.8	37.5	35.7
Residential investment	–5.2	1.2	1.7
Non-residential business investment	−4.7	4.1	7.1
Wages and salaries	2.2	2.7	3.6
Household income	2.4	2.8	3.5
Net operating surplus of corporations (1)	–7.1	4.4	5.4
Consumer price index	0.7	1.3	2.1
– Excluding tobacco and alcohol	0.7	1.2	2.1
Per capita GDP ($)	44 705	45 813	47 296
Per capita disposable income ($)	26 745	27 234	28 028
– Growth	1.5	1.8	2.9

(1) According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.
Sources: Institut de la statistique du Québec, Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

1.10 Five-year economic outlook for 2014-2018

The five-year forecast of the Ministère des Finances du Québec is similar to the private sector forecast for real GDP growth, price increases and nominal GDP growth.

— Real GDP is expected to grow at an average rate of 1.8% from 2014 to 2018, which is the same as the private sector forecast.

— Nominal GDP is expected to grow at an average rate of 3.6% from 2014 to 2018, which is equivalent to the private sector forecast.

TABLE C.4

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

	2013	2014	2015	2016	2017	2018	Average 2014-2018
Real GDP							
Ministère des Finances du Québec	1.1	1.8	2.0	1.8	1.7	1.7	1.8
Average private sector forecast	1.1	1.8	2.0	1.9	1.8	1.7	1.8
Price increase							
Ministère des Finances du Québec	0.8	1.5	1.9	1.8	1.8	1.7	1.7
Average private sector forecast	0.8	1.3	1.8	1.9	1.9	1.9	1.8
Nominal GDP							
Ministère des Finances du Québec	1.9	3.4	3.9	3.6	3.5	3.4	3.6
Average private sector forecast	2.0	3.1	3.8	3.8	3.7	3.6	3.6

Note: Since figures are rounded, the average may differ from indicated results.
Source: Ministère des Finances du Québec summary as of May 26, 2014, which includes the forecasts of 11 private sector institutions.

❑ Factors that will restrain Québec's economic growth in the medium term

■ Beginning of major demographic changes

According to Statistics Canada data, the population aged 15-64, which makes up the bulk of the potential labour pool, stagnated in Québec in 2013, growing by just 0.1%.

— This is a lower rate of growth than for the Canadian population aged 15-64, which expanded by 0.6% in 2013.

In addition, after peaking at 5 427 200 people in July 2013, the Québec population aged 15-64 began decreasing in the last few months.

Against the backdrop of population aging, Québec's potential labour pool is thus expected to start shrinking in the coming years. By contrast, Canada's potential labour pool will continue to grow. From 2014 to 2018:

— the Québec population aged 15-64 is expected to decrease at an average rate of 0.2% per year;

— in Canada, an average growth rate of 0.4% per year is anticipated;

— in the United States, the population aged 16-64 is expected to grow at an average rate of 0.3%.

The shrinking size of the potential labour pool could have negative impacts on Québec's economic growth. These impacts might be attenuated by a drop in the unemployment rate and better utilization of the labour supply.

TABLE C.5

Change in size of the population aged 15-64
(thousands of individuals, change in thousands and per cent)

	Québec			Canada		
	Level	**Change** (‘000)	**Change** (%)	**Level**	**Change** (‘000)	**Change** (%)
1980	4 474.7	48.4	1.1	16 355.8	296.2	1.8
1990	4 762.9	40.1	0.8	18 334.5	225.5	1.2
2000	5 025.1	27.4	0.5	20 520.8	249.2	1.2
2011	5 402.2	25.3	0.5	23 310.6	179.2	0.8
2012	5 417.3	15.1	0.3	23 438.1	127.5	0.5
2013	5 425.1	7.8	0.1	23 582.7	144.6	0.6
2014	5 420.6	−4.5	−0.1	23 719.2	136.5	0.6
2015	5 415.0	−5.6	−0.1	23 838.3	119.1	0.5

Sources: Statistics Canada and Ministère des Finances du Québec.

■ The labour market must continue to adapt

The Québec labour market has been able to adapt to demographic changes in recent years. Its robust labour market has enabled Québec to substantially narrow and even close the gaps with Canada, particularly in the labour force participation and employment rates.

- In 2000, the labour force participation rate for the population aged 15-64, that is, the share of individuals in this age group who were employed or actively seeking work, was 2.8 percentage points lower in Québec than in Canada. In 2013, it was 0.1 percentage point higher in Québec than in Canada.
- In 2000, the employment rate for the population aged 15-64, that is, the share of individuals in this age group who were employed, was 3.8 percentage points lower in Québec than in Canada. In 2013, the gap had almost completely closed.
- On the other hand, the employment rates for the population aged 55 and over are still lower in Québec than in Canada. In 2013, the employment rate:
  - for the population aged 55-59 was 67.9% in Québec, compared with 69.5% in Canada;
  - for the population aged 60-64 was 41.8% in Québec, compared with 50.0% in Canada;
  - for the population aged 65-69 was 17.8% in Québec, compared with 24.4% in Canada.

Therefore, despite the shrinking size of the potential labour pool, improvements in the labour market are still possible in the coming years, particularly in terms of experienced workers.

TABLE C.6

Labour market – Population aged 15-64
(per cent)

	Unemployment rate		Employment rate		Labour force participation rate	
	Québec	Canada	Québec	Canada	Québec	Canada
1980	10.1	7.6	60.8	66.1	67.7	71.6
1990	10.5	8.2	65.3	70.3	72.9	76.6
2000	8.5	6.9	67.1	70.9	73.4	76.2
2011	7.8	7.5	71.4	72.0	77.4	77.8
2012	7.8	7.3	71.6	72.2	77.7	77.9
2013	7.7	7.2	72.2	72.5	78.2	78.1

Sources: Statistics Canada and Ministère des Finances du Québec.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world and strongly integrated into the North American economy. While Québec has diversified its trade in recent years, Canada and the United States remain its main trading partners and their economies significantly affect the development of Québec's economy.

— In 2013, exports to these two destinations represented 38.1% of Québec's GDP.

❑ Faster growth in Canada and the United States

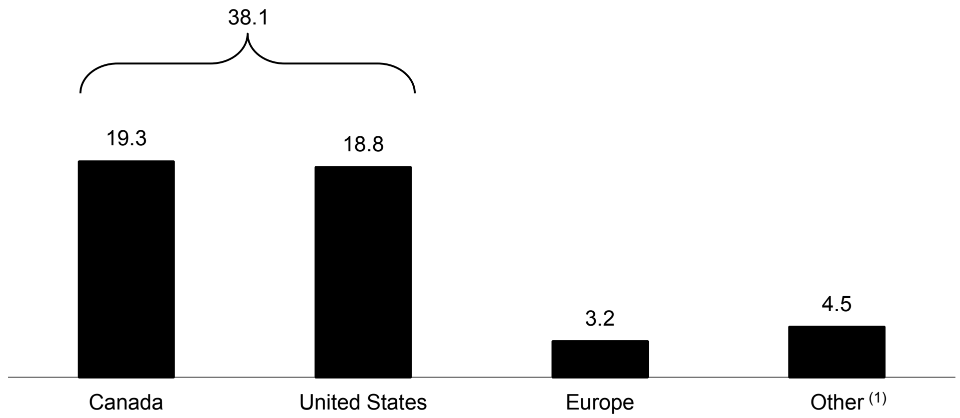
Growth in the main North American economies is currently accelerating.

— In Canada, economic growth is expected to increase from 2.0% in 2013 to 2.2% in 2014 and 2.5% in 2015, buoyed by household consumption expenditure, business investment and improvement in the global economy, which will further drive Canadian exports.

— In the United States, real GDP growth, which was 1.9% in 2013, is expected to accelerate to 2.5% in 2014 and 2.9% in 2015, driven primarily by greater increases in consumption and investment.

CHART C.20

Share of exports in GDP, by Québec's trading partners
(as a percentage of nominal GDP in 2013)



Note: Figures have been rounded off.
(1) Includes, in particular, China, Mexico, Japan, Brazil, India and South Korea.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

2.1 The economic situation in Canada

In 2013, economic growth in Canada was dampened by modest business investment and a slowdown in residential investment. Furthermore, the international context was less favourable to Canadian exports due to slower growth in emerging economies.

— Real GDP grew by 2.0% in 2013.

Canada's real GDP growth is expected to accelerate to 2.2% in 2014 and 2.5% in 2015.

— The faster growth will be supported by improvement in the global economy, in particular the U.S. economy, which should further boost Canadian exports.

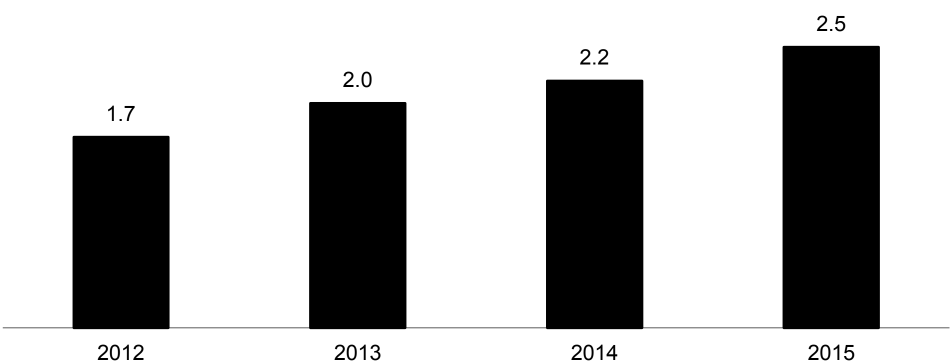
— Household consumption expenditure and business investment should continue supporting economic growth.

The downturn in the residential sector that began in the second half of 2012 is expected to continue in 2014. In addition, continued control of government spending in an economic climate that has several provinces maintaining their efforts to restore fiscal balance will be a drag on growth.

In nominal terms, Canada's GDP saw tepid growth. Nominal GDP grew by 3.3% in 2013 as a result of weak inflation. The pace of GDP growth is expected to accelerate gradually, to 3.8% in 2014 and 4.3% in 2015, against the backdrop of more robust expansion of the real economy and the gradual return of inflation to values closer to the Bank of Canada's 2% target.

CHART C.21

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Household consumption and the labour market

Real consumer spending rose by 2.2% in 2013. The strong labour market performance in Canada will help support consumption, which is expected to climb by 2.5% in 2014 and 2.3% in 2015.

A total of 223 500 jobs were created in 2013. Another 174 600 jobs should be added in 2014 and 219 300 in 2015, for an increase of 1.0% and 1.2%, respectively.

— The anticipated job creation should help push the unemployment rate down further, from the 7.1% seen in 2013 to 6.9% in 2014 and 6.7% in 2015.

❑ Ongoing downturn in residential investment

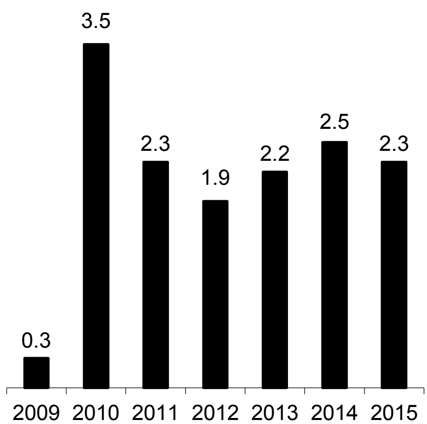
While low interest rates are helping to sustain demand, the successive measures to tighten mortgage lending rules have led to a slowdown in residential construction in Canada.

— Housing starts were down 12.5% in 2013. The contraction is expected to ease gradually, with a 2.9% decline in the number of housing starts in 2014 and a 1.7% decline in 2015.

— Consequently, Canadian residential investment fell by 0.2% in 2013. This trend is expected to continue, with residential investments dropping by 2.1% in 2014 and 1.4% in 2015.

CHART C.22

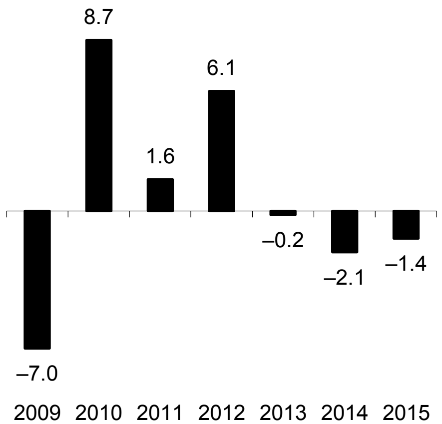
Consumer spending in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.23

Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Non-residential business investment is gaining traction

After expanding by 2.3% in 2013, the value of non-residential business investment is expected to grow by 3.9% in 2014, fuelled by the acceleration in domestic demand and exports.

In 2015, non-residential business investment should be up 5.1%, raising its value to $260.8 billion.

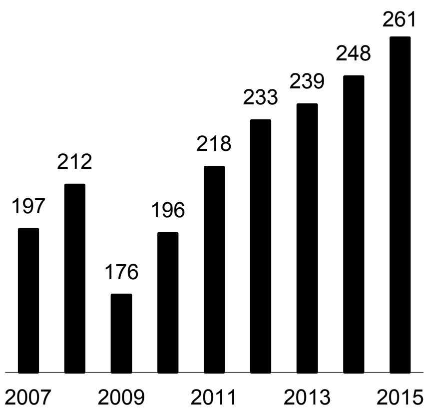
❑ Government investments remain at high levels

Even though growth in public investments will remain moderate in the coming years, the value of these investments will remain high.

— Following a 0.6% increase in 2013, the value of government investments is expected to climb by 1.8% in 2014 and 3.4% in 2015, to reach $81.8 billion.

CHART C.24

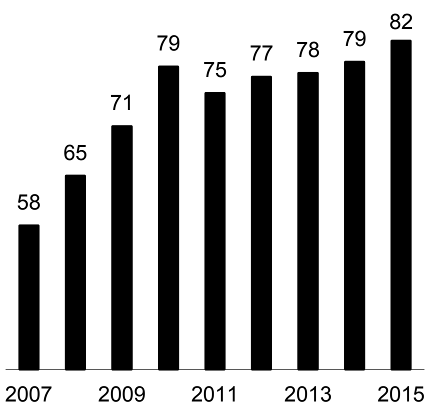
Non-residential business investment in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.25

Government investments in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The external sector continues to rally

Canadian exports picked up pace in 2013, increasing in real terms by 1.5% in 2012 and 2.1% in 2013. Imports rose by only 1.1% in 2013, curtailed by moderate growth in domestic demand.

Exports should show more robust growth in 2014 and 2015, due in particular to the anticipated acceleration in economic growth in the United States. In addition, the decline in the Canadian dollar should boost Canadian exports to all foreign markets.

— Exports are expected to rise by 2.5% in 2014 and 4.4% in 2015, while imports are expected to climb by 1.0% in 2014 and 2.4% in 2015.

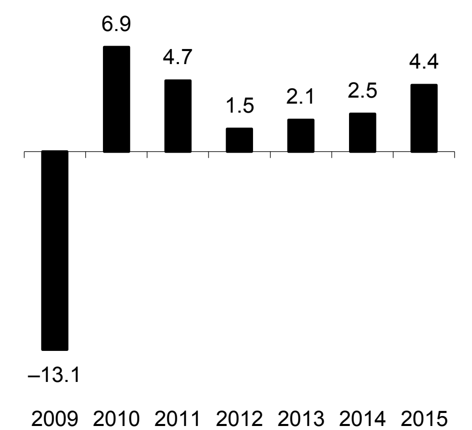
Accordingly, net exports should make a bigger contribution to economic growth in Canada in 2014 and 2015.

— This situation constitutes a significant improvement from the situation observed since 2002, when imports were growing at a faster pace than exports, causing the external sector to make a negative contribution to Canada's economic growth.

CHART C.26

Canadian exports

(percentage change, in real terms)

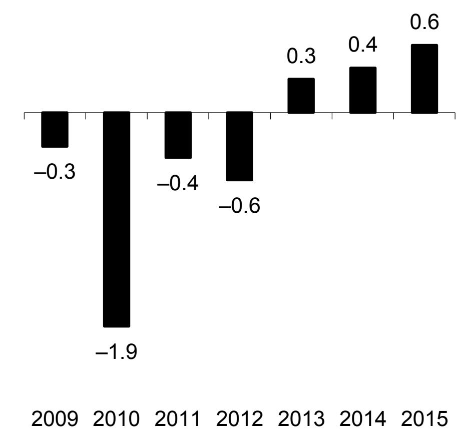


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.27

Contribution of net exports to Canada's real GDP growth

(percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Oil prices will drop slightly in 2014 and 2015

Brent crude oil prices remained high at the start of 2014, averaging around US$108 a barrel. The recent tensions over the Ukraine-Russia crisis pushed oil prices up amid renewed fears of possible supply shortages, with Russia being one of the world's largest crude oil producers.

The price of North American WTI oil has jumped 7.7% since January 2014, standing at US$102 in April. The spread between Brent and WTI crude oil benchmark prices narrowed, from US$12 in January to US$6 in April.

— An increase in capacity to transport oil between the American Midwest and the Gulf of Mexico helped to narrow the price gap and should enable the United States to export greater volumes of refined petroleum products to the international market.

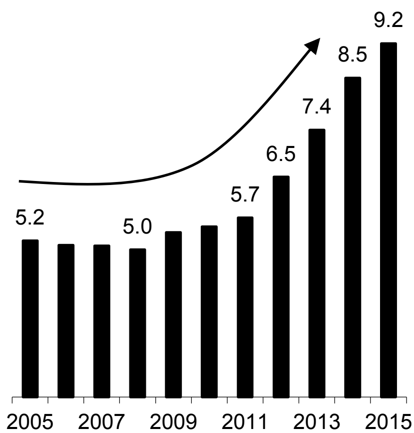
The combination of anticipated appreciation in the U.S. dollar and robust growth in North American production should result in slightly lower oil prices in 2014 than in 2013.

— According to the U.S. Energy Information Administration, U.S. oil production should increase from 7.4 million barrels a day (mbd) in 2013 to 8.5 mbd in 2014 and 9.2 mbd in 2015.

As a result, the price of a barrel of Brent crude is expected to average around US$106 in 2014 and US$102 in 2015. The price of WTI should average US$97 in 2014 and US$93 in 2015.

CHART C.28

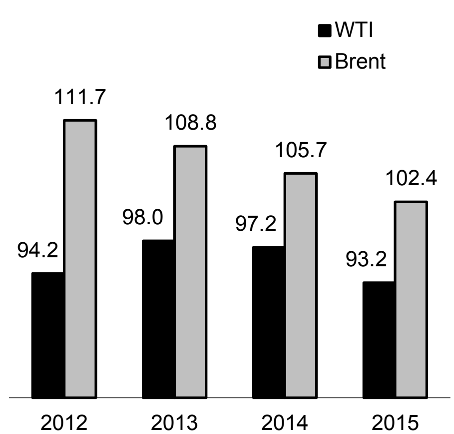
U.S. oil production
(millions of barrels per day)



Source: U.S Energy Information Administration.

CHART C.29

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



Sources: Bloomberg and Ministère des Finances du Québec.

❑ Bank of Canada remains accommodating

The Bank of Canada (BoC) has held its overnight interest rate at 1.0% since September 2010. This situation is expected to continue for the next few quarters, due in particular to Canada's low core inflation rate and the persistent surplus production capacity.

— The Bank of Canada's more accommodating tone in recent months suggests that it will put off the tightening of monetary policy in Canada. The BoC is expected to announce the first key rate hike in the second quarter of 2015, when the core inflation rate will gradually get closer to the 2% target and surplus production capacities will be lower.

The BoC is then expected to raise its key rate slowly, evaluating the effects of its rate hikes on the Canadian economy as a whole.

— The yield on 3-month Treasury bills will increase in pace with the target rate. It should remain relatively stable in 2014, at an average rate of 0.9%, and then increase to 1.4% in 2015.

Yields on the bond market are expected to continue rising in the coming years, but gradually. They will be influenced in particular by the brighter economic outlook, increased inflation expectations and the gradual withdrawal of the exceptional monetary policies introduced by the U.S. Federal Reserve to support economic growth.

— After averaging 2.3% in 2013, the yield on 10-year federal government bonds is expected to increase to 2.9% in 2014 and 3.8% in 2015.

TABLE C.7

Canadian financial markets
(average annual percentage rate, unless otherwise indicated)

	2012	2013	2014	2015
Target for the overnight rate	1.0	1.0	1.0	1.4
3-month Treasury bills	1.0	1.0	0.9	1.4
10-year bonds	1.9	2.3	2.9	3.8
Canadian dollar (in U.S. cents)	100.1	96.6	89.5	87.9

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

❑ Lower Canadian dollar

In 2013, the average value of the Canadian dollar was 96.6 U.S. cents, which was below the record levels reached in 2011, when the loonie broke parity with the U.S. dollar. The Canadian dollar is expected to continue depreciating, to average values of 89.5 U.S. cents in 2014 and 87.9 U.S. cents in 2015.

Since fall 2013, the loonie has depreciated against the greenback, falling from over 97 U.S. cents in October 2013 to nearly 89 cents in March 2014.

— The decline is primarily attributable to the more accommodating tone taken by the Bank of Canada, which affected the interest rate spreads between Canada and the United States.

— The Canadian dollar has rebounded slightly since mid-March 2014, reaching nearly 92 U.S. cents in mid-May, when specific indicators showed an improvement in Canadian economic activity and oil prices rose.

Furthermore, Canada and the United States are expected to tighten their monetary policies in the second quarter of 2015. The loonie should depreciate in value with the expected interest rate spread between the two countries expected to be narrower than was previously anticipated.

— By contrast, the U.S. dollar is expected to strengthen vis-à-vis major currencies, fuelled by an improved outlook for economic growth in the United States and the likely end to the country's quantitative easing measures in fall 2014.

CHART C.30

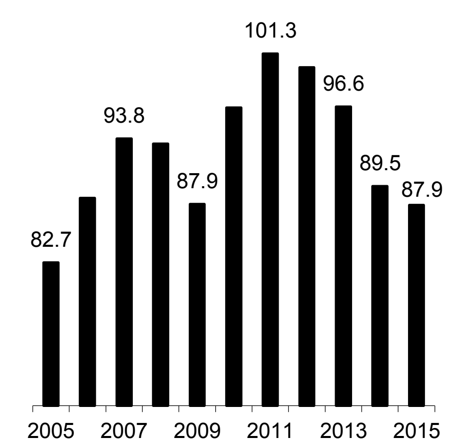
Spread between yields on 5-year bonds in Canada and the United States
(basis points)

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

CHART C.31

Canadian dollar exchange rate

(U.S. cents, annual average)



Sources: Bloomberg and Ministère des Finances du Québec.

2.2 The economic situation in the United States

❑ An acceleration in economic growth in 2014 and 2015

In the years following the last recession, i.e. from 2010 to 2013, the U.S. economy recovered in an unequal fashion. Following this hesitant start, economic growth is expected to accelerate in the coming years. After expanding by 1.9% in 2013, U.S. real GDP should grow at a rate of 2.5% in 2014, despite the adverse weather conditions at the beginning of the year. Real GDP growth of 2.9% is expected in 2015.

Over the next few years, the acceleration in economic activity in the United States will hinge on a greater contribution from domestic demand.

— Easing of the adverse effects of the budgetary consolidation measures introduced at the beginning of 2013 will drive stronger growth in consumption.

— The U.S. Congress' approval of a two-year spending plan in December 2013 eased uncertainty, which will in turn boost household and business confidence.

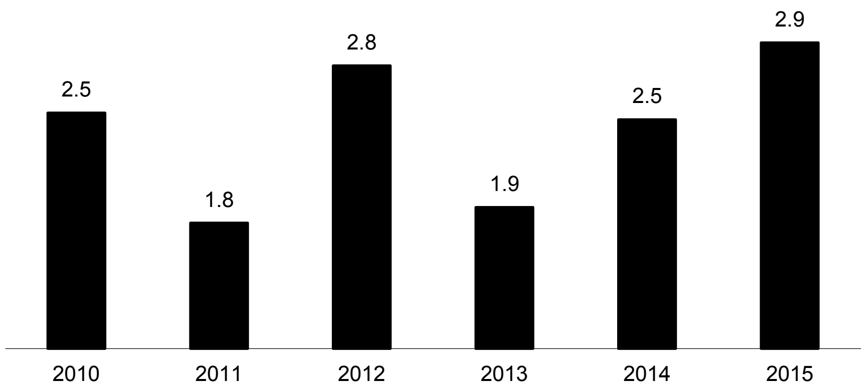
— The advantageous financial situation of households and businesses will also lead to a greater contribution from consumption and investments to economic growth.

Furthermore, net exports will benefit from the upturn in global economic growth, fostering demand for U.S. products.

— Moreover, increased oil production in the United States will not only curb imports of refined oil, but also drive up exports of that oil.

CHART C.32

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



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

Harsh weather conditions dampened economic growth in the United States in the first quarter

The weather conditions at the end of 2013 and beginning of 2014 were harsher than in previous years.

- Snowstorms were much bigger than usual, with the Northeastern and Midwestern states seeing more snow this winter.
- Colder temperatures across much of the nation led to higher-than-normal heating needs in the first two months of 2014.

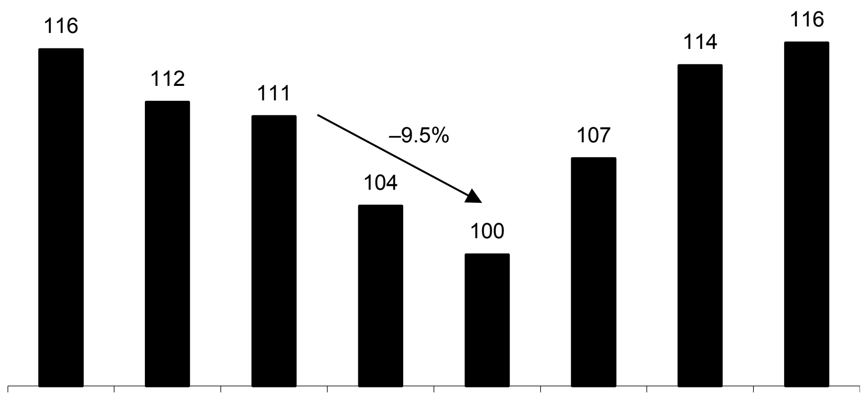
The unusually bad weather curbed economic growth in the first quarter of 2014.

The bad weather also slowed the transportation of merchandise. Shippers saw an unusual 9.5% decline in volume between November 2013 and January 2014. Workers, consumers and businesses saw their travel plans scuttled. For example:

- the Atlanta airport was paralyzed in January following a snowstorm, something rarely seen in the capital of Georgia;
- several states, including Texas, declared a state of emergency due to the weather;
- nearly 75 000 flights were grounded across the United States between December and February, a 25-year record.

However, the bad weather had only a temporary impact. A number of recent indicators point to an acceleration in economic growth in the United States in the coming quarters.

Volume of merchandise transported in the United States
(index, January 1990 = 100)



Sources: Cass Information Systems and Ministère des Finances du Québec.

❑ More robust growth in consumption

After rising by 2.0% in 2013, consumption is expected to grow, in real terms, by 2.9% in 2014 and 2.6% in 2015.

— Consumer spending will be spurred by an increase in personal disposable income due to easing of the negative impact of the budgetary consolidation measures implemented at the beginning of 2013.

— The increase in personal disposable income, which was 0.7% in 2013, is expected to stand at 2.4% in 2014 and 3.6% in 2015.

— Health spending, which rose significantly in the first quarter as a result of the health insurance reform in the United States, will have a positive impact on growth in consumption in 2014.

Continued improvement in the financial situation of households, gradual consolidation of the labour market and greater consumer confidence should also spur consumption.

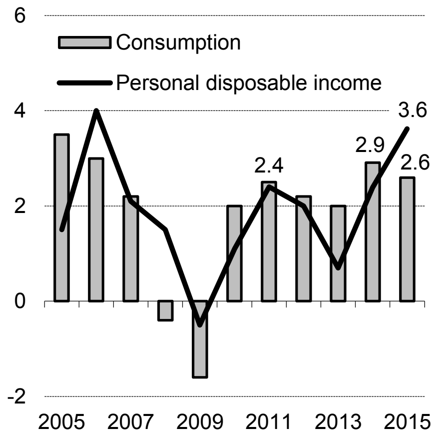
— At the end of 2013, household net worth[1] had nearly returned to the peak level recorded in 2006, standing at 6.4 times personal disposable income.

Nevertheless, growth in consumption will be dampened by, in particular, the effects of the 2008-2009 recession and population aging.

CHART C.33

Consumption and personal disposable income in the United States

(percentage change, in real terms)

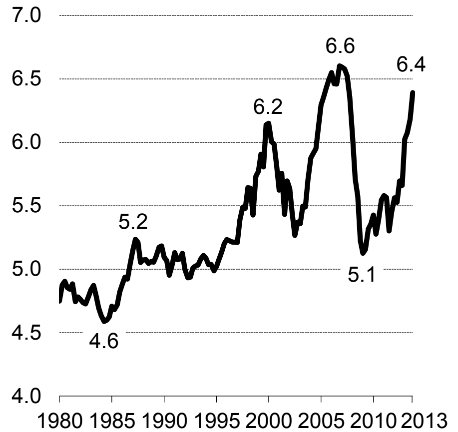


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.34

Household net worth in the United States

(ratio to personal disposable income, quarterly data)



Source: IHS Global Insight.

[1] Net worth equals total assets minus total debt.

❑ Gradual consolidation of the labour market

In 2014, job creation is expected to expand at a similar rate as in 2013. Employment should reach its pre-recession level in 2014, i.e. seven years later.

— Job creation slowed to 84 000 in December 2013 and to 144 000 in January 2014, under the negative impact of harsh weather conditions. This is slower than the average rate of 185 000 jobs per month seen from 2011 to 2013.

— However, these adverse effects were only temporary. Job creation rebounded with 203 000 and 288 000 jobs added in March and April, respectively, resulting in an average of more than 230 000 jobs being created from February to April 2014.

In the coming years, less fiscal uncertainty and faster growth of business investment and consumption should spur hiring.

— Employment is expected to grow by 1.7% in 2014 and 1.8% in 2015, pushing down the unemployment rate to an average of 6.5% and 6.0% in 2014 and 2015, respectively.

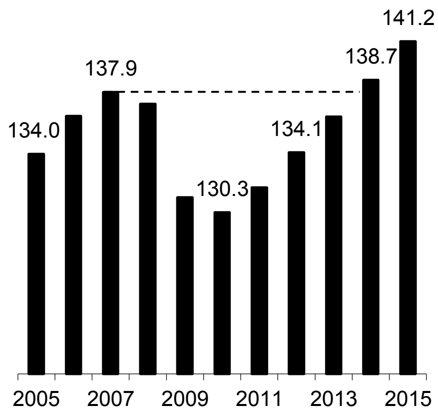
However, the labour force participation rate in the United States, which stood at 62.8% in April, is still below its historic levels of over 65%, on average, between 1986 and 2009.

— Discouraged about the weak job prospects, many people in the last few years either gave up looking for work or decided to retire early. However, the labour force participation rate should improve gradually as the labour market picks up.

CHART C.35

Labour market

(millions of jobs)

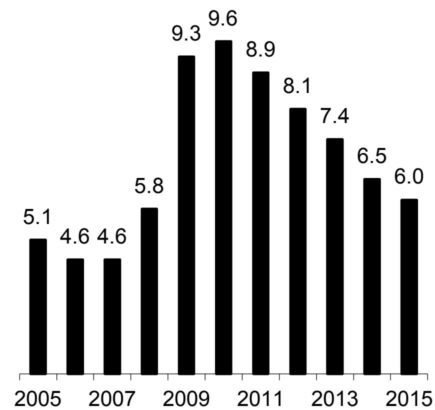


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.36

Unemployment rate in the United States

(per cent, annual data)



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

The economic difficulties of recent years slowed potential growth in the United States

Potential GDP corresponds to the long term path of the economy, which generally depends on growth in productivity, the potential labour pool and capital stock. The difficulties experienced in recent years influenced the key factors of potential economic growth in the United States.

- The difficult job market situation led workers to leave the labour force, thereby reducing the labour market participation rate and number of potential hours worked.
- Low levels of business investment dampened growth in capital stock.

Considering these factors, the Congressional Budget Office (CBO) estimated that potential growth in the United States fell from an annual rate of 3.1% from 2001 to 2005, to 2.2% from 2006 to 2009 and 1.5% from 2010 to 2013.

Potential growth of real GDP is expected to increase in the coming years as the economic difficulties attenuate, although it will remain limited due to population aging.

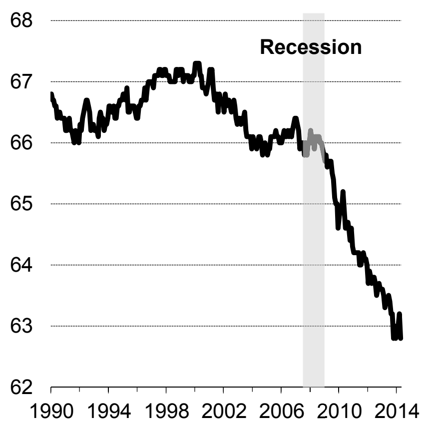
- According to the CBO, the labour force should grow from an average annual rate of 0.8% between 2014 and 2017 to 0.6% between 2018 and 2024.

The CBO projects average annual growth in potential GDP of 2.0% from 2014 to 2017 and 2.2% from 2018 to 2024. By comparison, the consensus among private sector forecasters is that US real GDP should grow at an average rate of 2.5% between 2020 and 2024.

- In the short term, however, real GDP growth might outstrip potential growth due in particular to the elimination of underutilized production capacities still present in the economy.

Labour force participation rate[1]

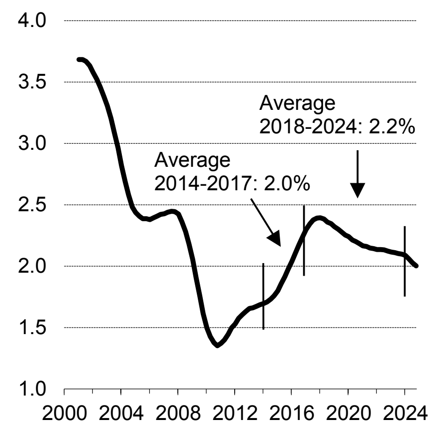
(per cent)



(1) Percentage of the labour force in the population aged 16 and over.
Source: IHS Global Insight.

Potential growth in US real GDP – CBO forecast

(annual percentage change)



Sources: Congressional Budget Office and Ministère des Finances du Québec.

❑ Favourable conditions for an acceleration in business investment

After slowing in 2013, business investment is expected to accelerate and grow in real terms from 2.7% in 2013 to 4.2% in 2014 and 6.5% in 2015.

Several factors will drive investments by U.S. firms.

— The announcement last December of the budget agreement reached by Congress for 2014 and 2015 reduced the uncertainty surrounding fiscal policy and boosted business confidence.

— The negative repercussions on economic growth of the budget cuts implemented in early 2013 has waned, which will result in stronger domestic demand for U.S. products.

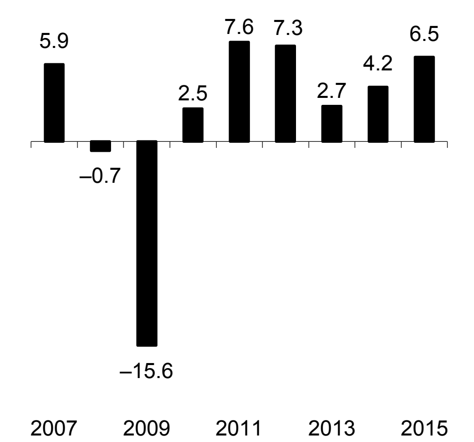
— Gradually stronger growth in advanced economies should also support demand for American export products.

— In addition, U.S. firms are seeing improved profitability as a result of post-recession restructuring, as well as advantageous production and financing costs.

CHART C.37

Business investment in the United States

(percentage change, in real terms)

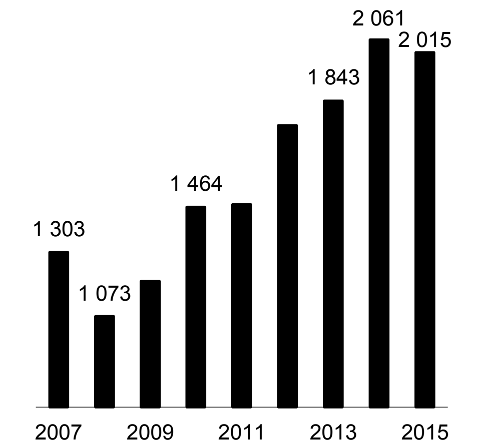


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.38

After-tax profits of businesses in the United States

(billions of U.S. dollars, in nominal terms)



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

The acceleration in business investment comes after a long period of weak growth

Recovery in U.S. business investment has remained weak since the 2008-2009 recession.

- In real terms, business investment did not exceed pre-recession levels until the fourth quarter of 2013, or 24 quarters later.
- In the past, business investment recovered a lot faster, taking 15 quarters to make up lost ground following the 2001 recession and 9 quarters following the 1990-1991 recession, counted from the start of the recession.

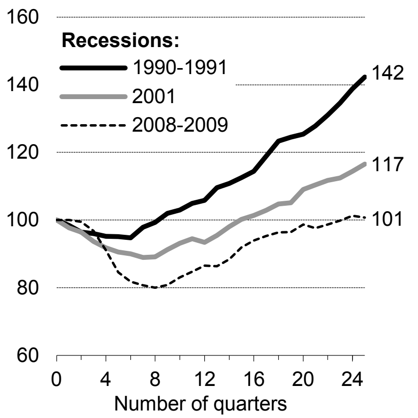
However, U.S. firms are expected to boost their production capacity and productivity through increased investment in 2014 and 2015.

- Businesses have been hesitant to increase their spending in recent years, resulting in deterioration of equipment and structures, the average age of which is at a record high.
- Several factors having caused the slowdown in business investment recently disappeared, including fiscal uncertainty and demand restraint during household deleveraging.

A number of recent indicators already point to renewed growth in business investment in the United States, including an acceleration in commercial and industrial loans and an increase in investment intentions.

Business investment since the start of the U.S. recession

(index, the investment level equals 100 at the start of the recession)



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

Average age of U.S. business investment in equipment and structures

(years)

Source: Bureau of Economic Analysis.

❑ Continued recovery in the residential sector

After growing at a rate of 12.2% in 2013, residential investment is expected to increase by 4.1% in 2014 and then accelerate to 13.5% in 2015.

- The U.S. real estate sector will see moderate growth in 2014, having been hit temporarily by the harsh weather conditions at the beginning of the year.
- In addition, higher housing prices and mortgage rates, along with the tighter credit conditions following the federal government's adoption of various regulatory measures, will have a dampening effect on the U.S. residential sector.

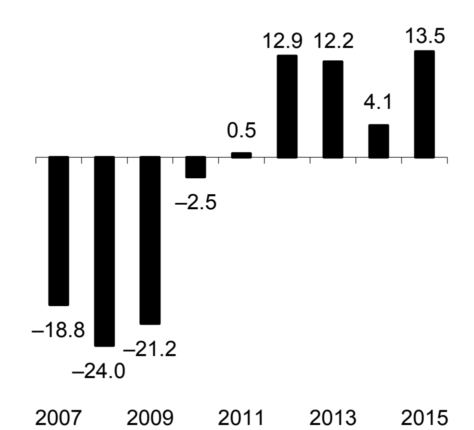
Residential investment is nevertheless expected to pick up pace in 2014 and 2015, still being driven by:

- the ongoing rebound in the labour market;
- an acceleration in household formation, which is expected to reach 1.4 million in 2014 and 1.7 million in 2015, after dropping to a low of 0.3 million in 2010 due to the difficult economic conditions.

Housing starts should continue to show progress, reaching 1.1 million units in 2014 and 1.5 million units in 2015. They will near their long-term trend of around 1.5 million units per year.

CHART C.39

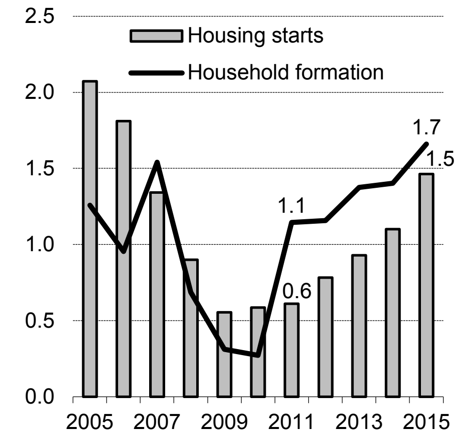
Residential investment in the United States
(percentage change, in real terms)



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

CHART C.40

Housing starts in the United States
(millions)



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

❑ Stabilization of public spending in a demographic context that calls for caution

After shrinking by over 2.1% per year on average from 2011 to 2013, spending by all levels of government should level off.

— In the United States, public spending is expected to shrink by 0.7% in real terms in 2014 and then increase by 0.3% in 2015.

The federal and state governments were able to cut their deficits thanks to the fiscal consolidation measures implemented in recent years. Nevertheless, with population aging putting upward pressure on public spending, especially by the federal government, which funds a large share of social security and health care programs, public administrators will continue to take a cautious approach.

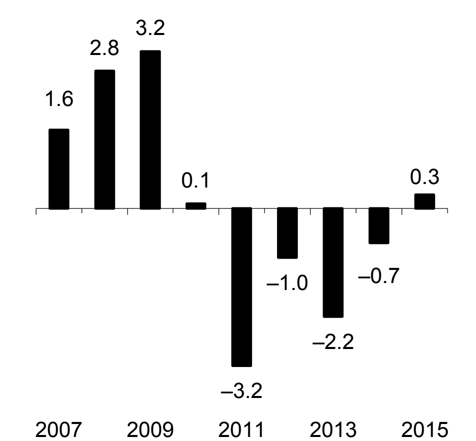
— The Congressional Budget Office, a federal agency that provides non-partisan analysis to Congress, forecasts that social security and health care spending will climb from 9.5% of GDP in 2013 to 11.0% of GDP over the period 2018-2024.

— This is in addition to the cost of debt service, which is expected to expand from 1.3% of GDP in 2013 to 2.9% of GDP over the period 2018-2024, due in particular to the projected increase in interest rates.

To deal with the growing weight of costs associated with population aging and debt service, the federal government plans to continue reigning in discretionary spending, which will contain the contribution of all levels of government to economic growth.

CHART C.41

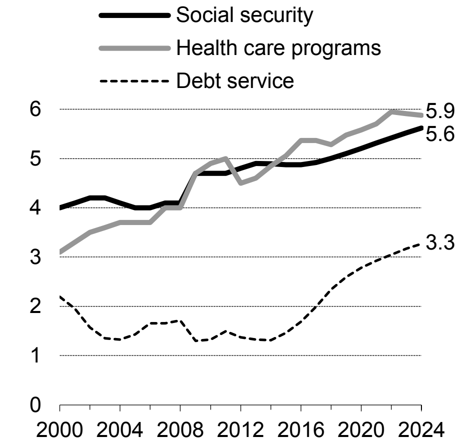
Government spending in the United States
(percentage change, in real terms)



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

CHART C.42

Federal spending, by category
(as a percentage of GDP)



Sources: Congressional Budget Office and Ministère des Finances du Québec.

❑ Gradual growth in exports

The improvement in the global economy, particularly in the euro area and Asia, strengthened U.S. exports in the second half of 2013. This trend is expected to continue in 2014 and 2015 owing to stronger demand from advanced economies.

— After increasing by 2.7% in 2013, real exports are expected to grow by 2.9% in 2014 and 5.0% in 2015.

Also, stronger domestic demand resulting from an acceleration in household consumption and business investment, as well as appreciation of the U.S. dollar, should further support imports.

— After rising by 1.4% in 2013, imports are expected to grow in real terms by 2.4% in 2014 and 4.2% in 2015.

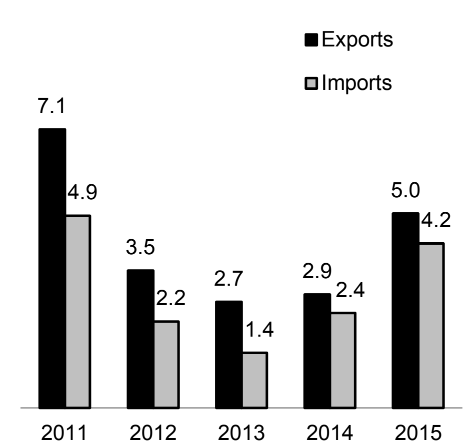
In the coming years, a more competitive U.S. manufacturing sector and an expanding energy sector, which will eventually reduce reliance on foreign oil, will help keep the trade deficit in check.

— Since 2005, exports of petroleum products have swelled from 1.2 to 3.6 million barrels per day (mbd), whereas imports have declined from 13.7 to 9.8 mbd over the same period.

— U.S. crude oil production is expected to rise from 7.4 mbd in 2013 to 8.5 mbd in 2014 and 9.2 mbd in 2015, for a 24.0% increase between 2013 and 2015.

CHART C.43

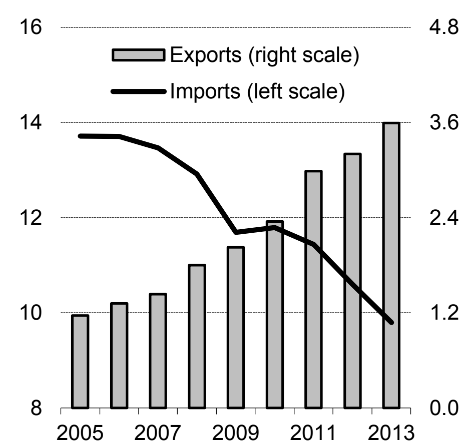
Change in exports and imports in the United States
(percentage change, in real terms)



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

CHART C.44

Annual exports and imports of petroleum products
(millions of barrels per day)



Source: U.S. Energy Information Administration.

❑ U.S. Federal Reserve continues its gradual withdrawal

Following its announcement on December 18, 2013, the U.S. Federal Reserve (Fed) began slowing the pace of its asset purchases, the first step in trimming the large-scale program implemented during the recession.

Since then, the central bank has continued trimming its asset purchases, at a rate of around US$10 billion each time it announces a reduction. Asset purchases, which amounted to $45 billion in May 2014, should end this coming fall.

— Bond yields are forecast to increase only gradually in the coming months, given that financial markets anticipate the coming end of the asset purchase program.

— Furthermore, the trimming of asset purchases had the particular effect of influencing global capital flows since spring 2013.

The Fed qualified its message during the March 2014 announcement, with unemployment rate in the first quarter of 2014 nearing the 6.5% threshold for considering raising its key interest rate. Henceforth, the Fed will assess progress towards full employment and its 2% inflation target based on a range of economic indicators.

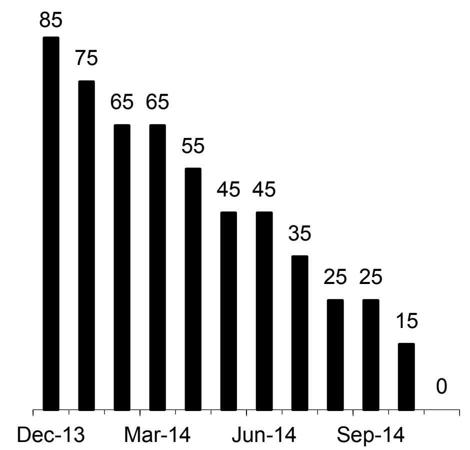
In this context, continued improvement in the labour market and a gradual rise in inflation should bring the Fed to start raising its key interest rate in mid-2015, i.e. a few months after the end of the asset purchase program.

— However, the Fed will have to be careful about how it communicates its intentions so as not to create volatility in financial markets.

CHART C.45

Pace of Federal Reserve's asset purchases

(billions of U.S. dollars per month)

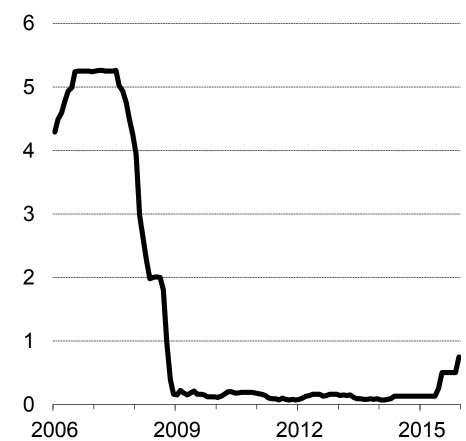


Sources: U.S. Federal Reserve and Ministère des Finances du Québec.

CHART C.46

Target rate in the United States

(target federal funds rate, per cent)



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

3. THE GLOBAL ECONOMIC ENVIRONMENT

After slowing to 3.0% in 2013, the lowest rate since the 2008-2009 recession, global economic growth should gradually firm up to 3.3% in 2014 and 3.7% in 2015.

— The stronger growth should mainly be attributable to accelerated growth in advanced economies, the outlook for which is improving following several years of economic and fiscal adjustments.

— As for emerging economies, their growth is expected to level off at lower rates than those seen in the decade 2000-2009, but will continue to outstrip growth in the advanced economies.

The gradual recovery in global economic growth will result from the varying performances of the world's three major economic hubs:

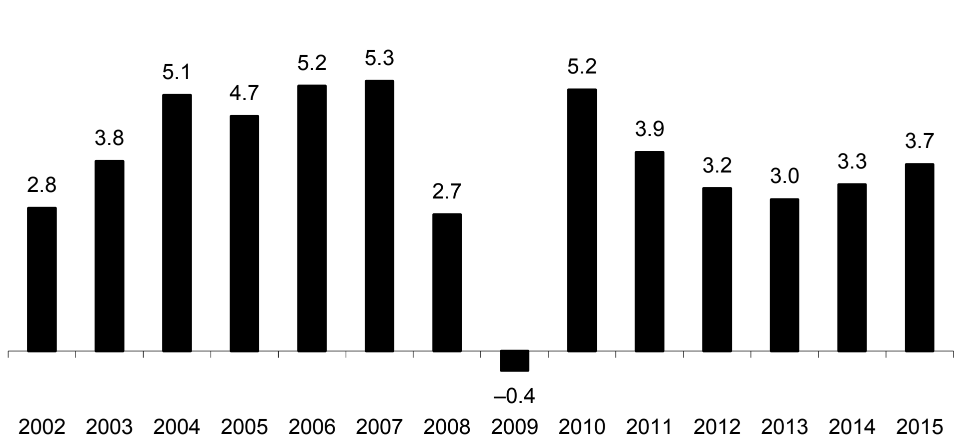
— the **United States** is expected to see stronger economic growth, after coping with fiscal problems in 2013 and harsh weather conditions in the first quarter of 2014. The stronger economy will lead the Federal Reserve to continue trimming its asset purchases;

— the **euro area** should see its economy firm up more gradually. As a result, the European Central Bank is expected to maintain a high level of monetary easing to address disinflationary pressures;

— **China's** transition away from economic growth driven by exports and investment to growth driven more by household consumption should temper GDP growth.

CHART C.47

Global economic growth
(real GDP in purchasing-power parity, percentage change)



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

❑ Moderate recovery in world trade

World trade growth was sluggish in 2013, reflecting the slowdown in global economic growth. A gradual recovery is anticipated in 2014 and 2015.

— After slowing to 2.2%, growth in world trade is forecast to accelerate to 4.0% in 2014 and 5.3% in 2015.

World trade will benefit from firmer domestic demand in the euro area and the United States.

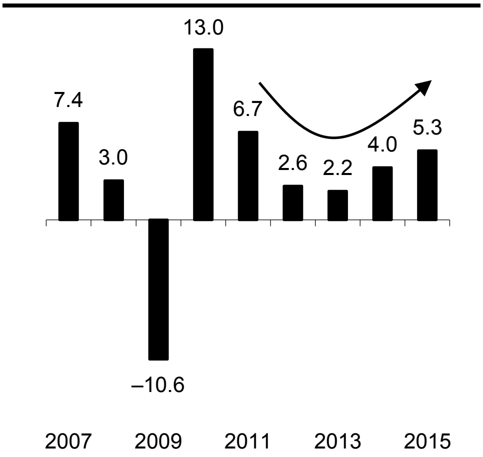
— The imports of advanced economies should gather steam in 2014 and 2015 after two years of weak growth when the sovereign debt crisis in the euro area and anemic recovery in the United States curbed their demand for imports.

However, growth in world trade will be curtailed by more moderate growth in emerging economies as a result of the slowdown in China's economy, a major trade partner for emerging economies.

— China maintains strong commercial ties with the other emerging economies due, in particular, to its high demand for commodities and its key position in supply chains.

CHART C.48

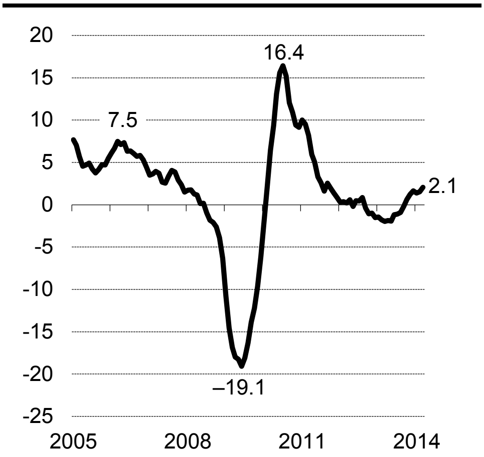
Global trade in goods and services
(percentage change, in real terms)



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

CHART C.49

Imports of advanced economies
(monthly data, in real terms)



Note: Three-month average of the year-on-year percentage change.
Source: CPB Netherlands Bureau for Economic Policy Analysis.

Inflation in the major advanced economies

Like in Canada, inflation slowed in several advanced economies between 2011 and 2013. In the euro area and the United States, the inflation rate was well below the target rates set by their respective central banks.

- Between 2011 and 2013, the inflation rate fell from 2.7% to 1.3% in the euro area and from 3.1% to 1.5% in the United States.
- Inflation continued to decline in the euro area in the first few months of 2014, averaging 0.7% from January to April 2014.

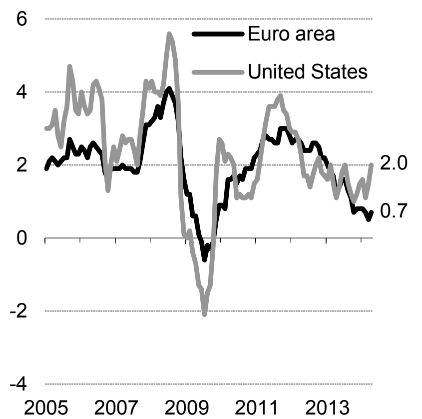
The weak inflation was caused by both internal and external factors, including:

- considerable underutilization of production capacities in advanced economies following the global recession of 2008-2009 and anemic recovery after the recession, which reduced pressure on prices and wages;
- the decline in the price of a number of commodities, which contributed to the low prices of products imported by advanced economies.

The brighter economic outlook should drive a moderate increase in inflation in the United States, which will gradually get closer to the Federal Reserve's 2% target rate. The weak inflation in the euro area, however, is expected to last several quarters. The divergent inflation trends is mainly attributable to:

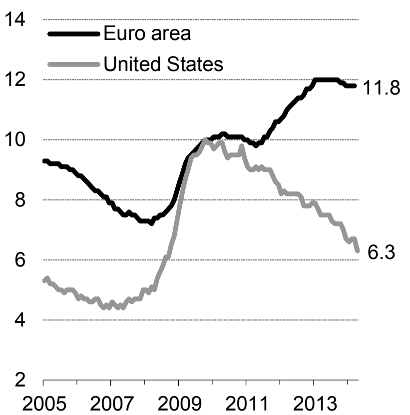
- the persistently high unemployment rate in the euro area, which will contribute to downward pressure on wages in several member countries. This is in contrast to the improving labour market in the United States;
- the fact that the prices of residential real estate continue to fall in some countries in the euro area, including Spain and Greece, whereas they are rising in the United States, where the real estate sector is picking up.

Global inflation
(monthly data, annual percentage change)



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

Unemployment rate
(monthly data, per cent)



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

3.1 Faster growth in the advanced economies

After seeing modest growth of 1.4% in 2013, advanced economies should pick up pace and expand by 2.1% in 2014 and 2.4% in 2015. The stronger growth will likely be supported by, among other factors:

— attenuation of the negative impact of fiscal austerity measures on domestic demand in advanced economies;

— maintenance of accommodative monetary conditions.

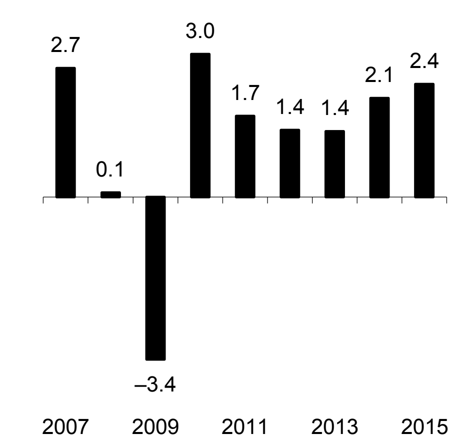
Nevertheless, the anticipated stronger growth in advanced economies in 2014 and 2015 will likely be uneven given that these economies are at different stages in their economic adjustments to absorb the shock of the global recession in 2008-2009.

— The euro area was hit by another recession in 2012-2013, which greatly weakened its economy. The level of real GDP in the euro area is still below its 2008 peak, whereas since 2011 U.S. real GDP has been higher than the level it peaked at in 2007.

— In the euro area, bank stabilization continues to impede growth in credit and domestic demand, whereas in the United States, banks are stronger now and their lending is on the rise.

CHART C.50

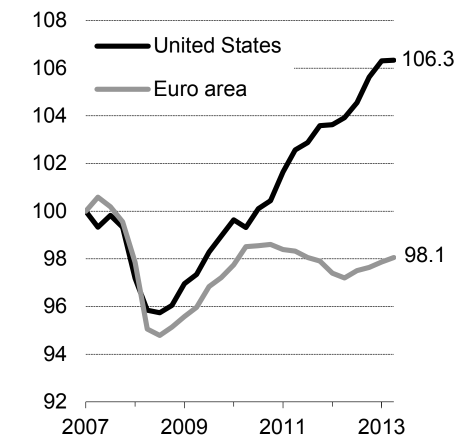
Growth in advanced economies(1)
(real GDP, annual percentage change)



(1) Data based on purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART C.51

Change in real GDP since 2007, euro area and the United States
(index, 2007 Q4 = 100)



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

Divergent trends in bank credit in advanced economies

The progress in bank stabilization undertaken in several advanced economies following the 2008-2009 financial crisis has been uneven, resulting in divergent trends in credit supply across the countries.

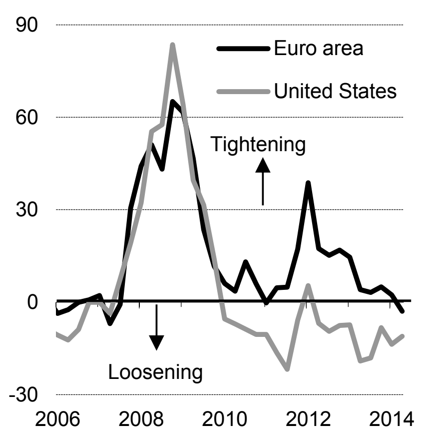
- In the United States, even if the recovery under way since 2010 has been hesitant, it has nevertheless enabled the country's banks to restore their balance sheets and absorb the losses suffered during the financial crisis.
- In the euro area, the financial crisis of 2008-2009 was followed by the sovereign debt crisis, which led to more bank losses. Today, European banks still have a high number of distressed loans on their balance sheets.

Against this backdrop, U.S. banks have been able to relax lending conditions for households and businesses since 2010. The increase in bank loans to the private sector in the United States is the opposite of the situation in the euro area, where bank loans to the private sector kept declining.

Despite a recent loosening of lending conditions, the supply of credit in the euro area is expected to remain more limited than in the United States, especially in countries weakened by the sovereign debt crisis.

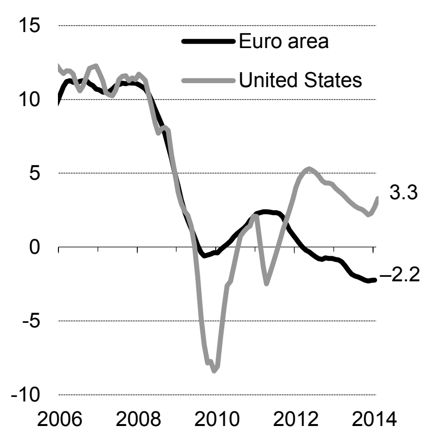
- According to the Organisation for Economic Co-operation and Development (OECD), European banks should continue their efforts to lower their debt ratios.
- The increase in bank lending should provide stronger support for domestic demand in the United States.

Bank lending conditions for large businesses[1]
(balance of bank opinion on lending conditions)



(1) Share of banks that say they have tightened/loosened their lending conditions.
Source: Bloomberg.

Trends in bank loans to the private sector
(three-month average of the year-on-year percentage change)



Sources: U.S. Federal Reserve and European Central Bank.

3.2 Slower growth in emerging economies

Emerging economies are expected to continue growing at a rate of 4.6% in 2014 and then accelerate to 5.0% in 2015, a slower pace than the average growth rate of around 6.0% seen in the decade 2000-2009.

Consequently, even though growth in emerging economies in 2014 and 2015 will benefit more from domestic demand in advanced economies, it will be limited by internal factors specific to each of these countries.

In the second half of 2013, a number of emerging economies adopted measures to reduce their reliance on foreign financing in response to the trend to redirect capital to assets of advanced economies.

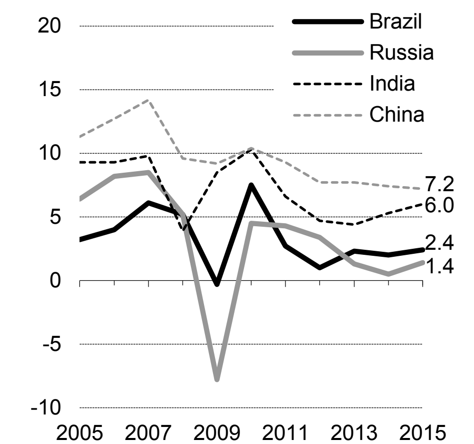
— Nevertheless, several emerging economies, such as Brazil, Indonesia and Turkey, must continue financing a large share of their imports with foreign capital because they have not finished adjusting their current account balances.[2] This makes them vulnerable to capital flows.

— Russia's economy is more vulnerable now due to the economic impact of the conflict with Ukraine, which has resulted in massive capital outflows.

In addition, the shift of the Chinese economy onto a lower growth path is expected to continue affecting other emerging economies.

CHART C.52

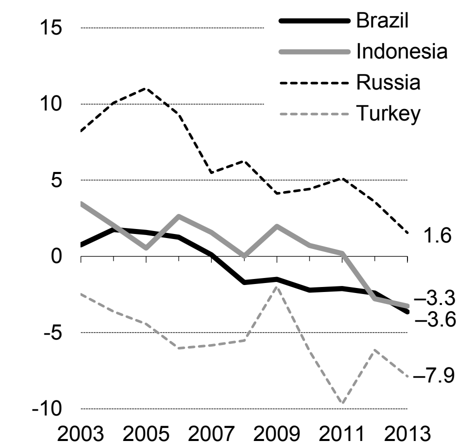
Growth in selected emerging economies
(real GDP, annual percentage change)



Sources: International Monetary Fund and Ministère des Finances du Québec.

CHART C.53

Current account balance of selected emerging economies
(as a percentage of GDP)



Source: International Monetary Fund.

[2] The current account balance is the sum of the trade balance and the balance of "revenue and current transfer" accounts.

❑ Transitioning Chinese economy

Following a rate of 7.7% in 2013, growth in China's real GDP is forecast to moderate gradually, to 7.3% in 2014 and 7.2% in 2015.

The Chinese economy is currently in transition. After seeing high growth in recent decades, the Chinese economy began expanding at a more moderate rate in 2012, a trend that recently became more pronounced.

— China's manufacturing sector contracted in the first quarter of 2014, as testified by the Purchasing Managers' Index.

To ease the transition, the Chinese authorities recently adopted measures to support business investment and employment.

China has also reached a stage in its development where it needs to strike a better balance between its sources of growth. In the last few years:

— residential and non-residential investment has increased sharply in China, creating some imbalances in the residential sector;

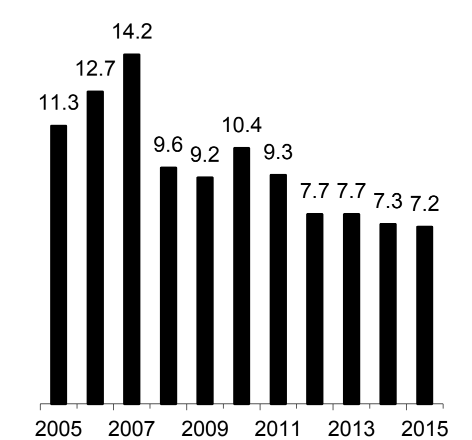
— demand for Chinese export products has dampened under the impact of, in particular, the problems in advanced economies.

Consequently, China needs to shift its economy from an export and investment-driven growth model to a growth model that relies more on household consumption. If it does, it will remain an important engine of global growth.

CHART C.54

Economic growth in China

(real GDP, annual percentage change)

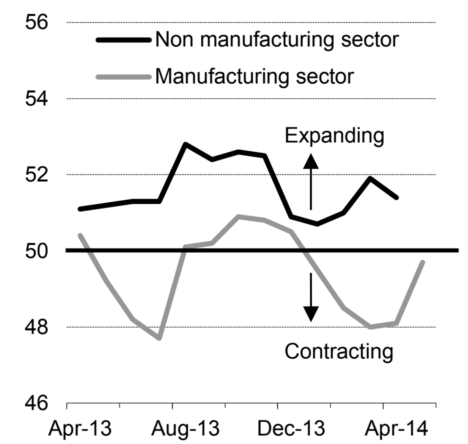


Sources: International Monetary Fund and Ministère des Finances du Québec.

CHART C.55

Purchasing managers' indices – China(1)

(diffusion index, points)



(1) Markit/HSBC Purchasing Managers' Index (PMI), which tracks activity in China.

Source: Bloomberg.

3.3 Outlook by country

In **Canada**, economic growth is expected to pick up, rising from 2.0% in 2013 to 2.2% in 2014 and 2.5% in 2015. It will be supported by household consumption expenditure, business investment and improvement in the global economy, which will further boost Canadian exports.

In the **United States**, economic growth is expected to increase from a rate of 1.9% in 2013 to a rate of 2.5% in 2014 and 2.9% in 2015. Following the slowdown caused by harsh winter conditions in early 2014, economic activity should strengthen again during the year. Consumer spending and business investment will benefit in particular from less fiscal uncertainty.

In the **euro area,** economic activity is forecast to grow by 0.9% in 2014 and 1.4% in 2015, after contracting for two years. The easing of fiscal consolidation measures should support domestic demand. In addition, stronger growth will be seen as a result of increased exports in response to the better economic outlook for the United States and United Kingdom.

In the **United Kingdom**, economic growth is forecast to rise from 1.7% in 2013 to 2.6% in 2014 and 2.5% in 2015. The firmer growth is supported by the easing of austerity measures, economic improvement in the euro area (the UK's number one trading partner) and favourable credit conditions, which stimulate investment.

TABLE C.8

Economic outlook for the world
(real GDP, percentage change)

	Weight(1)	2013	2014	2015
World(1)	**100.0**	**3.0**	**3.3**	**3.7**
Advanced economies(1),(2)	**49.8**	**1.4**	**2.1**	**2.4**
Canada	1.8	2.0	2.2	2.5
United States	19.5	1.9	2.5	2.9
Euro area	13.4	−0.4	0.9	1.4
United Kingdom	2.8	1.7	2.6	2.5
Japan	5.5	1.6	1.3	1.1
Emerging economies(1),(2)	**45.2**	**4.6**	**4.6**	**5.0**
China	14.7	7.7	7.3	7.2
India	5.7	4.5	5.3	6.0

(1) In purchasing-power parity (2012).
(2) The total weight of advanced and emerging economies does not equal 100 because this table does not include the statistics for developing economies.
Sources: IHS Global Insight, International Monetary Fund, Datastream, Statistics Canada and Ministère des Finances du Québec.

In **Japan**, economic growth is expected to slow from 1.6% in 2013 to 1.3% in 2014 and 1.1% in 2015. The stimulus measures and economic reforms adopted in 2013 should lift the economy out of deflation on a long-term basis. Still, growth in consumption will likely be restrained by two successive increases in the sales tax, from 5% to 8% in April 2014, and then to 10% in October 2015.

In **China**, the economy is expected to slow gradually, from 7.7% in 2013 to 7.3% in 2014 and 7.2% in 2015. Exports should benefit from both stronger demand from advanced economies and a slight depreciation in the Chinese currency. Nevertheless, growth in business investment should still be limited by China's measures to restrict credit. The Chinese economy is subsequently expected to shift to a new growth path as the transition to a model that relies more on consumption continues.

In **India**, economic growth is forecast to accelerate to 5.3% in 2014 and 6.0% in 2015, after slowing to 4.5% in 2013. India's economy will be buoyed by stronger foreign demand and less uncertainty following the elections in May 2014. Nonetheless, the fiscal austerity measures and stronger regulation will continue to curtail economic expansion.

Distinction between emerging, advanced and developing economies

The global economic forecast of the Ministère des Finances Québec (MFQ) covers different groups of economies: advanced, emerging and developing.

- The group of advanced economies includes, in particular, the United States, the euro area economies, Japan, the United Kingdom, Canada and some other Asian economies, such as South Korea.
- The group of emerging economies includes, notably, China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Poland, and Argentina.
- The developing economies include such countries as Iran, Algeria, Belarus, and Iraq.

In 2012, the advanced economies accounted for 49.8% of the global economy, the emerging economies, 45.2% and the developing economies, 5.0%.

The MFQ distinguishes between the three groups using the same criteria as the International Monetary Fund, i.e. per capita income level, export diversification and the degree of integration into the global financial system.

Weight of the main advanced, emerging, and developing economies in the global economy
(as a percentage, in purchasing-power parity 2012)

Economies	Weight(1)
Advanced	**49.8**
United States	19.5
Japan	5.5
Euro area	13.4
– Germany	3.8
– France	2.7
United Kingdom	2.8
Canada	1.8
Other	6.9
Emerging	**45.2**
China	14.7
India	5.7
Russia	3.0
Brazil	2.8
Mexico	2.2
Other	16.9
Developing	**5.0**
TOTAL	**100.0**

(1) The figures have been rounded off, so they may not add up to the total indicated.
Sources: International Monetary Fund and Ministère des Finances du Québec.

4. MAIN RISKS RELATED TO THE ECONOMIC FORECAST SCENARIO

The economic and financial forecasts in Budget 2014-2015 are based on several assumptions, some of which are subject to risks that could affect the forecast scenario.

— A number of these risks are external. Should they materialize, they could have an impact on the Québec economy, which is open to the world. Geopolitical tensions around the world, or even developments in the economies of our main trading partners that differ from the forecasts, are two of the most common examples.

— Other risks are internal and could drive some of Québec's economic variables in a different direction than expected. Two examples are the construction strike in June 2013 and the risk of an extended period of weak prices.

However, these risks cannot be accounted for in the forecast scenario because of the low probability that they will actually occur.

❑ Acceleration of Québec's economic growth on hold

The economic scenario forecasts faster growth in the Québec economy in 2014 and 2015, driven in particular by an upturn in non-residential investment tied to heightened confidence and a better economic outlook for our major trading partners.

However, the recovery after the 2009 recession was hesitant in the economies of Québec's trading partners. Some economists call it the "new normal": weaker economic growth than before the recession, particularly in advanced economies.

If the economies of Québec's trading partners are slow to pick up, the profits of Québec companies are lower than expected or the general weakness in prices continues, then it could take longer for investments to increase. If that happens, the acceleration of economic activity in Québec forecast for 2014 and 2015 could be delayed.

❑ Persistently low inflation in advanced economies

The inflation rate has remained low in North America and the euro area in the last few quarters. This may be the result of factors that have a lasting effect on inflation, such as continued overcapacity, which leads to surplus supply worldwide, and low wage inflation in advanced economies.

If central banks underestimate the resilience of these disinflationary forces, they could fail to act decisively in order to offset them.

— Moreover, a number of them have already implemented exceptional monetary easing measures to offset the impact of the financial crisis, leaving them with little leeway.

Persistently low inflation has various negative economic and financial consequences.

— Among others, by hurting growth in personal income, corporate profits and tax revenue, low inflation swells government deficits and creates greater financial hardship for individuals and businesses.

❑ Greater slowdown in the Chinese economy

China is expected to continue transitioning from an export-driven and investment-driven growth model to a more consumption-driven model, enabling it to strike a better balance in its growth sources.

This gradual transition will bring long-term gains, but in the short term it carries the risk of much slower economic growth than anticipated in China.

— For example, given the slowdown in investment growth should consumption take time to firm up, China's economic growth would suffer.

— In addition, the credit-tightening measures taken by China to curtail increases in the debt level, overcapacity in certain manufacturing sectors and residential investment could be accompanied by slower economic activity and banking problems.

Slower-than-anticipated growth in the Chinese economy would adversely affect the global economy.

— China is a major driver of global economic growth, due in particular to its sizeable demand for commodities, its key position in manufacturing supply chains and its role in the flow of foreign direct investment.

❑ Increased geopolitical tensions around the world

The economic and financial scenario is based on the assumption that the tensions created by the current geopolitical conflicts around the world will continue to be contained, and that there will be no sharp rise which could potentially lead in tensions leading to major trade barriers. However, it is impossible to say how these tensions will unfold.

— This is especially the case for Ukraine, following the rise of Russian separatist forces in Ukraine.

However, the spiralling of geopolitical tensions could have significant implications for the economic and financial forecast.

— Generally speaking, such developments tend to fuel risk aversion, create volatility in financial markets, including commodities, and adversely affect global economic growth.

5. PRICE CHANGES FOR MAIN METALS MINED IN QUÉBEC

The prices of metals mined in Québec, in particular iron ore, gold and nickel, are determined on international markets. The mining industry is thus subject to world economic cycles.

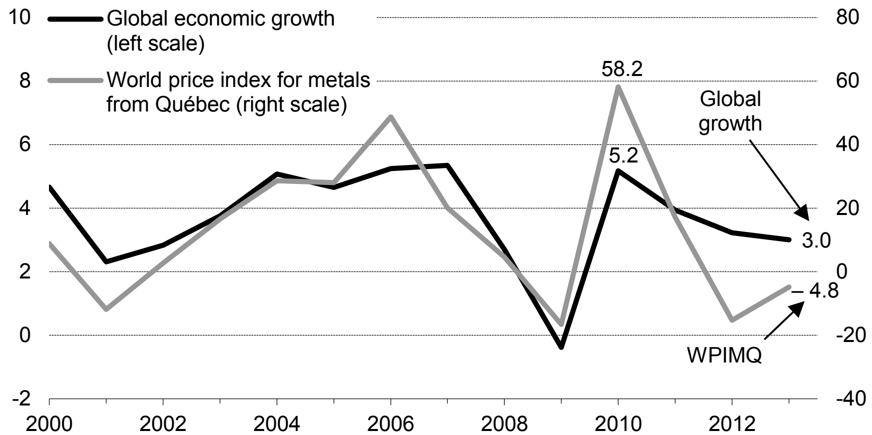
Global economic activity and metal prices follow similar trends. After rising sharply in 2010 and 2011, the world price index for metals from Québec (WPIMQ) slid 15.3% in 2012 and 4.8% in 2013, due primarily to slower growth in the global economy after rebounding from the recession.

— The emerging economies have experienced slower growth since 2011 after driving demand for commodities for several years.

— The combination of this slowdown and the consequences of the last recession in the euro area had a moderating effect on global demand for metals. Since metals are priced in U.S. dollars, appreciation in the greenback also contributed to a decrease in metal prices in the last two years.

CHART C.56

Global economic growth and world prices for metals mined in Québec[1]
(real GDP and world price index for metals from Québec, percentage change)



(1) The world price index for metals from Québec (WPIMQ) is the revised and updated version of the former Québec metal price index (QMPI). The WPIMQ consists of the six metallic ores with the highest production value in Québec, i.e. iron ore, gold, nickel, zinc, copper and silver.

Sources: International Monetary Fund, Bloomberg, Institut de la statistique du Québec, World Bank, and Ministère des Finances du Québec.

❑ Decline in the prices of metals mined in Québec in 2013

The world price index for metals from Québec has fallen by 32% since peaking in 2011, from 127 points in February 2011 to 86 points in April 2014. The index is expected to fall another 7.7% in 2014 over the previous year and then 3.4% in 2015. After that, it should level off.

— Moderate appreciation in the U.S. dollar should, among other effects, drive metal prices down given that the metals are traded in U.S. currency.

Despite the forecast decline under the baseline scenario, metal prices are expected to remain high in the coming years, relative to the levels seen between 2000 and 2005.

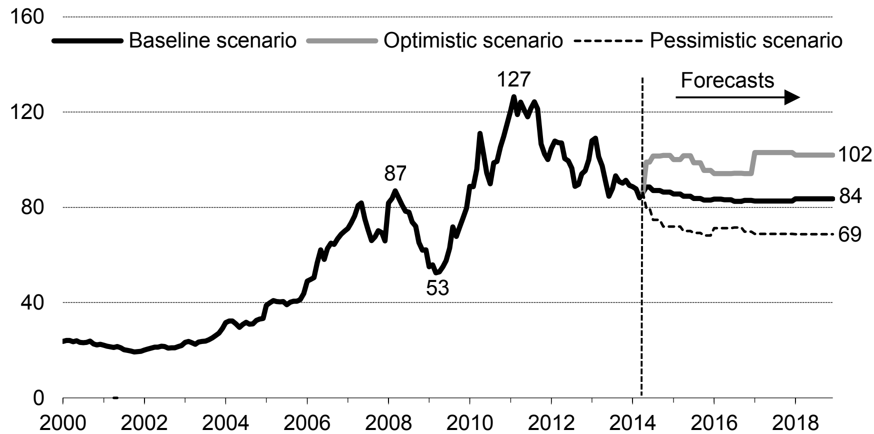
— Although it will be more moderate, growth in the emerging economies will continue to support global demand for metals.

Furthermore, the outlook for metal prices varies according to the metal and the specific conditions of each market.

— Thus, the price of iron ore is expected to fall in the medium term, whereas the price of nickel is expected to rise. The price of gold should stabilize after a price correction in 2013.

CHART C.57

Change in world price index for metals from Québec[(1)]
(index, 2010 = 100)



(1) World metal prices are expressed in U.S. dollars. Forecast data are quarterly for the first 10 quarters and annual thereafter.
Sources: Bloomberg, Institut de la statistique du Québec, World Bank, and Ministère des Finances du Québec.

❑ Increase in the iron ore supply

After remaining relatively stable during the second half of 2013, the price of iron ore shrank in the first quarter of 2014.

— The price fell from US$136 a tonne in December 2013 to US$115 in April 2014, a 15.6% decline.

— The drop in price for iron ore stems from the slowdown in economic activity in China in early 2014, which had a negative impact on demand for steel.

Despite the temporary positive impact on demand for iron of China's implementation of an investment plan, the price of this natural resource is expected to drop in 2014.

In fact, global iron ore production continued to swell and a significant increase in supply could push the price of iron ore down even more in 2014.

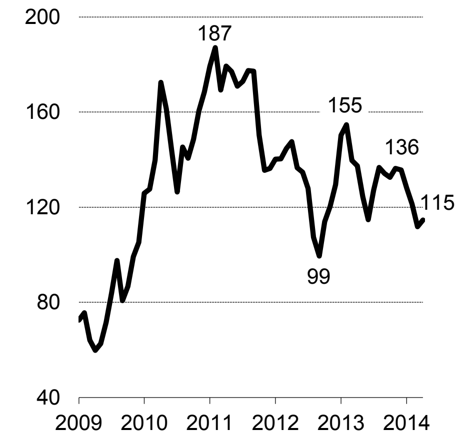
— The higher production stems in particular from the opening of new iron mines in Australia, which have relatively low production costs.

Thus, the price of iron ore should fall in the medium term, but remain above US$100 a tonne.

CHART C.58

Price of iron ore

(spot market price, in U.S. dollars per tonne, monthly data)

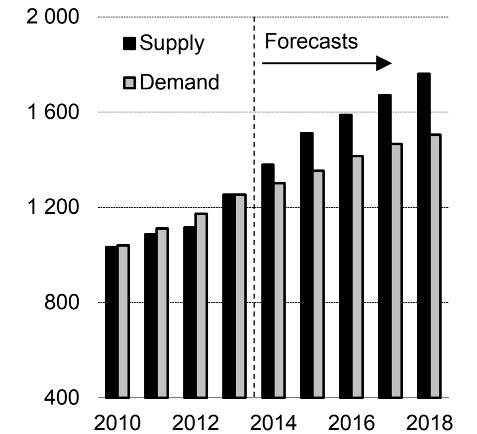


Sources: Bloomberg and Ministère des Finances du Québec.

GRAPHIQUE C.59

Supply and demand for iron ore(1)

(millions of tonnes)



(1) Seaborne market.
Source: Morgan Stanley.

❑ Price of gold stabilizes after falling in 2013

The price of gold plummeted in 2013, primarily due to lower demand for this precious metal as a safe haven.

— Gold averaged US$1 409 an ounce in 2013, down 15.6% from the previous year, when the demand for this metal as a financial asset fell by nearly 30%.

At the beginning of 2014, however, concerns about the economic performance of the United States and China, as well as the geopolitical tensions in Ukraine, spurred demand for gold and pushed the price up.

— The price of gold has risen by 6.0% in the last few months, going from US$1 225 an ounce in December 2013 to US$1 298 in April 2014.

In the next few years, the easing of world financial tensions and fewer fears about high inflation will continue to make gold less attractive as a safe haven and have a negative impact on its price. However, this impact will be mitigated by increased Asian demand for gold products.

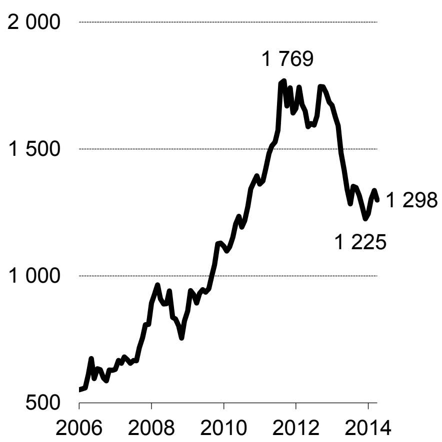
— Chinese demand for gold hit a record high of 1 066 tonnes in 2013, while in India, it reached 975 tonnes in spite of government measures to curb imports.

— Chinese demand for gold is expected to remain high, supported in particular by the bigger purchasing power of the middle class.

In the medium term, the price of gold should stabilize at around US$1 275 an ounce before increasing slightly.

CHART C.60

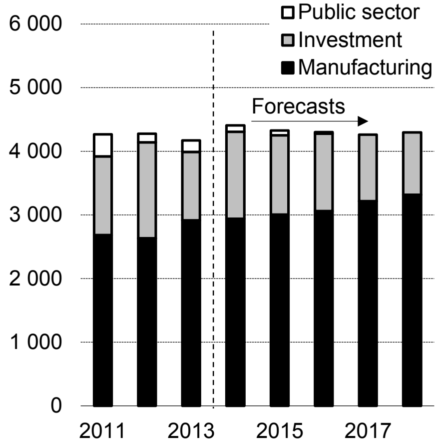
Price of gold
(U.S. dollars an ounce, monthly data)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.61

Global demand for gold
(tonnes)



Source: Morgan Stanley.

❑ Price of nickel buoyed by Indonesia's ban on raw ore exports

After falling sharply in recent years, the price of nickel, a metal used primarily as an alloy in making stainless steel, jumped during the first quarter of 2014.

The recent increase is primarily attributable to Indonesia's ban on nickel ore exports under a government measure adopted in January 2014 to foster development of the local nickel industry.

— Since the measure's entry into force, the average price of nickel has jumped from US$14 113 in January to US$17 385 a tonne in April, for an increase of 23.2%.

China, which is the world's largest nickel consumer, depends on nickel ore imports from Indonesia.

— These imports have plummeted 69.4% since the beginning of the year, forcing Chinese producers to deplete their inventories.

— If the ban continues, Chinese nickel producers will have to find a new supply source.

Furthermore, the risk of economic sanctions against Russia, a major nickel producer, has also put upward pressure on the price of nickel since the beginning of the year.

Over the next two years, the price of nickel is expected to gradually rise to near US$18 000 a tonne. However, the nickel market is subject to major risks.

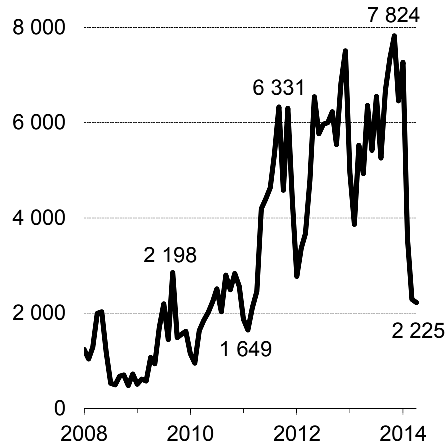
CHART C.62

Price of nickel
(in U.S. dollars per tonne, monthly data)

Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.63

Chinese imports of nickel ore
(thousands of tonnes)



Source: Bloomberg.

Section D

THE GOVERNMENT'S DETAILED FINANCIAL FRAMEWORK

INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2013-2014 and the government's budgetary and financial stance for 2014-2015 and 2015-2016.[1]

The information provided concerns:

— consolidated financial and budgetary transactions for the period from 2013-2014 to 2015-2016;

— the change in the revenue and expenditure of the general fund, as well as adjustments made since the financial position as at February 20, 2014;

— the change in consolidated revenue and expenditure;

— the results of the consolidated entities, particularly the special funds, non-budget-funded bodies and the health and social services and education networks;

— the government's non-budgetary transactions and net financial requirements.

The five-year financial framework for Budget 2014-2015, i.e. the government's financial forecasts up to 2018-2019, is presented in Section A.

1 Throughout this section, the budgetary data for 2013-2014 are preliminary, while those for 2014-2015 and subsequent years are forecasts.

1. RETURN TO A BALANCED BUDGET IN 2015-2016

1.1 Change in the budgetary balance

The budget will be balanced in 2015-2016. The government is forecasting a deficit of $3 100 million in 2013-2014 and $2 350 million in 2014-2015.

To return to a balanced budget, the expenditure of the general fund will increase less rapidly than revenue for the next two years.

Deposits in the Generations Fund to repay the debt will reach $1 301 million in 2014-2015 and $1 583 million in 2015-2016.

TABLE D.1

Summary of budgetary transactions from 2013-2014 to 2015-2016
(millions of dollars)

	2013-2014	2014-2015	2015-2016
GENERAL FUND REVENUE			
Own-source revenue	52 805	54 682	56 609
Federal transfers	16 701	16 691	17 190
Total	**69 506**	**71 373**	**73 799**
GENERAL FUND EXPENDITURE			
Program spending	–64 518	–65 704	–66 141
Debt service	–8 443	–8 583	–8 677
Total	**–72 961**	**–74 287**	**–74 818**
CONSOLIDATED ENTITIES			
Non-budget-funded bodies and special funds(1)	485	636	400
Networks - Health and social services and education	–130	–72	–31
Generations Fund	1 121	1 301	1 583
Total	**1 476**	**1 865**	**1 952**
Québec Taxation Review Committee	—	—	650
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583
BUDGETARY BALANCE(2)	**–3 100**	**–2 350**	**—**
As a % of GDP	***–0.9***	***–0.6***	**—**

(1) Includes consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

Summary of consolidated transactions in 2014-2015

The following table provides a summary of the budgetary transactions of the general fund in 2014-2015, as well as the impact of the transactions of consolidated entities on the government's consolidated results.

Summary of consolidated budgetary transactions in 2014-2015
(millions of dollars)

	General fund	Consolidated entities(1)	Consolidated results
Consolidated revenue			
Personal income tax	20 120	7 229	27 349
Contributions for health services	6 958	–476	6 482
Corporate taxes	3 420	2 399	5 819
School property tax	—	1 901	1 901
Consumption taxes	17 045	612	17 657
Duties and permits	437	2 069	2 506
Miscellaneous	1 597	8 073	9 670
Government enterprises	5 105	—	5 105
Generations Fund revenue	—	1 301	1 301
Own-source revenue	**54 682**	**23 108**	**77 790**
Federal transfers	16 691	1 916	18 607
Total consolidated revenue	**71 373**	**25 024**	**96 397**
Consolidated expenditure			
Expenditure	–65 704	–20 911	–86 615
Debt service	–8 583	–2 248	–10 831
Total consolidated expenditure	**–74 287**	**–23 159**	**–97 446**
SURPLUS (DEFICIT)	**–2 914**	**1 865**	**–1 049**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	—	–1 301	–1 301
BUDGETARY BALANCE(2)	**–2 914**	**564**	**–2 350**

(1) Including the other effects of consolidation.
(2) Budgetary balance within the meaning of the *Balanced Budget Act.*

1.2 Adjustments to the financial framework

Since last February 20, downward adjustments to revenue and anticipated program spending overruns have been identified.

— Before taking into account the measures to return to a balanced budget, the adjustments to the financial framework and the anticipated spending overruns would raise the budgetary balance to $5 868 million in 2014-2015 and to $7 608 million in 2015-2016.

The adjustments to the financial framework stemming from the economic outlook and the anticipated program spending overruns require major efforts.

Budget 2014-2015 presents the first measures that are to be implemented to turn Québec's budgetary situation around. These efforts to put public finances in order will be continued in Budget 2015-2016.

❑ Measures being taken as of 2014-2015[2]

Several measures are being taken immediately to control government spending, in particular:

— spending control measures within government departments, bodies and enterprises;

— remuneration control, including a general freeze on the staffing levels of the public and parapublic sectors in 2014-2015 and 2015-2016;

— immediate tightening of some tax expenditures.

Revenue measures are also being implemented, in particular additional efforts to fight tax evasion, an increase in the specific tax on tobacco products and the standardization of the rates of the specific tax on alcoholic beverages.

The efforts needed to return to a balanced budget in 2015-2016 are completed by the use of the contingency reserve of $200 million.

❑ Preparation of measures for Budget 2015-2016

As part of preparing Budget 2015-2016, other measures will be taken to control growth in spending, in particular by drawing on the recommendations of the Ongoing Program Review Committee and the Québec Taxation Review Committee.

2 The steps to be taken to return to a balanced budget in 2015-2016 are explained in detail in Section A.

TABLE D.2

Adjustments since the financial position as at February 20 and measures to return to a balanced budget
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE[(1)] – AS AT FEBRUARY 20, 2014	**–2 500**	**–1 750**	**—**
Shortfall to be offset identified in February 2014	**—**	**—**	**–530**
Adjustments related to the economy			
Own-source revenue	–666	–791	–970
Government enterprises	323	–125	–306
Federal transfers	32	193	–158[(2)]
Debt service	67	18	8
Subtotal	**–244**	**–705**	**–1 426**
Program spending overruns	**–693**	**–3 248**	**–5 797**
Other adjustments[(3)]	**337**	**–165**	**145**
BUDGETARY BALANCE BEFORE MEASURES	**–3 100**	**–5 868**	**–7 608**
Measures to boost Québec's economy	**—**	**–293**	**–316**
Revenue measures	**—**	**291**	**365**
Expenditure measures	**—**	**3 520**	**7 359**
Contingency reserves	**—**	**—**	**200**
BUDGETARY BALANCE[(1)] IN BUDGET 2014-2015	**–3 100**	**–2 350**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) After taking into account the allocation of $389 million from federal health transfers to the Fund to Finance Health and Social Services Institutions (FINESSS).
(3) Includes the use of the contingency reserve in 2013-2014 and excludes the Generations Fund.

❑ Deficit up $600 million in 2013-2014

For 2013-2014, the revenue of the general fund will decline by $311 million, compared with the revenue forecast on February 20, 2014.

The expenditure of the general fund has been raised by $626 million due to a $693-million increase in program spending and a $67-million decrease in debt service.

Taking into account the results of consolidated entities and the elimination of the contingency reserve, the budgetary deficit is expected to amount to $3.1 billion.

TABLE D.3

Summary of budgetary transactions in 2013-2014
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015
	2013-2014	**Adjustments**	**2013-2014**
Own-source revenue excluding government enterprises	48 027	–666	47 361
Government enterprises	5 121	323	5 444
Federal transfers	16 669	32	16 701
Total general fund revenue	**69 817**	**–311**	**69 506**
Program spending	–63 825	–693	–64 518
Debt service	–8 510	67	–8 443
Total general fund expenditure	**–72 335**	**–626**	**–72 961**
Consolidated entities	**1 215**	**261**	**1 476**
Contingency reserves	–125	125	—
SURPLUS (DEFICIT)	**–1 428**	**–551**	**–1 979**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 072	–49	–1 121
BUDGETARY BALANCE(1)	**–2 500**	**–600**	**–3 100**
As a % of GDP	*–0.7*		*–0.9*

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

2. REVENUE AND EXPENDITURE OF THE GENERAL FUND

This chapter presents the update to revenue and expenditure of the general fund for 2013-2014 to 2015-2016, as well as the main adjustments made since February 20, 2014.

The budgetary information in this chapter refers to the revenue and expenditure of the general fund, which receives most of the general income and taxes of the Québec government.

2.1 Adjustments to revenue

The government's revenue is expected to total $69.5 billion in 2013-2014, i.e. $52.8 billion in own-source revenue and $16.7 billion in federal transfers.

Revenue should rise by 2.9% in 2013-2014, 2.7% in 2014-2015 and 3.4% in 2015-2016.

TABLE D.4

General fund
Change in revenue
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Own-source revenue					
Own-source revenue excluding government enterprises	48 027	–666	47 361	49 577	51 814
% change	*2.7*		*1.3*	*4.7*	*4.5*
Government enterprises	5 121	323	5 444	5 105	4 795
% change	*0.3*		*6.6*	*–6.2*	*–6.1*
Subtotal	**53 148**	**–343**	**52 805**	**54 682**	**56 609**
% change	***2.5***		***1.8***	***3.6***	***3.5***
Federal transfers	16 669	32	16 701	16 691	17 190
% change	*6.1*		*6.3*	*–0.1*	*3.0*
TOTAL	**69 817**	**–311**	**69 506**	**71 373**	**73 799**
% change	***3.3***		***2.9***	***2.7***	***3.4***

2.1.1 **Own-source revenue excluding government enterprises**

The own-source revenue of the general fund, excluding government enterprises, consists chiefly of tax revenue, which is made up of personal income tax, contributions to the Health Services Fund, corporate taxes and consumption taxes. How it changes is closely tied to economic activity and changes to the tax systems.

Own-source revenue excluding government enterprises includes, apart from tax revenue, various revenues of an administrative nature, such as fees and permits, interest and fines.

❑ Downward adjustments in 2013-2014

For fiscal 2013-2014, own-source revenue excluding government enterprises is adjusted downward by $666 million compared with the forecast of February 2014. This adjustment stems largely from the adjustments observed in corporate taxes and personal income tax. However, it is partly offset by an improvement in revenue from consumption taxes and contributions to the Health Services Fund.

For 2013-2014, own-source revenue excluding government enterprises thus amounts to $47.4 billion, an increase of 1.3% compared with the revenue observed for fiscal 2012-2013.

■ Adjustments to own-source revenue by source

Revenue from personal income tax is adjusted downward by $339 million for fiscal 2013-2014 compared with the level anticipated in the forecast of February 2014. This adjustment is mainly attributable to lower growth of salaries and wages in 2013 and 2014 and to weaker income tax payable in respect of the 2013 taxation year.

Contributions to the Health Services Fund are adjusted upward by $99 million, reflecting mainly an adjustment of the allocation among withholdings at source from personal income tax, the Régie des rentes du Québec and the Québec Parental Insurance Plan affecting previous years.

Revenue from corporate taxes is adjusted downward by $480 million for fiscal 2013-2014, reflecting the adjustment to the net operating surplus of corporations, but, especially, less-favourable-than-expected monitoring of tax revenues. Businesses continued to claim higher levels of refunds owing to weaker-than-forecast profits.

Revenue from consumption taxes is adjusted upward by $102 million in 2013-2014. This adjustment stems in particular from positive adjustments to consumption, excluding food and rent, but, especially, monitoring of tax revenues at the end of the fiscal year.

Revenue relating to natural resources is adjusted downward by $43 million in 2013-2014 owing to:

— lower-than-expected payments of mining duties at the end of 2013-2014;

— lower-than-anticipated forest royalties stemming from a downward adjustment of the value of timber harvested.

TABLE D.5

General fund
Change in own-source revenue excluding government enterprises
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Personal income tax	19 502	–339	19 163	20 120	21 093
% change	*4.0*		*2.2*	*5.0*	*4.8*
Health Services Fund	6 666	99	6 765	6 958	7 149
% change	*1.0*		*2.5*	*2.9*	*2.7*
Corporate taxes	3 643	–480	3 163	3 420	3 905
% change	*–7.0*		*–19.3*	*8.1*	*14.2*
Consumption taxes	16 399	102	16 501	17 045	17 653
% change	*5.2*		*5.9*	*3.3*	*3.6*
Natural resources	84	–43	41	159	51
Other revenue	1 733	–5	1 728	1 875	1 963
% change	*1.9*		*1.6*	*8.5*	*4.7*
TOTAL	**48 027**	**–666**	**47 361**	**49 577**	**51 814**
% change	***2.7***		***1.3***	***4.7***	***4.5***

❑ Change by revenue source in 2014-2015 and 2015-2016

Own-source revenue excluding government enterprises will rise annually by 4.7% in 2014-2015 and 4.5% in 2015-2016.

More specifically, personal income tax, the government's largest revenue source, should increase by 5.0% in 2014-2015 and 4.8% in 2015-2016, reaching $20.1 billion and $21.1 billion respectively.

- This growth reflects primarily the change in household income and takes the progressive nature of the tax system into account.
  - Indeed, household income represents most of the revenue base subject to personal income tax and the change in this income illustrates well the progression of personal income tax.
- In addition, the increase in revenue is also supported by the growing contribution of pension income from private pension plans, which reflects the demographic trend observed in Québec.
  - Since the early 2000s, pension income has grown at an average annual rate of about 7.0%.
- Lastly, the growth in revenue from personal income tax in 2014-2015 and 2015-2016 is also affected by the impact on revenue of the fiscal measures announced since Budget 2013-2014 to revitalize the economy.
  - For 2014-2015, growth is affected by the impact of the cost of the LogiRénov tax credit announced on April 24, 2014.
  - For 2015-2016, the growth in revenue is supported by the end of the cost of the LogiRénov tax credit and the EcoRenov tax credit.

Contributions to the Health Services Fund will rise by 2.9% in 2014-2015 and 2.7% in 2015-2016, in keeping with the growth expected in salaries and wages and adjusted by the impact of the fiscal measures in this budget, including the payroll tax holiday for SMEs for hiring specialized employees.

Revenue from corporations will increase by 8.1% in 2014-2015 and 14.2% in 2015-2016, reaching $3.4 billion and $3.9 billion respectively. This change is due to various factors.

- The rise in the net operating surplus of corporations has an upward effect on their taxable income and tax payable. Remittances, particularly those in respect of instalment payments, will resume more sustained growth after the slowdown observed in 2013-2014.
- Similarly, during a recovery period, refunds claimed by enterprises are expected to grow more moderately.
- In addition, the fiscal measures announced in Budget 2014-2015, particularly the 20% reduction in the tax credit rates, add 2.7 percentage points and 7.0 percentage points to growth for 2014-2015 and 2015-2016 respectively.

Growth in consumption tax revenue will amount to 3.3% in 2014-2015 and 3.6% in 2015-2016 as a result of growth in consumption, excluding food and rent, and investment in residential construction. This growth is also affected by:

— the beginning, in 2014-2015, of the annual deposit of $100 million in the Generations Fund from revenue derived from the specific tax on alcoholic beverages, which will dampen growth in revenue for that year;

— the standardization of the rates of the specific tax on alcoholic beverages as of August 1, 2014;

— the increase in the specific tax on tobacco as of June 5, 2014.

Revenue from natural resources deposited in the general fund will increase by $118 million in 2014-2015 and then decline by $108 million in 2015-2016, settling at $159 million and $51 million respectively.

— For 2014-2015, the increase stems from the anticipated rise in mining duties, resulting from expected growth in the value of mining production.

— In 2015-2016, the decline in revenue deposited in the general fund essentially results from the allocation of all mining revenues to the Generations Fund and is partly offset by the anticipated growth in forest royalties arising from an increase in the value of timber harvested.

❑ Change in revenue consistent with that of the economy

Overall, for the next two years, the expected growth in own-source revenue excluding government enterprises is consistent with nominal economic growth, once it has been adjusted, particularly by the financial impact of the fiscal measures.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages

The specific taxes on fuel, tobacco products and alcoholic beverages are consumption taxes. Revenue from these specific taxes is allocated in part to various funds used to finance specific activities, such as the funding of the road network, public transit and culture or to certain public services (e.g. incentives for physical activity and the adoption of a healthy lifestyle).

Specific tax on fuel

For 2014-2015, the government's own-source revenue from the specific taxes on fuel totals over $2.3 billion. This amount includes:

- revenue from the specific tax of 19.2 cents and 20.2 cents 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 infrastructure ($2 211 million):
  - revenue from FORT also includes revenue from the specific tax of 1 cent per litre of gasoline sold within the territory of the Gaspésie-Îles-de-la-Madeleine administrative region to improve public transportation services in this region ($1 million);
- revenue from the specific tax of 3 cents per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives, paid into the general fund to finance the government's missions ($18 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT), paid to the AMT, for public transportation services in the metropolitan Montréal region ($101 million).

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
FORT	2 213	2 211	2 256	2 290
General fund	17	18	18	19
AMT	101	101	101	101
TOTAL REVENUE	**2 331**	**2 330**	**2 375**	**2 410**

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (cont.)

Specific tax on tobacco products

For 2014-2015, tax revenue from the sale of tobacco products amounts to $1 108 million, including:

- $977 million paid into the general fund, including additional revenue of $90 million resulting from the increase in the tax on tobacco products;
- $131 million allocated to various special funds.

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund	**905**	**887**	**852**	**816**
Impact of the tax increase	—	90	120	115
Subtotal	**905**	**977**	**972**	**931**
Special funds				
Sports and Physical Activity Development Fund	55	60	60	60
Québec Cultural Heritage Fund	16	16	16	16
Fund for the Promotion of a Healthy Lifestyle	20	20	20	20
Early Childhood Development Fund	15	15	15	15
Caregiver Support Fund	15	15	15	15
Fonds Avenir Mécénat Culture(1)	—	5	5	5
Subtotal	**121**	**131**	**131**	**131**
TOTAL REVENUE	**1 026**	**1 108**	**1 103**	**1 062**

(1) This special fund will be created as part of the budget omnibus bill.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (concluded)

Specific tax on alcoholic beverages

Tax revenue from the sale of alcoholic beverages totalled $552 million in 2013-2014. It will reach $631 million in 2016-2017, including the additional revenue of $55 million resulting from standardization of the specific tax on alcoholic beverages.

In 2013-2014, all tax revenues will be paid into the general fund. As of 2014-2015, a growing share of these revenues will go to the Generations Fund, reaching $500 million in 2016-2017.

- In 2014-2015 and 2015-2016, an annual amount of $100 million from the specific tax will be allocated to the Generations Fund.
- As of 2016-2017, an additional amount of $400 million will be deposited in the Fund, bringing the total deposit from the specific tax on alcoholic beverages in the Generations Fund to $500 million annually.

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund	**552**	**462**	**469**	**76**
Impact of standardization of the tax	—	36	55	55
Subtotal	**552**	**498**	**524**	**131**
Special funds				
Generations Fund	—	100	100	500
TOTAL REVENUE	**552**	**598**	**624**	**631**

Revenue from natural resources

The government uses various means to enable Quebecers to benefit from their 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. A lease (or right) to develop enables the holder to develop the resource in exchange for the payment of an annual rent.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of our resources, the legislation currently stipulates that a portion of the revenue derived from natural resources must be devoted to:

- reducing the debt through deposits in the Generations Fund. As of 2015-2016, all mining revenues will be deposited in the Generations Fund. This will represent. $114 million in 2015-2016;
- funding mining activity management, geoscientific work and data acquisition, as well as research on and the development of techniques for the exploration, development, redevelopment and rehabilitation of mining sites (Natural Resources Fund (NRF) – Mining activity management and mining heritage components);
- forest management work to ensure the sustainability of Québec's forest.

Revenue from natural resources paid into the general fund is estimated at $41 million in 2013-2014, $159 million in 2014-2015 and $51 millions de dollars in 2015-2016.

Revenue from natural resources
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Gross royalties					
Mining	191	38	139	124	159
Forest	123	203	238	252	251
Water-power	723	767	755	773	789
Oil and natural gas	—	—	—	—	—
Total – Gross royalties	**1 037**	**1 008**	**1 132**	**1 149**	**1 199**
Duties and licences	**20**	**36**	**41**	**48**	**52**
Deposits in the Generations Fund	**–717**	**–763**	**–752**	**–884**	**–935**
Natural Resources Fund					
Mining activity management and mining heritage components	–20	–20	–23	–23	–23
Forest management component	—	–220	–239	–239	–239
Subtotal	**–20**	**–240**	**–262**	**–262**	**–262**
Silvicultural work, forestry plans and programs	**–121**	**—**	**—**	**—**	**—**
REVENUE – GENERAL FUND	**199**	**41**	**159**	**51**	**54**

2.1.2 **Revenue from government enterprises**

❑ Results for 2013-2014

Revenue from government enterprises is adjusted upward by $323 million for 2013-2014. This increase is chiefly explained by the fact that Hydro-Québec's result is better than anticipated, owing to very cold weather and higher revenue from exports.

This increase offsets the lower-than-anticipated result of Loto-Québec stemming from the downward trend observed in recent months in the gaming and gambling industry in Canada. According to Statistics Canada, spending on gaming and gambling fell by 2.3% in Canada from 2012 to 2013. For Loto-Québec, the decline is being felt primarily in the casino industry.

❑ Outlook for 2014-2015 and 2015-2016

Revenue from government enterprises for 2014-2015 and 2015-2016 will amount to $5 176 million and $4 900 million respectively, before allocation to the Generations Fund.

As of 2014-2015, these forecasts will reflect the impact of the efforts that will have to be made to meet the targets set by the government.

Considering that the 2013-2014 results reflect in particular the impact of the cold weather on Hydro-Québec's revenue, anticipated revenue in 2014-2015 will fall by 4.9%. For 2015-2016, the decrease of 5.3% in the forecast will be due in particular to the non-recurrence of part of the additional efforts required of Hydro-Québec in 2014-2015.

In addition, Hydro-Québec's revenue from the indexation of the price of heritage electricity will be allocated to the Generations Fund. Deposits will amount to $71 million in 2014-2015 and $105 million in 2015-2016.

TABLE D.6

General fund
Change in revenue from government enterprises
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Hydro-Québec	2 942	403	3 345	3 050	2 745
Loto-Québec	1 157	–102	1 055	1 065	1 075
Société des alcools du Québec	1 006	–3	1 003	1 021	1 040
Other	16	25	41	40	40
Subtotal	**5 121**	**323**	**5 444**	**5 176**	**4 900**
% change	***0.3***		***6.6***	***–4.9***	***–5.3***
Hydro-Québec revenue allocated to the Generations Fund(1)	—	—	—	–71	–105
TOTAL	**5 121**	**323**	**5 444**	**5 105**	**4 795**

(1) Corresponds to the amounts relating to the indexation of the price of heritage electricity.

2.1.3 **Revenues from federal transfers**

Revenues from federal transfers, before the payment relating to federal compensation for harmonizing the QST with the GST, should reach $15.7 billion in 2013-2014, i.e. $32 million more than forecast on February 20, 2014.

— Including the second payment of $1 467 million of federal compensation for harmonizing the QST with the GST and the allocation of $430 million from this compensation to the Fund to Finance Health and Social Services Institutions (FINESSS), federal transfers will grow by 6.3%, reaching $16.7 billion in 2013-2014.

— The increase of $32 million in 2013-2014 compared with the financial position as at February 20, 2014 can be explained in particular by an upward adjustment of $24 million to other programs, arising mainly from an adjustment to federal compensation relating to the elimination of the tax on capital.

In 2014-2015, federal transfers should rise by 9.3%, to $17.1 billion. This increase is chiefly explained by:

— an increase in equalization payments in 2014-2015, resulting mainly from the impact of the decrease in Hydro-Québec's dividend in 2012-2013, attributable to the closure of the Gentilly-2 nuclear power plant, and of the incorporation of the upward adjustments to Québec's population stemming from the 2011 Census;

  — an upward adjustment in Québec's population reduces its per capita fiscal capacity (fiscal capacity divided by a larger population) and distances it from the average fiscal capacity of the 10 provinces. The shortfall to be offset in relation to the average of the 10 provinces is thus bigger, which increases Québec's equalization payments;

— a decrease in health transfers, which can be explained by the end of the Wait Times Reduction Transfer ($58 million for Québec) and the fact that the value of tax points transferred to the provinces in 1977 are no longer taken into account in the allocation of the Canada Health Transfer (CHT) envelope, which represents a shortfall of $212 million for Québec.

Including the allocation of $430 million from health transfers to FINESSS, federal transfers will stand at $16.7 billion in 2014-2015.

For 2015-2016, federal transfers are expected to reach $17.6 billion, an increase of 2.7% that can be attributed among other things to the growth in health transfers, which stems essentially from the increase in the CHT envelope for the provinces as a whole.

Including the allocation of $389 million from health transfers to FINESSS, federal transfers will stand at $17.2 billion in 2015-2016.

TABLE D.7

General fund
Change in federal transfer revenues
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Equalization	7 833	—	7 833	9 286	9 403
% change	*6.0*		*6.0*	*18.5*	*1.3*
Health transfers	5 283	7	5 290	5 262	5 590
% change	*10.2*		*10.4*	*–0.5*	*6.2*
Transfers for post-secondary education and other social programs	1 533	1	1 534	1 585	1 607
% change	*3.2*		*3.2*	*3.3*	*1.4*
Other programs	983	24	1 007	988	979
% change	*4.2*		*6.8*	*–1.9*	*–0.9*
Subtotal	**15 632**	**32**	**15 664**	**17 121**	**17 579**
% change	***4.4***		***4.6***	***9.3***	***2.7***
Harmonization of the QST with the GST - Compensation	1 467	—	1 467	—	—
Allocation to FINESSS(1) of a portion of the compensation for harmonization of the QST with the GST	–430	—	–430	—	—
Allocation to FINESSS of a portion of health transfers	—	—	—	–430	–389
FEDERAL TRANSFERS	**16 669**	**32**	**16 701**	**16 691**	**17 190**
% change	***6.1***		***6.3***	***–0.1***	***3.0***

(1) Fund to Finance Health and Social Services Institutions.

2.2 Expenditure adjustments

Expenditure of the general fund, which includes program spending and debt service, is adjusted upward by $626 million in 2013-2014.

Expenditure should increase by 1.8% in 2014-2015 and 0.7% in 2015-2016.

TABLE D.8

General fund
Change in expenditure
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Program spending	63 825	693	64 518	65 704	66 141
% change	*2.5*		*3.6*	*1.8*	*0.7*
Debt service	8 510	–67	8 443	8 583	8 677
% change	*9.6*		*8.7*	*1.7*	*1.1*
TOTAL	**72 335**	**626**	**72 961**	**74 287**	**74 818**
% change	***3.3***		***4.2***	***1.8***	***0.7***

2.2.1 Program spending

The program spending objectives are 1.8% in 2014-2015 and 0.7% in 2015-2016.

These spending objectives take into account in particular:

— spending overruns of $693 million in 2013-2014, $3 248 million in 2014-2015 and $5 797 million in 2015-2016;

— investments of $52 million in 2014-2015 and $91 million in 2015-2016 to fund economic recovery measures;

— spending control measures for all government departments and bodies, totalling $2 728 million in 2014-2015 and $2 406 million in 2015-2016;

— other spending measures, including those that will be proposed by the Ongoing Program Review Committee, amounting to $3 283 million in 2015-2016.

— remuneration control, including a general freeze on the staffing levels in 2014-2015 and 2015-2016.

Consequently, program spending objectives are being raised by $693 million for 2013-2014 and $572 million for 2014-2015, and lowered by $301 million for 2015-2016.

TABLE D.9

General fund
Change in program spending
(millions of dollars)

	2013-2014	2014-2015	2015-2016
PROGRAM SPENDING OBJECTIVE AS AT FEBRUARY 20, 2014	**63 825**	**65 132**	**66 442**
% change	***2.5***	***2.0***	***2.0***
Program spending overruns	**693**	**3 248**	**5 797**
Economic recovery measures and other adjustments	**—**	**52**	**91**
Additional measures to control spending			
– Contribution of departments and bodies(1)	—	–2 728	–2 406
– Other spending measures, including those proposed by the Ongoing Program Review Committee	—	—	–3 283
– Remuneration control through a general freeze on staffing levels	—	—	–500
ADJUSTMENTS	**693**	**572**	**–301**
PROGRAM SPENDING OBJECTIVE - BUDGET 2014-2015	**64 518**	**65 704**	**66 141**
% change	***3.6***	***1.8***	***0.7***

(1) Includes the impact of spending control measures totalling $305 million as of 2014-2015 announced on April 24, 2014.
(2) Remuneration control, including a general freeze on the staffing levels, will improve consolidate expenditure by $100 million in 2014-2015.

2.2.2 Debt service

On the basis of the preliminary results, the debt service of the general fund stood at $8.4 billion in 2013-2014, i.e. $5.1 billion for direct debt service and $3.3 billion for interest on the liability related to the retirement plans of public and parapublic sector employees.

Compared with the financial position as at February 20, 2014, debt service has been adjusted downward by $67 million in 2013-2014 owing in particular to lower-than-anticipated interest rates.

The increase in debt service in 2013-2014 is attributable to higher long-term interest rates, the rise in the debt, the impact of the new actuarial valuations of the retirement plans as well as the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund (RPSF). The income of the RPSF is applied against the government's debt service.

Debt service is expected to rise by 1.7% in 2014-2015 and 1.1% in 2015-2016. As of 2014-2015, growth in the income of the RPSF, which reduces debt service, is no longer affected by the gradual incorporation, over five years, of the losses posted by the Caisse de dépôt et placement du Québec in 2008.

TABLE D.10

General fund
Change in debt service
(millions of dollars)

	Financial position as at February 20, 2014		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Direct debt service	5 222	–74	5 148	5 518	5 812
Interest on the retirement plans liability(1)	3 304	—	3 304	3 080	2 883
Interest on the employee future benefits liability(2)	–16	7	–9	–15	–18
DEBT SERVICE	**8 510**	**–67**	**8 443**	**8 583**	**8 677**
% change	***9.6***		***8.7***	***1.7***	***1.1***

(1) Corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
(2) Corresponds to the interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

2.3 Consolidated expenditure

The following table shows the amount and the change in the components of consolidated expenditure, i.e. all public expenditure included in the government's reporting entity.

— In addition to program spending, consolidated expenditure includes the expenditure of special funds, non-budget-funded bodies, institutions in the health and social services and education networks, specified purpose accounts, tax-funded expenditures, and the debt service of these entities.

Growth in consolidated expenditure, excluding debt service, will stand at 5.4% in 2013-2014, 1.9% in 2014-2015 and 1.3% in 2015-2016.

TABLE D.11

Change in consolidated expenditure
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Program spending	64 518	65 704	66 141
% change	*3.6*	*1.8*	*0.7*
Special funds	8 227	8 840	9 426
% change	*18.2*	*7.5*	*6.6*
Non-budget-funded bodies	18 237	18 498	20 227
% change	*5.2*	*1.4*	*9.3*
Health and social services and education networks	37 991	38 931	39 470
% change	*3.3*	*2.5*	*1.4*
Specified purpose accounts	1 144	1 144	1 023
% change	*4.2*	*0.0*	*–10.6*
Tax-funded expenditures(1)	6 328	6 678	6 382
% change	*5.2*	*5.5*	*– 4.4*
Consolidation adjustments(2)	–51 407	–53 180	–54 969
Consolidated expenditure, excluding debt service	**85 038**	**86 615**	**87 700**
% change	***5.4***	***1.9***	***1.3***
Debt service			
General fund	8 443	8 583	8 677
% change	*8.7*	*1.7*	*1.1*
Consolidated entities(3)	2 165	2 248	2 506
% change	*4.4*	*3.8*	*11.5*
Consolidated debt service	**10 608**	**10 831**	**11 183**
% change	***7.8***	***2.1***	***3.2***
CONSOLIDATED EXPENDITURE	**95 646**	**97 446**	**98 883**
% change	***5.7***	***1.9***	***1.5***

(1) Includes doubtful tax accounts.
(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.

❑ Special funds

Excluding debt service, growth in spending by special funds will stand at 18.2% in 2013-2014, 7.5% in 2014-2015 and 6.6% in 2015-2016.

The growth in spending by special funds is chiefly attributable to the growth of those with own-source revenue, particularly:

— FINESSS, for financing health care institutions;

— the Land Transportation Network Fund, for financing road and public transit infrastructures;

— the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP).

Two additional factors have also helped to raise growth to 18.2% in 2013-2014:

— the Natural Resources Fund, following the coming into force of the new forest regime in 2013 that henceforth includes the cost of silviculture credits that, until 2012-2013, were charged against forest royalties;

— the creation of two new funds, namely, the Goods and Services Fund, which was previously a non-budget-funded body, and the Health and Social Services Information Resources Fund.

❑ Non-budget-funded bodies

For 2013-2014 to 2015-2016, spending by non-budget-funded bodies will rise by 5.2%, 1.4% and 9.3% annually.

The primary mission of certain non-budget-funded bodies accounts for the higher growth in their spending. In particular, that is the case with the Régie de l'assurance maladie du Québec (RAMQ) and the Prescription Drug Insurance Fund (PDIF).

In addition, the change in growth between 2014-2015 and 2015-2016 can be attributed primarily to the change in spending by the Société de financement des infrastructures locales du Québec and La Financière agricole du Québec.

❑ Health and social services and education networks

Growth in spending by organizations in the health and social services and education networks will stand at 3.3 %, 2.5% and 1.4 % for 2013-2014 to 2015-2016. This growth excludes costs relating to the remuneration of physicians, which is covered by the RAMQ.

For 2014-2015 and 2015-2016, it takes into account the additional contribution from federal health transfers paid into FINESSS.

❑ Specified purpose accounts

Specified purpose accounts are used under an agreement or a contract with a third party that provides for the allocation of funds to a specific purpose.

Spending by the specified purpose accounts shows an increase of 4.2% and 0.0% in 2013-2014 and 2014-2015 respectively and a decrease of 10.6% in 2015-2016.

❑ Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded expenditures, are recorded in spending rather than as reductions in revenue. Doubtful tax accounts are added to these expenditures.

Tax-funded expenditures will vary by 5.2 % in 2013-2014, 5.5% in 2014-2015 and −4.4% in 2015-2016.

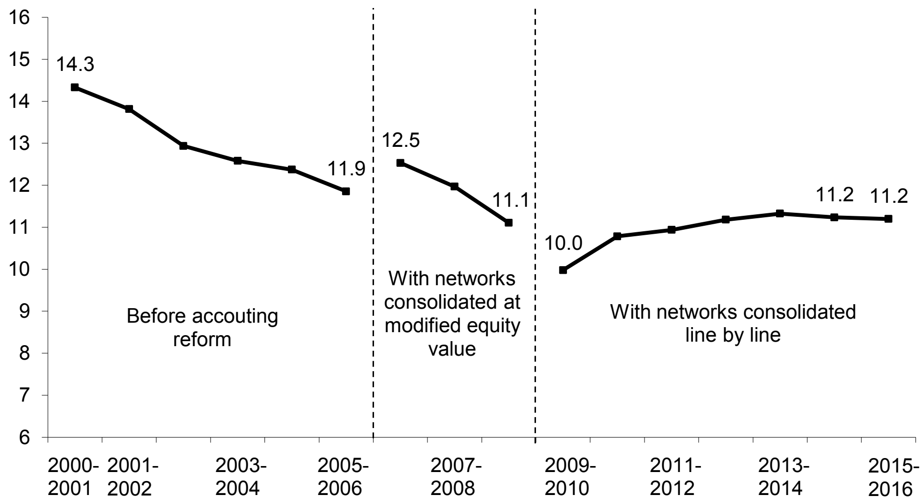
— The change in 2015-2016 takes into account in particular the greater impact than in 2014-2015 of the 20% reduction in the corporate tax credit rates announced in this budget.

❑ Proportion of revenue devoted to consolidated debt service

The proportion of revenue devoted to consolidated debt service should stand at 11.2% in 2014-2015 and 2015-2016, compared with 14.3% in 2000-2001.

CHART D.1

Consolidated debt service
(as a percentage of consolidated revenue)



3. CONSOLIDATED REVENUE AND EXPENDITURE

The consolidated financial forecasts add the impact of consolidated entities' transactions on the government's consolidated results to the revenue and expenditure of the general fund.

They provide more detailed information on the revenue and expenditure included in the government's financial projections. In addition, these financial forecasts enable reconciliation with the actual results presented in the public accounts.

With a view to improving quality and transparency and to ensure the information in the budget documents is better aligned with the presentation in the public accounts, the budget plan will henceforth present income and property taxes in greater detail.

TABLE D.12

Consolidated financial framework from 2013-2014 to 2015-2016
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Consolidated revenue			
Personal income tax	25 961	27 349	28 338
Contributions for health services	6 305	6 482	6 657
Corporate taxes	5 540	5 819	6 112
School property tax	1 750	1 901	2 054
Consumption taxes	17 156	17 657	18 288
Duties and permits	2 167	2 506	2 649
Miscellaneous	9 403	9 670	10 064
Government enterprises	5 444	5 105	4 795
Generations Fund revenue	1 121	1 301	1 583
Own-source revenue	**74 847**	**77 790**	**80 540**
% change	***3.4***	***3.9***	***3.5***
Federal transfers	18 820	18 607	19 276
% change	*7.4*	*–1.1*	*3.6*
Total consolidated revenue	**93 667**	**96 397**	**99 816**
% change	***4.2***	***2.9***	***3.5***
Consolidated expenditure			
Expenditure	–85 038	–86 615	–87 700
% change	*5.4*	*1.9*	*1.3*
Debt service	–10 608	–10 831	–11 183
Total consolidated expenditure	**–95 646**	**–97 446**	**–98 883**
% change	***5.7***	***1.9***	***1.5***
Québec Taxation Review Committee	—	—	650
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583
BUDGETARY BALANCE(1)	**–3 100**	**–2 350**	**—**

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

3.1 Change in consolidated revenue and expenditure by sector

Table D.13 presents the government's consolidated financial framework by sector for fiscal 2013-2014 to 2015-2016.

More specifically, tables D.14, D.15 and D.16 present detailed consolidated results by sector for 2013-2014 to 2015-2016.

This segmented 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.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government's reporting entity are eliminated.

TABLE D.13

Financial framework for consolidated revenue and expenditure by sector
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
General fund	69 506	71 373	73 799
Special funds	9 915	10 603	11 503
Generations Fund	1 121	1 301	1 583
Non-budget-funded bodies	19 504	19 675	21 262
Health and social services and education networks	38 736	39 768	40 495
Specified purpose accounts	1 144	1 144	1 023
Tax-funded expenditures(1)	6 328	6 678	6 382
Consolidation adjustments(2)	–52 587	–54 145	–56 231
Consolidated revenue	**93 667**	**96 397**	**99 816**
Expenditure			
General fund	–64 518	–65 704	–66 141
Special funds	–8 227	–8 840	–9 426
Non-budget-funded bodies	–18 237	–18 498	–20 227
Health and social services and education networks	–37 991	–38 931	–39 470
Specified purpose accounts	–1 144	–1 144	–1 023
Tax-funded expenditures(1)	–6 328	–6 678	–6 382
Consolidation adjustments(2)	51 407	53 180	54 969
Consolidated expenditure excluding debt service	**–85 038**	**–86 615**	**–87 700**
Debt service			
General fund	–8 443	–8 583	–8 677
Consolidated entities (3)	–2 165	–2 248	–2 506
Consolidated debt service	**–10 608**	**–10 831**	**–11 183**
Consolidated expenditure	**–95 646**	**–97 446**	**–98 883**
Québec Taxation Review Committee	—	—	650
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 301	–1 583
BUDGETARY BALANCE(4)	**–3 100**	**–2 350**	**—**

(1) Includes doubtful tax accounts.
(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE D.14

Detailed consolidated financial framework
(millions of dollars)

	2013-2014			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	19 163	1 083		
Contributions for health services	6 765	702		
Corporate taxes	3 163	185		
School property tax				
Consumption taxes	16 501	2 405		
Duties and permits	307	1 529		
Miscellaneous	1 462	1 497		290
Government enterprises	5 444			
Generations Fund revenue			1 121	
Own-source revenue	**52 805**	**7 401**	**1 121**	**290**
Québec government transfers		1 961		
Federal transfers	16 701	553		854
Total revenue	**69 506**	**9 915**	**1 121**	**1 144**
Expenditure				
Expenditure	–64 518	–8 227		–1 144
Debt service	–8 443	–1 186		
Total expenditure	**–72 961**	**–9 413**	**—**	**–1 144**
SURPLUS (DEFICIT)	**–3 455**	**502**	**1 121**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 121	
BUDGETARY BALANCE(3)	**–3 455**	**502**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2013-2014				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
3 994			1 721	25 961
			–1 162	6 305
2 124	68			5 540
		1 750		1 750
210	122		–2 082	17 156
	389		–58	2 167
	5 732	4 121	–3 699	9 403
				5 444
				1 121
6 328	**6 311**	**5 871**	**–5 280**	**74 847**
	12 101	32 586	–46 648	
	1 092	279	–659	18 820
6 328	**19 504**	**38 736**	**–52 587**	**93 667**
–6 328	–18 237	–37 991	51 407	–85 038
	–1 077	–875	973	–10 608
–6 328	**–19 314**	**–38 866**	**52 380**	**–95 646**
—	**190**	**–130**	**–207**	**–1 979**
				–1 121
—	**190**	**–130**	**–207**	**–3 100**

TABLE D.15

Detailed consolidated financial framework

(millions of dollars)

	2014-2015			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	20 120	1 144		
Contributions for health services	6 958	719		
Corporate taxes	3 420	200		
School property tax				
Consumption taxes	17 045	2 417		
Duties and permits	437	1 719		
Miscellaneous	1 597	1 745		243
Government enterprises	5 105			
Generations Fund revenue			1 301	
Own-source revenue	**54 682**	**7 944**	**1 301**	**243**
Québec government transfers		2 134		
Federal transfers	16 691	525		901
Total revenue	**71 373**	**10 603**	**1 301**	**1 144**
Expenditure				
Expenditure	–65 704	–8 840		–1 144
Debt service	–8 583	–1 465		
Total expenditure	**–74 287**	**–10 305**	**—**	**–1 144**
SURPLUS (DEFICIT)	**–2 914**	**298**	**1 301**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 301	
BUDGETARY BALANCE [3]	**–2 914**	**298**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2014-2015				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 334			1 751	27 349
			–1 195	6 482
2 127	72			5 819
		1 901		1 901
217	121		–2 143	17 657
	406		–56	2 506
	5 823	4 240	–3 978	9 670
				5 105
				1 301
6 678	**6 422**	**6 141**	**–5 621**	**77 790**
	12 439	33 345	–47 918	
	814	282	–606	18 607
6 678	**19 675**	**39 768**	**–54 145**	**96 397**
–6 678	–18 498	–38 931	53 180	–86 615
	–928	–909	1 054	–10 831
–6 678	**–19 426**	**–39 840**	**54 234**	**–97 446**
—	**249**	**–72**	**89**	**–1 049**
				–1 301
—	**249**	**–72**	**89**	**–2 350**

TABLE D.16

Detailed consolidated financial framework

(millions of dollars)

	2015-2016			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	21 093	1 216		
Contributions for health services	7 149	735		
Corporate taxes	3 905	214		
School property tax				
Consumption taxes	17 653	2 462		
Duties and permits	339	1 948		
Miscellaneous	1 675	2 135		238
Government enterprises	4 795			
Generations Fund revenue			1 583	
Own-source revenue	**56 609**	**8 710**	**1 583**	**238**
Québec government transfers		2 276		
Federal transfers	17 190	517		785
Total revenue	**73 799**	**11 503**	**1 583**	**1 023**
Expenditure				
Expenditure	–66 141	–9 426		–1 023
Debt service	–8 677	–1 833		
Total expenditure	**–74 818**	**–11 259**	**—**	**–1 023**
Québec Taxation Review Committee	650			
SURPLUS (DEFICIT)	**–369**	**244**	**1 583**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 583	
BUDGETARY BALANCE[3]	**–369**	**244**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2015-2016

	Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]
4 237			1 792	28 338
			–1 227	6 657
1 920	73			6 112
		2 054		2 054
225	121		–2 173	18 288
	418		–56	2 649
	6 003	4 339	–4 326	10 064
				4 795
				1 583
6 382	**6 615**	**6 393**	**–5 990**	**80 540**
	13 541	33 818	–49 635	
	1 106	284	–606	19 276
6 382	**21 262**	**40 495**	**–56 231**	**99 816**
–6 382	–20 227	–39 470	54 969	–87 700
	–920	–1 056	1 303	–11 183
–6 382	**–21 147**	**–40 526**	**56 272**	**–98 883**
				650
—	**115**	**–31**	**41**	**1 583**
				–1 583
—	**115**	**–31**	**41**	**—**

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 in the government's reporting entity, namely:

- the special funds;
- the Generations Fund;
- the non-budget-funded bodies;
- the health and social services and education networks.

The following table shows the net results of consolidated entities.

TABLE D.17

Consolidated entities
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Special funds[1]	502	298	244
Generations Fund (dedicated revenues)	1 121	1 301	1 583
Non-budget-funded bodies	190	249	115
Health and social services and education networks	–130	–72	–31
Consolidation adjustments	–207	89	41
SURPLUS (DEFICIT)	**1 476**	**1 865**	**1 952**

(1) Excludes the Generations Fund.

3.2.1 Special funds

The special funds consist of 36 entities set up within government departments or bodies. Their mission is to deliver services and sell goods or to fund government programs.

The activities of the special funds may 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 2013-2014 to 2015-2016. The special funds show surpluses of $502 million for 2013-2014, $298 million for 2014-2015 and $244 million for 2015-2016.

TABLE D.18

Special funds(1)
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	1 970	2 063	2 165
Consumption taxes	2 405	2 417	2 462
Duties and permits	1 529	1 719	1 948
Miscellaneous	1 497	1 745	2 135
Own-source revenue	**7 401**	**7 944**	**8 710**
Québec government transfers	1 961	2 134	2 276
Federal transfers	553	525	517
Total revenue	**9 915**	**10 603**	**11 503**
Expenditure			
Expenditure	–8 227	–8 840	–9 426
Debt service	–1 186	–1 465	–1 833
Total expenditure	**–9 413**	**–10 305**	**–11 259**
SURPLUS (DEFICIT)	**502**	**298**	**244**

(1) Excludes the Generations Fund.

List of special funds

Access to Justice Fund	Health and Social Services Information Resources Fund
Assistance Fund for Independent Community Action	Natural Resources Fund (NRF)
Fonds d'aide aux victimes d'actes criminels	Police Services Fund
Territorial Information Fund	Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale
Labour Market Development Fund	Fund of the Bureau de décision et de révision[1]
Regional Development Fund	Fonds du centre financier de Montréal
Financing Fund	Economic Development Fund
Fund to Finance Health and Social Services Institutions (FINESSS)	Northern Development Fund
Rolling Stock Management Fund	Québec Cultural Heritage Fund
Fonds de la Commission des lésions professionnelles[1]	Fund of the Administrative Tribunal of Québec[1]
Fund of the Commission des relations du travail[1]	University Excellence and Performance Fund
Highway Safety Fund	Fund for the Promotion of a Healthy Lifestyle
Tourism Partnership Fund	Early Childhood Development Fund
Caregiver Support Fund	Sports and Physical Activity Development Fund
Goods and Services Fund	Fonds québécois d'initiatives sociales
Generations Fund	Natural Disaster Assistance Fund
Register Fund of the Ministère de la Justice	Tax Administration Fund (FRAF)
Land Transportation Network Fund (FORT)	Green Fund

1 Includes the operations of the body that performs an adjudicative role.

3.2.2 Generations Fund

For 2013-2014, 2014-2015 and 2015-2016, projected revenues dedicated to the Generations Fund will amount to $1 121 million, $1 301 million and $1 583 million respectively. As a result, the book value of the Generations Fund will reach $8 543 million as at March 31, 2016. The results of and change in the Generations Fund are presented in greater detail in Section H.

TABLE D.19

Revenues dedicated to the Generations Fund
(millions of dollars)

	2013-2014[1]	2014-2015	2015-2016
Dedicated revenues			
Water-power royalties	763	752	770
Indexation of the price of heritage electricity	—	71	105
Mining revenues	—	—	114
Tax on alcoholic beverages	—	100	100
Unclaimed property	19	10	10
Investment income	339	368	484
TOTAL	**1 121**	**1 301**	**1 583**

(1) Excludes the deposit of $300 million from the Territorial Information Fund and the use of $1 billion to repay maturing borrowings

3.2.3 **Non-budget-funded bodies**

Non-budget-funded bodies were created to provide specific public services. These bodies include:

— La Financière agricole du Québec in the agricultural sector;

— the Agence métropolitaine de transport and the Société des traversiers du Québec in the transportation sector;

— government museums and the Société de développement des entreprises culturelles in the cultural sector.

The 60 non-budget-funded bodies are expected to show surpluses of $190 million in 2013-2014, $249 million in 2014-2015 and $115 million in 2015-2016.

TABLE D.20

Non-budget-funded bodies
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	68	72	73
Consumption taxes	122	121	121
Duties and permits	389	406	418
Miscellaneous	5 732	5 823	6 003
Own-source revenue	**6 311**	**6 422**	**6 615**
Québec government transfers	12 101	12 439	13 541
Federal transfers	1 092	814	1 106
Total revenue	**19 504**	**19 675**	**21 262**
Expenditure			
Expenditure	–18 237	–18 498	–20 227
Debt service	–1 077	–928	–920
Total expenditure	**–19 314**	**–19 426**	**–21 147**
SURPLUS (DEFICIT)	**190**	**249**	**115**

List of non-budget-funded bodies

Agence du revenu du Québec
Agence métropolitaine de transport
Autorité des marchés financiers
Bibliothèque et Archives nationales du Québec
Centre de la francophonie des Amériques
Centre de recherche industrielle du Québec
Centre de services partagés du Québec
Commission de la capitale nationale du Québec
Commission des normes du travail
Commission des services juridiques
Conseil des arts et des lettres du Québec
Conservatoire de musique et d'art dramatique du Québec
Corporation d'urgences-santé
École nationale de police du Québec
École nationale des pompiers du Québec
Financement-Québec
Fondation de la faune du Québec
Fonds d'aide aux recours collectifs
Fonds de l'assurance médicaments
Fonds de recherche du Québec – Nature et technologies
Fonds de recherche du Québec – Santé
Fonds de recherche du Québec – Société et culture
Héma-Québec
Institut de la statistique du Québec
Institut de tourisme et d'hôtellerie du Québec
Institut national d'excellence en santé et services sociaux
Institut national de la santé publique du Québec
Institut national des mines
La Financière agricole du Québec
Musée d'art contemporain de Montréal
Musée de la civilisation
Musée national des beaux-arts du Québec
Office de la sécurité du revenu des chasseurs et piégeurs cris
Office des professions du Québec
Office Québec-Amériques pour la jeunesse
Office Québec-Monde pour la jeunesse
Régie de l'assurance maladie du Québec
Régie de l'énergie
Régie des installations olympiques
Régie du bâtiment du Québec
Régie du cinéma
Société de développement de la Baie-James
Société d'habitation du Québec
Société de développement des entreprises culturelles
Société de financement des infrastructures locales du Québec
Société de l'assurance automobile du Québec
Société de la Place des Arts de Montréal
Société de télédiffusion du Québec
Société des établissements de plein air du Québec
Société des parcs de sciences naturelles du Québec
Société des traversiers du Québec
Société du Centre des congrès de Québec
Société du Grand Théâtre de Québec
Société du Palais des congrès de Montréal
Société du parc industriel et portuaire de Bécancour
Société nationale de l'amiante
Société québécoise d’assainissement des eaux
Société québécoise d'information juridique
Société québécoise de récupération et de recyclage
Société québécoise des infrastructures

3.2.4 Health and social services and education networks

The health and social services network is made up of 197 entities. These entities comprise 15 agencies and the regional authority in health and social services, as well as 181 public health and social services institutions.

As for the education network, it is made up of 132 entities, including 72 school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, 48 CEGEPS and the Université du Québec and its 10 constituent universities.

The health and social services and education networks show a deficit of $130 million in 2013-2014, $72 million in 2014-2015 and $31 million in 2015-2016.

TABLE D.21

Health and social services and education networks
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	1 750	1 901	2 054
Miscellaneous	4 121	4 240	4 339
Own-source revenue	**5 871**	**6 141**	**6 393**
Québec government transfers	32 586	33 345	33 818
Federal transfers	279	282	284
Total revenue	**38 736**	**39 768**	**40 495**
Expenditure			
Expenditure	–37 991	–38 931	–39 470
Debt service	–875	–909	–1 056
Total expenditure	**–38 866**	**–39 840**	**–40 526**
SURPLUS (DEFICIT)	**–130**	**–72**	**–31**

4. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. These surpluses or net financial requirements take into account changes in the budgetary balance on an accrual basis and resources or requirements arising from the acquisition or disposal of fixed assets, investments, loans and advances, and from other activities such as paying accounts payable and collecting accounts receivable.

As a whole, the government's net financial requirements should amount to $1.4 billion in 2013-2014, $4.6 billion in 2014-2015 and $1.4 billion in 2015-2016.

TABLE D.22

Net financial requirements
(millions of dollars)

	2013-2014	2014-2015	2015-2016
SURPLUS (DEFICIT)	**–1 979**	**–1 049**	**1 583**
Non-budgetary transactions			
Investments, loans and advances	–1 195	–1 750	–1 824
Capital expenditures	–3 436	–4 627	–4 101
Retirement plans and employee future benefits	3 220	3 300	3 293
Other accounts	1 996	–488	–356
Total non-budgetary transactions	**585**	**–3 565**	**–2 988**
NET FINANCIAL REQUIREMENTS	**–1 394**	**–4 614**	**–1 405**

(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 are estimated at $1.2 billion for fiscal 2013-2014 and $1.8 billion for 2014-2015 and 2015-2016 respectively.

❑ Capital expenditures

In 2013-2014, net financial requirements associated with capital expenditures are expected to total $3.4 billion.

Forecast net financial requirements for 2014-2015 and 2015-2016 stand at $4.6 billion and $4.1 billion respectively.

TABLE D.23

Consolidated net capital investments[(1)]
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Investments	–7 863	–9 166	–8 476
Depreciation	3 364	3 632	3 933
Net investments	**–4 499**	**–5 534**	**–4 543**
Less: PPP investments[(2)]	1 063	907	442
NET CAPITAL INVESTMENTS	**–3 436**	**–4 627**	**–4 101**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Investments made under public-private partnership (PPP) agreements correspond to new commitments that are taken into account in the government's gross debt. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

❑ Retirement plans and employee future benefits

The non-budgetary balance for the retirement plans and employee future benefits is expected to increase by $3.2 billion for fiscal 2013-2014 and $3.3 billion for each subsequent fiscal year, which reduces the government's net financial requirements.

❑ Other accounts

Net financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable and accounts payable.

In 2013-2014, the change in these other accounts provides the government with a decrease of approximately $2.0 billion in its net financial requirements. The change forecast for other accounts for fiscal 2014-2015 and 2015-2016 should generate net financial requirements of $488 million and $356 million respectively for each of those years.

The following table shows net financial requirements by entity.

TABLE D.24

Net financial requirements by entity[(1)]
(millions of dollars)

	2013-2014	2014-2015	2015-2016
General fund	61	–1 694	1 760
Consolidated entities[(2)]	–2 876	–4 221	–4 748
Generations Fund	1 421	1 301	1 583
NET FINANCIAL REQUIREMENTS	**–1 394**	**–4 614**	**–1 405**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Excludes the Generations Fund.

APPENDIX: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

❑ Sensitivity of the Québec economy to external shocks

The forecasts for the Québec economy are based on extensive analyses, including periodic assessments of the main economic statistics and the results obtained with various econometric models.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors. The most important of these factors are related to the activities of Québec's main trading partners, the United States and Canada.

■ Impact of external variables on the Québec economy

An analysis conducted with a Structural VAR[3] model has made it possible to estimate, on the basis of historical data, the sensitivity of Québec's economic variables to certain important external variables.

— The findings show that a change of 1% in U.S. real GDP entails, on average, a change of 0.5% in Québec's real GDP.

In addition, the model suggests that Québec's real GDP is influenced by the economic activity of Ontario.

— Consequently, a change of 1% in Ontario's real GDP gives rise, on average, to a change of 0.4% in Québec's real GDP.

— Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2010, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

TABLE D.25

Impact of external shocks on the growth rate of Québec's real GDP

External shocks of 1%	**Maturity**[(1)] (quarters)	**Impact on Québec's real GDP** (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed to record the greatest impact on Québec's real GDP, presented in the right-hand column.
Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Global Insight, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

3 Vector autoregression. This econometric technique is used to estimate, on the basis of numerous observations, the extent to which changes in one economic variable affect another economic variable (impulse response). The estimates arrived at with this model were made using quarterly data from Statistics Canada's 1993 System of National Accounts (SNA 1993), for the 1981-2010 period.

❑ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue given the direct link between tax bases and nominal GDP.

— According to the overall sensitivity analysis, a change of one percentage point in nominal GDP has an impact of about $500 million on the government's own-source revenue.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables and a larger impact on certain tax bases.

The following table shows the sensitivity of the main economic variables affecting the tax bases following a change of one percentage point.

TABLE D.26

Sensitivity of own-source revenue to major economic variables

Variables	Growth forecasts for 2014	Impacts for fiscal 2014-2015
Nominal GDP	3.4%	A difference of 1 percentage point changes own-source revenue by roughly $500 million.
– Salaries and wages	2.7%	A difference of 1 percentage point changes personal income tax revenue by roughly $260 million.
– Employment insurance	0.8%	A difference of 1 percentage point changes personal income tax revenue by roughly $5 million.
– Pension income	7.1%	A difference of 1 percentage point changes personal income tax revenue by roughly $40 million.
– Net corporate operating surplus	4.5%	A difference of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Household consumption	3.4%	A difference of 1 percentage point changes QST revenue by roughly $150 million.
– Residential investments	1.2%	A difference of 1 percentage point changes QST revenue by roughly $20 million.

It should be noted that sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

— Indeed, for a given year, economic fluctuations may have various impacts on revenue depending on the change in behaviour of economic agents.

— In these situations, the change in own-source revenue can be more pronounced than the change in nominal GDP.

❑ Sensitivity of debt service to a change in interest rates and exchange rates

A greater-than-anticipated rise in interest rates of one percentage point over a full year would increase the consolidated interest expenditure by roughly $250 million.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

Section E

THE QUÉBEC GOVERNMENT'S DEBT

1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on the debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE E.1

Debt of the Québec government as at March 31
(millions of dollars)

	2013	2014P	2015P	2016P	2017P	2018P	2019P
GROSS DEBT(1)	**191 756**	**198 052**	**206 773**	**211 844**	**214 286**	**216 475**	**217 424**
As a % of GDP	*53.6*	*54.3*	*54.9*	*54.1*	*52.8*	*51.5*	*50.0*
Less: Financial assets, net of other liabilities	–16 269	–16 087	–14 425	–16 536	–17 667	–19 651	–21 581
NET DEBT	**175 487**	**181 965**	**192 348**	**195 308**	**196 619**	**196 824**	**195 843**
As a % of GDP	*49.0*	*49.9*	*51.0*	*49.9*	*48.4*	*46.8*	*45.0*
Less: Non-financial assets	–57 392	–61 891	–67 425	–71 968	–75 533	–78 828	–81 373
DEBT REPRESENTING ACCUMULATED DEFICITS	**118 095**	**120 074**	**124 923**	**123 340**	**121 086**	**117 996**	**114 470**
As a % of GDP	*33.0*	*32.9*	*33.1*	*31.5*	*29.8*	*28.1*	*26.3*

P: Preliminary results for 2014 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

Gross debt represents the amount of debt contracted on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2014, preliminary results show that the gross debt stood at $198 052 million, or 54.3% of Québec's GDP.

As at March 31, 2015, the gross debt should stand at $206 773 million, or 54.9% of GDP. As of 2015-2016, the ratio of gross debt to GDP should gradually decline to 50.0% as at March 31, 2019.

TABLE E.2

Gross debt as at March 31
(millions of dollars)

	2013	2014P	2015P	2016P	2017P	2018P	2019P
Consolidated direct debt(1)	168 616	175 161	184 359	190 552	195 081	200 340	205 063
Plus: Net retirement plans liability	28 359	28 546	29 374	29 835	30 002	29 722	29 074
Plus: Net employee future benefits liability	19	4	—	—	—	—	—
Less: Generations Fund	–5 238	–5 659	–6 960	–8 543	–10 797	–13 587	–16 713
GROSS DEBT(1)	**191 756**	**198 052**	**206 773**	**211 844**	**214 286**	**216 475**	**217 424**
As a % of GDP	***53.6***	***54.3***	***54.9***	***54.1***	***52.8***	***51.5***	***50.0***

P: Preliminary results for 2014 and forecasts for subsequent years.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

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 retirement plans liability represents the present value of the retirement benefits the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $76 703 million as at March 31, 2013.

The government created the RPSF in 1993. As at March 31, 2013, the book value of the RPSF stood at $48 344 million.

Thus, the net retirement plans liability represented $28 359 million as at March 31, 2013.

Net retirement plans liability as at March 31, 2013
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans(1)	19 653
Subtotal	**76 703**
Less: Retirement Plans Sinking Fund	–48 344
NET RETIREMENT PLANS LIABILITY	**28 359**

(1) The liability for the other plans takes into account the assets of the other plans, including those 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 government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2013, the employee future benefits liability stood at $1 262 million.

As at March 31, 2013, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 243 million.

The net employee future benefits liability was thus $19 million as at March 31, 2013.

Net employee future benefits liability as at March 31, 2013
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	676
Survivor's pension plan	408
Université du Québec programs	178
Subtotal	**1 262**
Less:	
Accumulated Sick Leave Fund	–798
Survivor's Pension Plan Fund	–445
Subtotal	**–1 243**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**19**

Generations Fund

The Generations Fund was created in June 2006 by the liberal government, through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2014, preliminary results show that the book value of the Generations Fund stood at $5 659 million.

The sums accumulated in the Generations Fund are expected to reach $16 713 million as at March 31, 2019.

Generations Fund
(millions of dollars)

	2012-2013	2013-2014P	2014-2015P	2015-2016P	2016-2017P	2017-2018P	2018-2019P
Book value, beginning of year	**4 277**	**5 238**	**5 659**	**6 960**	**8 543**	**10 797**	**13 587**
Dedicated revenues							
Water-power royalties							
Hydro-Québec	625	670	661	677	691	707	726
Private producers	92	93	91	93	95	97	99
	717	763	752	770	786	804	825
Indexation of the price of heritage electricity	—	—	71	105	205	305	410
Mining revenues	—	—	—	114	149	194	219
Tax on alcoholic beverages	—	—	100	100	500	500	500
Savings relative to the closure of Gentilly-2	—	—	—	—	—	215	215
Unclaimed property	12	19	10	10	10	10	10
Investment income	232	339	368	484	604	762	947
Total dedicated revenues	**961**	**1 121**	**1 301**	**1 583**	**2 254**	**2 790**	**3 126**
Deposit from the Territorial Information Fund	—	300	—	—	—	—	—
Total deposits	**961**	**1 421**	**1 301**	**1 583**	**2 254**	**2 790**	**3 126**
Use of the Generations Fund to repay maturing borrowings	—	–1 000	—	—	—	—	—
BOOK VALUE, END OF YEAR	**5 238**	**5 659**	**6 960**	**8 543**	**10 797**	**13 587**	**16 713**

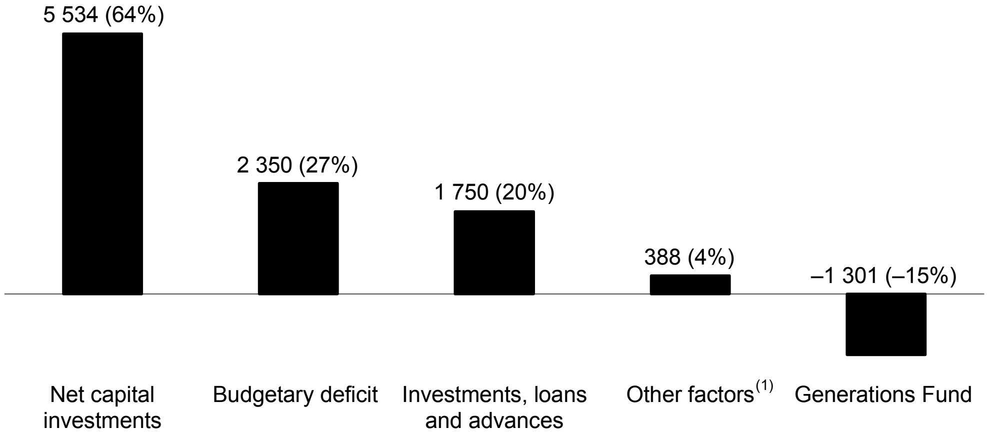
P: Preliminary results for 2013-2014 and forecasts for subsequent years.

❑ Factors responsible for the growth in the gross debt

In 2014-2015, the gross debt is expected to increase by $8 721 million mainly because of capital investments ($5 534 million) and the budgetary deficit ($2 350 million).

CHART E.1

Factors responsible for the growth in the gross debt in 2014-2015
(millions of dollars)



(1) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

The table on the next page shows the factors responsible for the growth in the government's gross debt since March 31, 2000.

TABLE E.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Investments, loans and advances	Net investment in the networks[1]	Net capital investments[2]	Other factors[3]	Deposits in the Generations Fund[4]	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value											
2000-2001	116 761	−427		1 701	841	578	1 108		3 801	120 562	52.3
2001-2002	120 562	−22		1 248	934	1 199	–9		3 350	123 912	52.0
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.9
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.3
2004-2005	133 231	664		1 303	1 486	1 006	–796		3 663	136 894	50.4
2005-2006	136 894	−37		1 488	1 013	1 179	–809		2 834	139 728	49.8
2006-2007	139 728	−109		2 213	1 002	1 177	1 078	–584	4 777	144 505	49.7
2007-2008	144 505	—		2 658	487	1 457	767	–649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	–28	–719	3 289	152 514	48.6
With networks consolidated line by line[5]											
2009-2010	157 630	3 174		1 746		4 226	–2 733	–725	5 688	163 318	51.8
2010-2011	163 318	3 150		2 507		4 923	298	–760	10 118	173 436	52.6
2011-2012	173 436	2 628		1 861		5 071	1 228	–840	9 948	183 384	53.1
2012-2013	183 384	1 600	1 876	659		4 863	335	–961	8 372	191 756	53.6
2013-2014	191 756	3 100		1 195		4 499	–1 077	–1 421	6 296	198 052	54.3
2014-2015	198 052	2 350		1 750		5 534	388	–1 301	8 721	206 773	54.9
2015-2016	206 773	—		1 824		4 543	287	–1 583	5 071	211 844	54.1
2016-2017	211 844	—		1 539		3 565	–408	–2 254	2 442	214 286	52.8
2017-2018	214 286	−300[6]		1 678		3 295	306	–2 790	2 189	216 475	51.5
2018-2019	216 475	−400[6]		1 639		2 545	291	–3 126	949	217 424	50.0

(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 the education networks. Since 2009-2010, these items have been part of net capital investments.

(2) Investments made under private-public partnership agreements are included in net capital investments.

(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

(4) Deposits in the Generations Fund in 2013-2014 include $1 121 million in dedicated revenues and $300 million from the accumulated surplus of the Territorial Information Fund.

(5) The line-by-line consolidation of the financial statements of institutions of the health and social services and the 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.

(6) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

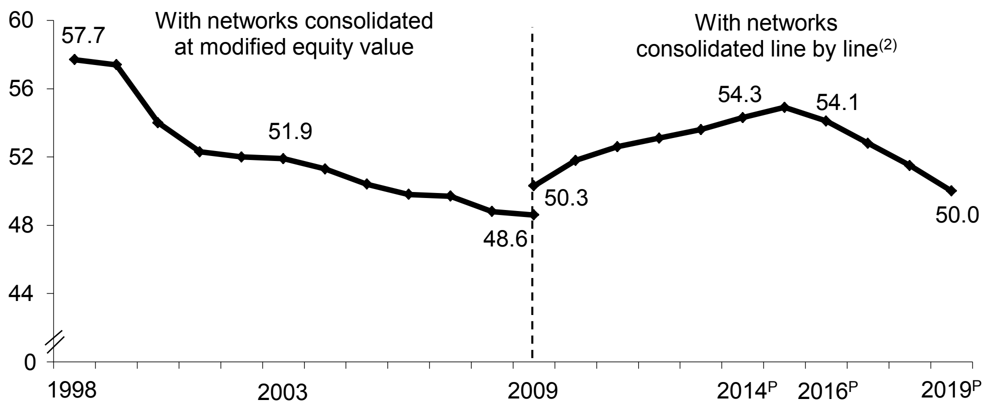
❑ Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.7% of GDP as at March 31, 1998, this ratio stood at 51.9% as at March 31, 2003 and 48.6% as at March 31, 2009. Line-by-line consolidation of the network institutions' financial statements with those of the government raised the gross-debt-to-GDP ratio to 50.3% as at March 31, 2009.

The ratio has risen since 2009 mainly because of the increase in capital investments and the 2008-2009 recession. The gross debt burden is expected to decrease as of 2015-2016, once the budget has been balanced.

CHART E.2

Gross debt as at March 31[1]
(as a percentage of GDP)



P: Preliminary results for 2014 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 the education networks have contracted in their own name. Accordingly, the data as of 2009 are not comparable with those for prior years since they do not include this debt.

1.2 Net debt

The net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. The net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2014, preliminary results show that the net debt stood at $181 965 million, or 49.9% of GDP. As a proportion of GDP, the net debt will gradually decline as of 2015-2016, to 45.0% as at March 31, 2019.

TABLE E.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Net capital investments	Other	Generations Fund	Total change	Debt, end of year	As a % of GDP
2012-2013	167 700	1 600	1 876	4 863	409(1)	–961	7 787	175 487	49.0
2013-2014P	175 487	3 100		4 499	—	–1 121	6 478	181 965	49.9
2014-2015P	181 965	2 350		5 534	3 800(2)	–1 301	10 383	192 348	51.0
2015-2016P	192 348	—		4 543	—	–1 583	2 960	195 308	49.9
2016-2017P	195 308	—		3 565	—	–2 254	1 311	196 619	48.4
2017-2018P	196 619	−300(3)		3 295	—	–2 790	205	196 824	46.8
2018-2019P	196 824	−400(3)		2 545	—	–3 126	–981	195 843	45.0

P: Preliminary results for 2013-2014 and forecasts for subsequent years.
(1) Includes other comprehensive income items of government enterprises and changes stemming from inventories and prepaid expenses that are non-financial assets.
(2) Provision for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards. This provision is explained on the next page.
(3) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec 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.

As at March 31, 2014, preliminary results show that the debt representing accumulated deficits stood at $120 074 million, or 32.9% of GDP. As a proportion of GDP, the debt representing accumulated deficits will gradually decline as of 2015-2016 to 26.3% as at March 31, 2019.

TABLE E.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Accounting adjustments	Generations Fund	Total change	Debt, end of year	As a % of GDP
2009-2010	103 433	3 174		3 243	–725	5 692	109 125	34.6
2010-2011	109 125	3 150		431	–760	2 821	111 946	34.0
2011-2012	111 946	2 628		1 486	–840	3 274	115 220	33.4
2012-2013	115 220	1 600	1 876	360	–961	2 875	118 095	33.0
2013-2014P	118 095	3 100		—	–1 121	1 979	120 074	32.9
2014-2015P	120 074	2 350		3 800	–1 301	4 849	124 923	33.1
2015-2016P	124 923	—		—	–1 583	–1 583	123 340	31.5
2016-2017P	123 340	—		—	–2 254	–2 254	121 086	29.8
2017-2018P	121 086	−300(1)		—	–2 790	–3 090	117 996	28.1
2018-2019P	117 996	−400(1)		—	–3 126	–3 526	114 470	26.3

P: Preliminary results for 2013-2014 and forecasts for subsequent years.
(1) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

As at March 31, 2015, the debt representing accumulated deficits takes into account a provision of $3.8 billion for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards (IFRS). In February 2013, the Accounting Standards Board of Canada postponed, for the fourth time, the mandatory changeover to IFRS for corporations like Hydro-Québec that engage in rate-regulated activities. The anticipated date is now January 1, 2015, which would affect the government's 2014-2015 fiscal year. It should be noted that Hydro-Québec's eventual transition to IFRS will have no impact on the government's gross debt.

1.4 Debt reduction objectives

This budget confirms that the debt reduction objectives included in the *Act to reduce the debt and establish the Generations Fund* in 2010 will be maintained. These objectives are:

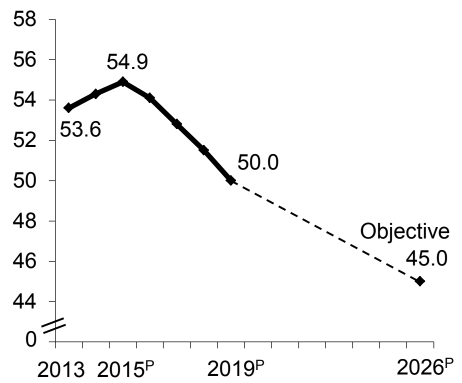
— 45% of GDP for the gross debt as at March 31, 2026;

— 17% of GDP for the debt representing accumulated deficits as at March 31, 2026.

CHART E.3

Gross debt as at March 31

(as a percentage of GDP)

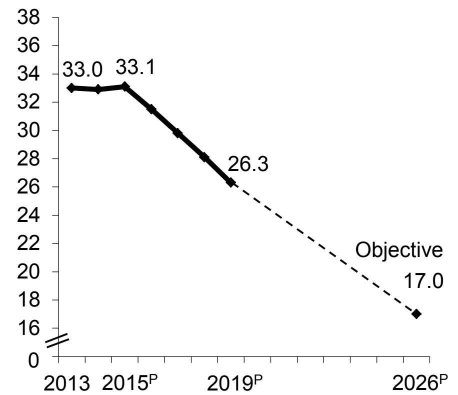


P: Preliminary results for 2014, forecasts for 2015 to 2019 and projections for subsequent years.
Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART E.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



P: Preliminary results for 2014, forecasts for 2015 to 2019 and projections for subsequent years.

To achieve these debt reduction objectives, the government has the Generations Fund, established in 2006, at its disposal. In addition to the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity,[1] the current provisions of the *Act to reduce the debt and establish the Generations Fund* stipulate that the following revenue sources will be deposited in the Generations Fund:

— the revenue generated by the indexation of the price of heritage electricity starting in 2014. This will amount to $71 million in 2014-2015, $105 million in 2015-2016, $205 million in 2016-2017, $305 million in 2017-2018 and $410 million in 2018-2019;

[1] The *Act to reduce the debt and establish the Generations Fund* also provides for the deposit in the Generations Fund of unclaimed property administered by Revenu Québec and income generated by the investment of the sums making up the fund.

— all mining revenues as of 2015-2016. This will amount to $114 million in 2015-2016, $149 million in 2016-2017, $194 million in 2017-2018 and $219 million in 2018-2019;

— the savings, as of 2017-2018, stemming from the closure of the Gentilly-2 nuclear power plant, which will amount to $215 million per year;

— an amount of $100 million per year, as of 2014-2015, generated by the increase in the specific tax on alcoholic beverages.

This budget provides for the deposit of additional sums in the Generations Fund as of 2016-2017. These additional deposits will be drawn from the specific tax on alcoholic beverages and represent $400 million per year.

In addition, the government is announcing in this budget that, as of 2017-2018, the fiscal outlook will make it possible to generate surpluses, half of which will be used to reduce the debt and the other half to ease the tax burden of Quebecers, by giving priority to the gradual elimination of the health contribution.

The Generations Fund should reach $16.7 billion as at March 31, 2019.

1.5 Public sector debt

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, the municipalities, universities other than the Université du Québec and its constituents and other government enterprises. This debt has served in particular to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2014, preliminary results show that Québec's public sector debt stood at $263 916 million, or 72.4% of GDP. These figures must be seen in 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 E.6

Public sector debt as at March 31
(millions of dollars)

	2010	2011	2012	2013	2014P
Government's gross debt(1)	163 318	173 436	183 384	191 756	198 052
Hydro-Québec	36 385	37 723	38 514	39 631	40 361
Municipalities(2)	19 538	20 307	20 719	21 820	22 622
Universities other than the Université du Québec and its constituents(3)	1 930	1 925	1 797	1 739	1 739
Other government enterprises(4)	697	1 363	1 363	1 479	1 142
PUBLIC SECTOR DEBT	**221 868**	**234 754**	**245 777**	**256 425**	**263 916**
As a % of GDP	***70.3***	***71.2***	***71.2***	***71.7***	***72.4***

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 ($3 899 million as at March 31, 2014).
(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($65 million as at March 31, 2014).
(4) These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity.

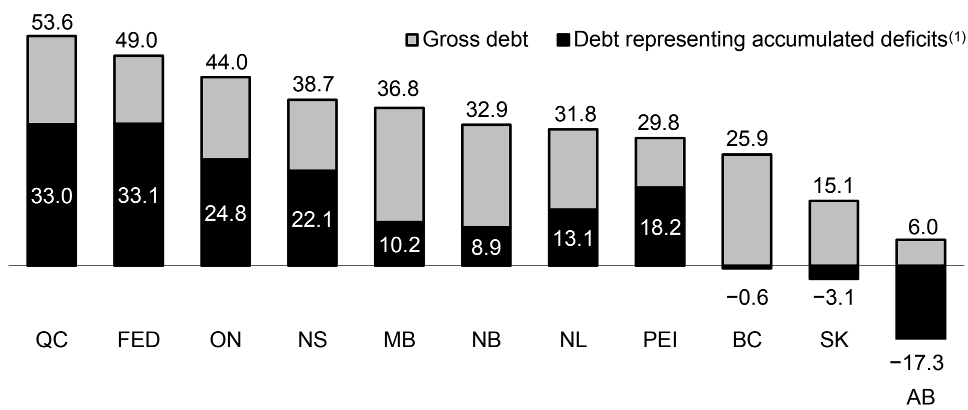
1.6 Comparison of the debt of governments in Canada

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2013, the ratio of gross debt to GDP was 53.6% in Québec compared with 44.0% in Ontario, the second most indebted province, and 38.7% in Nova Scotia, which ranks third.

CHART E.5

Gross debt and debt representing accumulated deficits as at March 31, 2013
(as a percentage of GDP)



(1) A negative entry means that the government has accumulated surpluses.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The table on the following page shows the debt of the federal government and each province as at March 31, 2013. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and debt representing accumulated deficits, gross debt cannot be observed directly in the public accounts of the other governments in Canada. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the concept used by Québec.

TABLE E.7

Debt as at March 31, 2013 according to various concepts
(millions of dollars)

	QC	FED	ON	NS	MB	NB	NL	PEI	BC	SK	AB
Consolidated direct debt	**168 616**	**673 046**	**292 599**	**12 869**	**19 155**	**10 177**	**5 148**	**1 688**	**55 061**	**5 013**	**7 752**
Net retirement plans liability	28 359	151 667	–6 352	230	1 828	–150	3 270	–86	165	6 774	10 852
Net employee future benefits liability	19	67 301	10 714	1 774	434	347	2 323	52	1 760	—	—
Generations Fund	–5 238										
Gross debt	**191 756**	**892 014**	**296 961**	**14 873**	**21 417**	**10 374**	**10 741**	**1 654**	**56 986**	**11 787**	**18 604**
As a % of GDP	*53.6*	*49.0*	*44.0*	*38.7*	*36.8*	*32.9*	*31.8*	*29.8*	*25.9*	*15.1*	*6.0*
Less: Financial assets, net of other liabilities	–16 269	–220 651	–44 873	–919	–5 524	680	–2 393	386	–18 850	–6 678	–30 796
Net debt(1)	**175 487**	**671 363**	**252 088**	**13 954**	**15 893**	**11 054**	**8 348**	**2 040**	**38 136**	**5 109**	**–12 192**
As a % of GDP	*49.0*	*36.9*	*37.4*	*36.3*	*27.3*	*35.0*	*24.7*	*36.8*	*17.3*	*6.6*	*–3.9*
Less: Non-financial assets	–57 392	–68 922	–84 956	–5 472	–9 957	–8 258	–3 916	–1 031	–39 521	–7 558	–41 780
Debt representing accumulated deficits(1)	**118 095**	**602 441**	**167 132**	**8 482**	**5 936**	**2 796**	**4 432**	**1 009**	**–1 385**	**–2 449**	**–53 972**
As a % of GDP	*33.0*	*33.1*	*24.8*	*22.1*	*10.2*	*8.9*	*13.1*	*18.2*	*–0.6*	*–3.1*	*–17.3*

Note: The boxes indicate the debt concept(s) used in the budget papers of the government concerned.
(1) A negative entry means that the government has net assets or accumulated surpluses.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

2. FINANCING AND DEBT MANAGEMENT

2.1 Financing program

Preliminary results show that the government's financing program for 2013-2014 amounted to $19 586 million. It should stand at $15 034 million in 2014-2015. This is a decrease of $345 million compared with what was forecast in February 2014. This decrease is attributable to, among other things, pre-financing made in 2013-2014 that was $1 189 million higher than anticipated.

TABLE E.8

The government's financing program in 2013-2014 and 2014-2015

(millions of dollars)

		2014-2015^P				
	2013-2014^P	Financial situation as at February 20, 2014	Revisions	Revised program	Completed[1]	%
GENERAL FUND						
Net financial requirements[2],[3]	1 988	2 649	1 516	4 165		
Repayments of borrowings	4 767	7 597	104	7 701		
Use of the Generations Fund to repay maturing borrowings	−1 000	—	—	—		
Change in cash position[4]	−3 485	−4 421	−1 189	−5 610		
Deposits in the Retirement Plans Sinking Fund[5]	1 000	—	—	—		
Transactions under the credit policy[6]	−1 216	—	−55	−55		
Additional contributions to the Sinking Fund for borrowings	3 538	—	300	300		
Pre-financing	5 610	—	—	—		
GENERAL FUND	**11 202**	**5 825**	**676**	**6 501**		
FINANCING FUND	**7 384**	**8 554**	**−1 021**	**7 533**		
Subtotal – General fund and Financing Fund	**18 586**	**14 379**	**−345**	**14 034**	**4 698**	**33.5%**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**	**—**	**1 000**	**—**	**—**
TOTAL	**19 586**	**15 379**	**−345**	**15 034**	**4 698**	**31.2%**
Including: repayments of borrowings[7]	9 741	12 261	102	12 363	—	—

P: Preliminary results for 2013-2014 and forecasts for 2014-2015.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) Borrowings contracted or negotiated as at May 29, 2014.
(2) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.
(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(4) Corresponds to pre-financing made the previous year.
(5) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(6) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.
(7) The amounts include repayments of borrowings, for 2013-2014 and 2014-2015 respectively, of the general fund ($4 767 million and $7 701 million), the Financing Fund ($1 252 million and $1 151 million) and Financement-Québec ($3 722 million and $3 511 million).

The financing program should amount to $17 880 million in 2015-2016 and $18 914 million in 2016-2017.

TABLE E.9

The government's financing program in 2015-2016 and 2016-2017
(millions of dollars)

	2015-2016F	2016-2017F
GENERAL FUND		
Net financial requirements(1),(2)	1 062	219
Repayments of borrowings	7 115	10 697
GENERAL FUND	**8 177**	**10 916**
FINANCING FUND	**8 703**	**6 998**
Subtotal – General fund and Financing Fund	**16 880**	**17 914**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**
TOTAL	**17 880**	**18 914**
Including: repayments of borrowings(3)	10 201	15 017

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.
(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(3) The amounts include repayments of borrowings, for 2015-2016 and 2016-2017 respectively, of the general fund ($7 115 million and $10 697 million), the Financing Fund ($1 206 million and $1 212 million) and Financement-Québec ($1 880 million and $3 108 million).

2.2 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.

2.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

Over the past 10 years, 16.7% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure of its gross debt to these currencies (see section 2.6).

In 2013-2014, the government carried out 16.2% of its borrowings on foreign markets, i.e.:

— a public bond issue of €1 000 million (CAN$1 358 million) in July 2013;

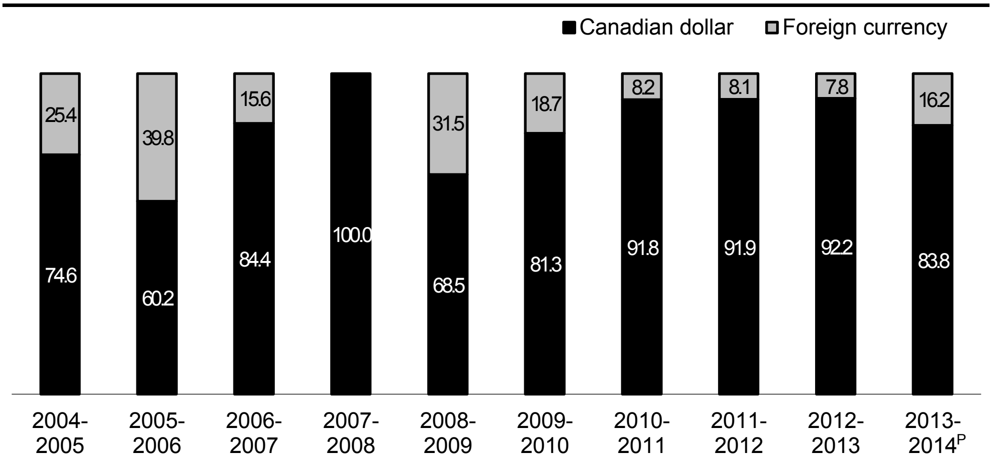
— a public bond issue of €1 000 million (CAN$1 485 million) in January 2014;

— a public bond issue of 200 million CHF (CAN$244 million) in February 2014;

— a borrowing of €65 million (CAN$88 million) in June 2013.

CHART E.6

Borrowings by currency(1)
(per cent)



P: Preliminary results.
(1) Borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.2.2 Diversification by instrument

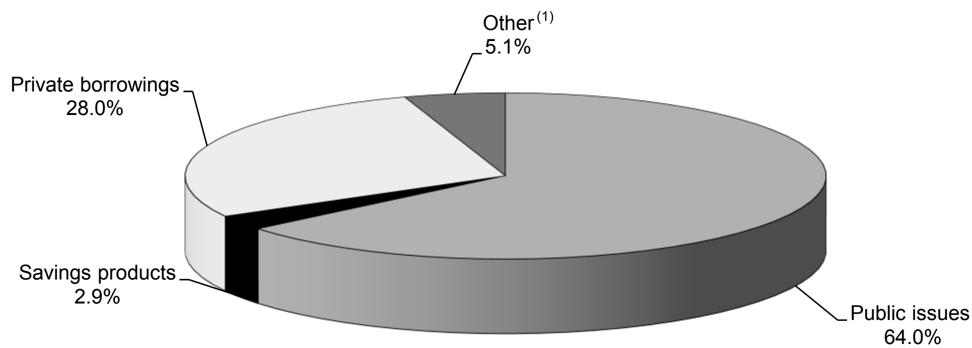
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues and private borrowings.

In 2013-2014, public issues represented 64.0% of instruments used.

CHART E.7

Long-term borrowings contracted in 2013-2014^P by instrument
(per cent)



P: Preliminary results.
(1) Business Assistance - Immigrant Investor Program.

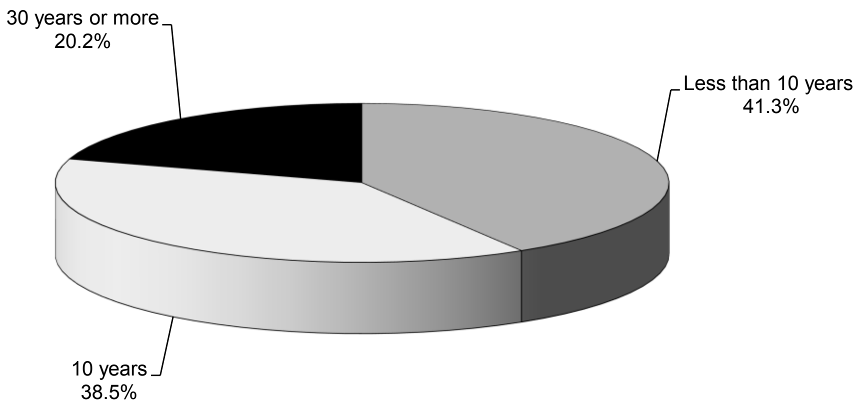
2.2.3 **Diversification by maturity**

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 the case of borrowings contracted in 2013-2014, 41.3% had a maturity of less than 10 years, 38.5% a maturity of 10 years and 20.2% a maturity of 30 years or more.

CHART E.8

Long-term borrowings contracted in 2013-2014[P] by maturity
(per cent)

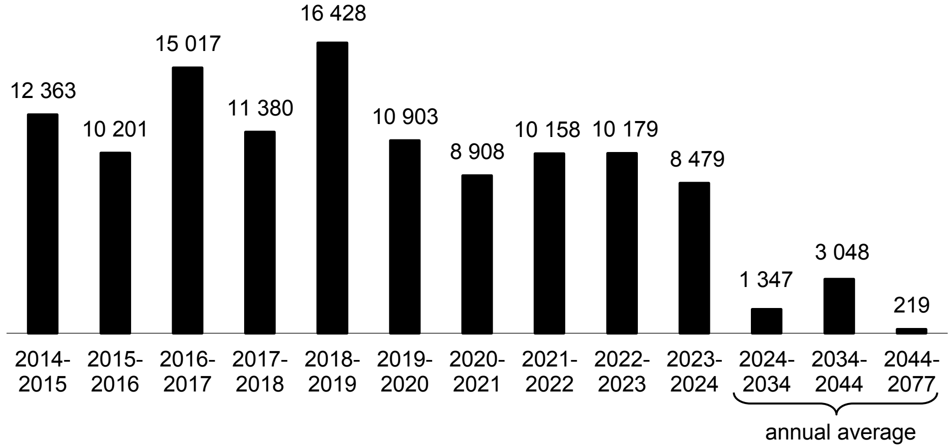


P: Preliminary results.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2014, the average maturity of the debt was about 11 years.

CHART E.9

Maturity of the long-term debt as at March 31, 2014^P
(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.

2.3 Increase in the government's prudential liquidity

As indicated in the March 2012 budget, the Ministère des Finances implemented in 2012-2013 a policy aimed at increasing the level of the government's prudential liquidity. These liquid assets will be available for use in the event of major turbulence on financial markets. As at March 31, 2014, they stood at $7.6 billion.

The government's prudential liquidities are equivalent to close to half of the average annual financing requirements expected over the coming years.

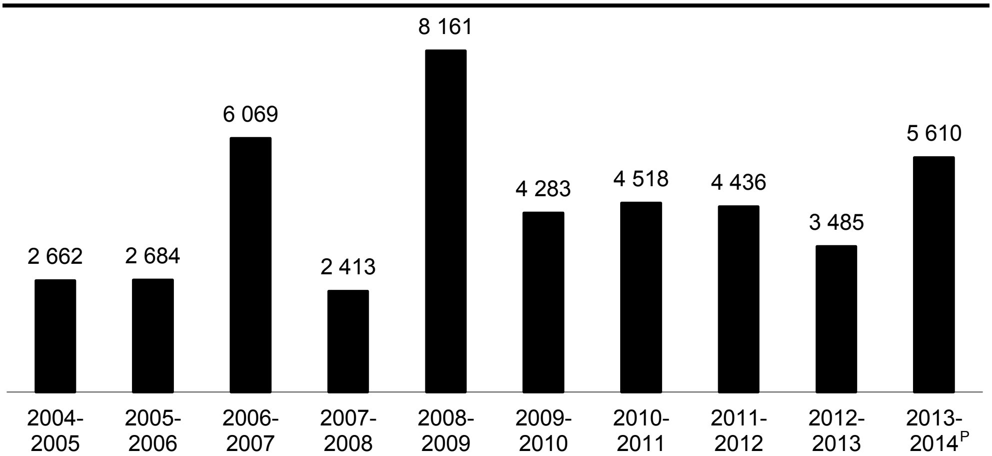
2.4 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2013-2014, the government contracted pre-financing of $5 610 million. The average for the past 10 years was $4 432 million a year.

CHART E.10

Pre-financing
(millions of dollars)



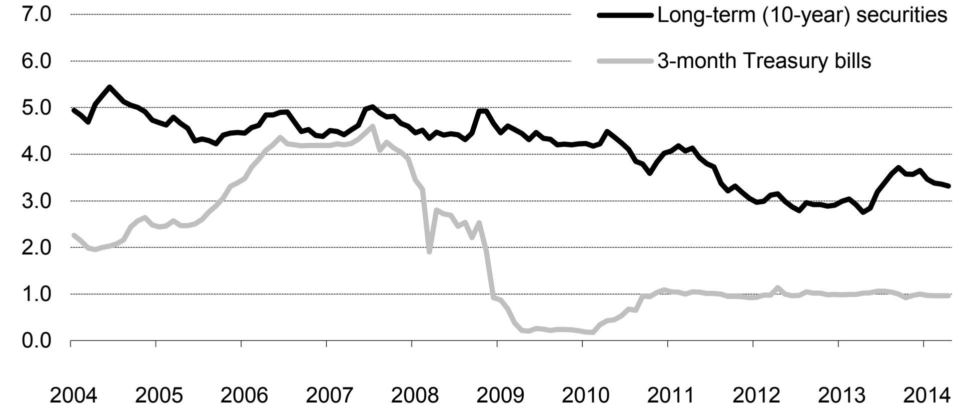
P: Preliminary results.

2.5 Yield

The yield on the Québec government's long-term securities is currently about 3.3%, while that on short-term securities is roughly 1.0%.

CHART E.11

Yield on Québec securities
(per cent)

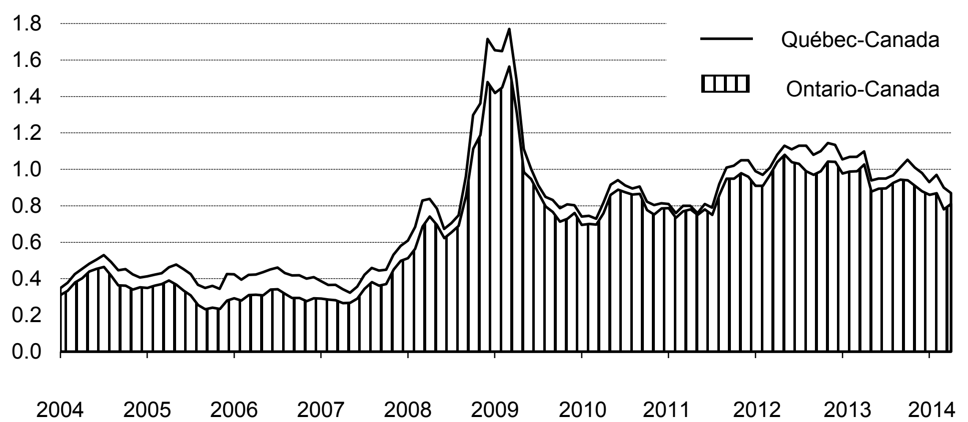


Sources: PC-Bond and Ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART E.12

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.6 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

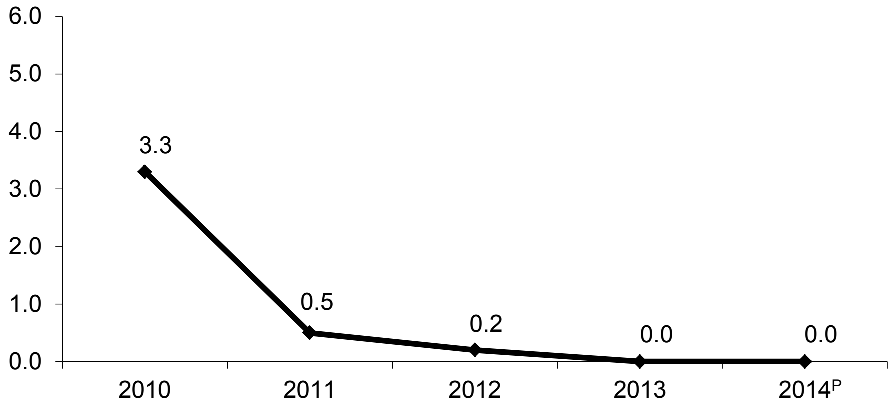
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

❑ Structure of the debt by currency

As at March 31, 2014, preliminary results show that the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, stood at 0%. The proportion of the gross debt in foreign currency was also nil as at March 31, 2013.

CHART E.13

Proportion of the debt in foreign currency as at March 31
(per cent)



P: Preliminary results.
Note: Gross debt including pre-financing.

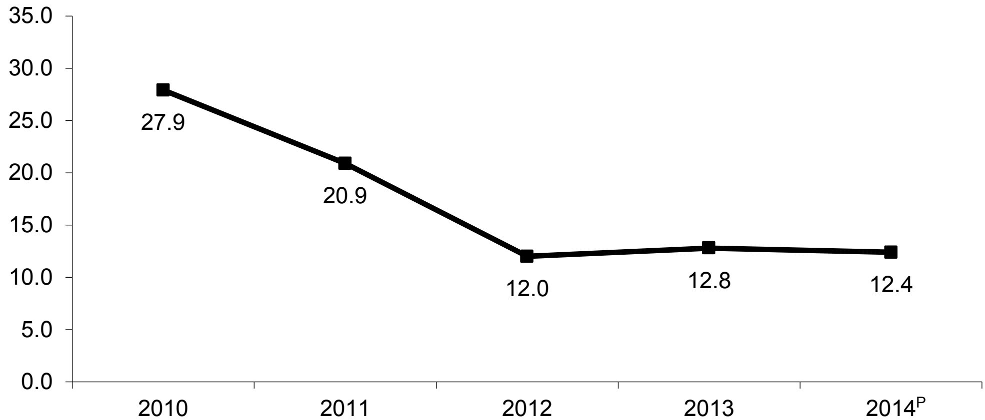
❑ Structure of the debt by interest rate

The government keeps part of its debt at variable interest rates and part at fixed interest rates.

After taking into account interest rate and currency swap agreements, preliminary results show that the proportion of the gross debt at variable interest rates was 12.4% as at March 31, 2014. The proportion of the gross debt at variable interest rates has fallen since 2010.

CHART E.14

Proportion of the gross debt at variable interest rates(1) as at March 31
(per cent)



P: Preliminary results.
Note: Gross debt including pre-financing.
(1) The debt at variable interest rates includes variable interest rate financial instruments as well as fixed interest rate financial instruments that mature in one year or less.

2.7 Borrowings contracted

TABLE E.10

Québec government
Summary of long-term borrowings(1) in 2013-2014P

Currency	$ million	%
CANADIAN DOLLAR		
Public issues	9 446	48.2
Private borrowings	5 404	27.6
Savings products	558	2.9
Business Assistance - Immigrant Investor Program	1 003	5.1
Subtotal	**16 411**	**83.8**
OTHER CURRENCIES		
Euro	2 931	15.0
Swiss franc	244	1.2
Subtotal	**3 175**	**16.2**
TOTAL	**19 586**	**100.0**

P: Preliminary results.
(1) The amounts include the borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE E.11

Québec government
Borrowings contracted in 2013-2014^P for the general fund

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
303	—	4.50	April 19	2017-12-01	112.199	1.739
1 052[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
358[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
463	—	3.50	April 30	2045-12-01	98.353	3.586
497	—	3.50	May 3	2045-12-01	99.420	3.530
481	—	3.50	June 7	2045-12-01	96.109	3.707
88[4]	€65	2.644[6]	June 17	2033-06-17	100.000	2.644[7]
556	—	4.50	June 17	2018-12-01	111.203	2.303
607	—	5.00	June 19	2041-12-01	121.390	3.768
460	—	3.50	July 5	2045-12-01	91.984	3.940
1 358	€1 000	2.25[6]	July 17	2023-07-17	99.514	2.305[7]
386	—	3.50	September 4	2045-12-01	87.245	4.228
502	—	3.75	January 13	2024-09-01	100.337	3.711
347	—	3.50	January 14	2045-12-01	87.872	4.193
1 485	€1 000	2.375[6]	January 22	2024-01-22	99.045	2.484[7]
244	200 CHF	1.50[6]	February 5	2024-02-05	99.426	1.563[7]
454	—	3.50	February 10	2045-12-01	90.758	4.017
558[8]	—	Various	Various	Various	Various	Various
1 003[9]	—	Zero coupon	Various	Various	Various	Various
11 202						

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 except if another frequency is indicated in a note.
(4) Private borrowings.
(5) Interest payable quarterly.
(6) Interest payable annually.
(7) Yield to investor is determined on the basis of interest payable annually.
(8) Savings products issued by Épargne Placements Québec.
(9) Business Assistance - Immigrant Investor Program.

TABLE E.12

Québec government
Borrowings contracted in 2013-2014[P] for the Financing Fund

Amount received in Canadian dollars(1)	Face value in foreign currency	Interest rate(2)	Date of issue	Date of maturity	Price to investor	Yield to investor(3)
(millions)		(%)			($)	(%)
258	—	4.50	April 19	2017-12-01	112.199	1.739
29	—	3.50	April 30	2045-12-01	98.353	3.586
512	—	3.00	May 7	2023-09-01	102.466	2.724
506	—	3.00	May 21	2023-09-01	101.121	2.873
499	—	3.00	June 3	2023-09-01	99.892	3.012
494	—	3.00	June 21	2023-09-01	98.844	3.133
480	—	3.00	August 12	2023-09-01	96.071	3.466
50	—	3.50	September 4	2045-12-01	87.245	4.228
471	—	3.00	September 25	2023-09-01	94.128	3.712
500	—	3.75	December 18	2024-09-01	99.926	3.758
499	—	3.75	December 18	2024-09-01	99.751	3.778
2 994(4)	—	Variable(5)	December 19	2018-12-19	100.000	Variable
92	—	3.50	January 14	2045-12-01	87.872	4.193
7 384						

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 borrowings.
(5) Interest payable quarterly.

TABLE E.13

Québec government
Borrowings contracted in 2013-2014P by Financement-Québec

Amount received in Canadian dollars(1)	Face value in foreign currency	Interest rate(2)	Date of issue	Date of maturity	Price to investor	Yield to investor(3)
(millions)		(%)			($)	(%)
1 000(4)	—	Variable(5)	October 29	2019-05-29	100.000	Variable
1 000						

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 established on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Interest payable quarterly.

TABLE E.14

Borrowings contracted in 2013 by Hydro-Québec

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
8[4]	—	Zero coupon	April 25	2022-04-15	77.165	2.929
601	—	5.00	July 19	2050-02-15	120.133	3.954
1 000[4]	—	Variable[5]	September 3	2018-09-03	100.000	Variable
582	—	5.00	October 31	2050-02-15	116.386	4.125
2 191						

Note: Borrowings contracted from January 1 to December 31, 2013.
(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 established on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Interest payable quarterly.

3. INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

3.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 577 875 active participants and 326 755 beneficiaries as at December 31, 2012.

TABLE E.15

Retirement plans of public and parapublic sector employees as at December 31, 2012

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	530 000	223 702
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	28 850	26 376
Other plans:		
— Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	97	45 143
— Civil Service Superannuation Plan (CSSP)(1)	35	20 526
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 850	4 901
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 600	1 689
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	273	357
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	200	149
— Pension Plan of the Members of the National Assembly (PPMNA)	120	411
— Pension Plan of the Université du Québec (PPUQ)	8 850	3 501
Total for other plans	19 025	76 677
TOTAL	**577 875**	**326 755**

(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.
Source: 2012-2013 Public Accounts.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. 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 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%.[2]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[3]

TABLE E.16

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP(1)	PPMP(2)	SPMSQ(3)	PPPOCS(4)
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
2013	9.18	12.30	8 / 6.2 / 8	6.5
2014	9.84	14.38	8 / 6.2 / 8	8.3

(1) For 2004 to 2012, rate applicable to the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). The contribution formula as of 2012 was changed at the time of the collective agreements' renewal. For 2012, the rate applies to the excess of 33% of the MPE. For 2013, the rate applies to the excess of 31% of the MPE. For 2014, the rate applies to the excess of 29% of the MPE. In 2014, the MPE is $52 500.
(2) Rate applicable to the excess of 35% of the MPE.
(3) Rate applicable up to the annual basic exemption of the RRQ ($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 25% of the MPE if it is lower.

2 This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

3 Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Recent changes

In 2010, to retain qualified workers and delay their retirement, the government modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service. 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, thus facilitating the transfer of expertise.

The PPMP was also modified with the adoption of Bill 58 by the National Assembly in 2012. The changes included in the Bill were the product of consultations with participant representatives and included several amendments fostering the financial health of the PPMP. In particular, the pension eligibility criteria were tightened. Since January 1, 2013, new participants must 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 of the benefit for early retirement was increased.

3.1.1 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 sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,[4] following the rules of the Canadian Institute of Actuaries (CIA) and the Chartered Professional Accountants of Canada (CPA Canada) for the public sector.

As at March 31, 2013, the liability for the retirement plans of public and parapublic sector employees amounted to $76 703 million (net of the plans' assets). This amount is recognized in the government's gross debt.

4 Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE E.17

Retirement plans liability
(millions of dollars)

	March 31, 2013
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans:	
— Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 546
— Civil Service Superannuation Plan (CSSP)	3 848
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 681
— Pension Plan of the Université du Québec (PPUQ)	2 967
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	842
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	538
— Pension Plan of the Members of the National Assembly (PPMNA)	186
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	133
— Plans' assets(1)	–4 088
Total for other plans	19 653
RETIREMENT PLANS LIABILITY	**76 703**

(1) Plans' assets, particularly those of the PPFEQ, SPMSQ and PPUQ.

❑ 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, net of contributions paid, i.e. $1 900 million in 2012-2013;

— the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $619 million in 2012-2013.

In 2012-2013, government spending in respect of the retirement plans stood at $2 519 million.

TABLE E.18

Spending in respect of the retirement plans
(millions of dollars)

	2012-2013
Net cost of vested benefits	1 900
Amortization of revisions stemming from actuarial valuations	619
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 519**

3.1.2 **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, 2014, preliminary results show that the book value of the RPSF stood at $51 333 million.

TABLE E.19

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Imputed investment income	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 (1)	—	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 (1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749 (2)	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	42 265	1 000	2 087	45 352
2012-2013	45 352	1 000	1 992	48 344
2013-2014P	48 344	1 000	1 989	51 333

P: Preliminary results.
(1) These amounts take 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 (EARSL) 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, 2014 was higher than its market value. However, the difference between these two items has decreased substantially in recent years. As a result of the accounting policies, the difference 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. Section 3.4 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower.

TABLE E.20

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	45 352	38 222	7 130
2012-2013	48 344	42 562	5 782
2013-2014[P]	51 333	49 034	2 299

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. Nevertheless, 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 E.21

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF(1)
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	168 616	169 616	1 000
	Retirement plans liability	76 703	76 703	—
	Less: Book value of the RPSF	–48 344	–49 344	–1 000
(B)	Net retirement plans liability	28 359	27 359	–1 000
(C)	Net employee future benefits liability	19	19	—
(D)	Less: Generations Fund	–5 238	–5 238	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**191 756**	**191 756**	**—**

(1) Illustration based on results as at March 31, 2013.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. Indeed, 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 15 years out of 20.

TABLE E.22

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent)

	Return of the RPSF(1)	Cost of new borrowings(2)	Difference (percentage points)
1994-1995	–3.3(3)	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	3.5	4.0	–0.5
2012-2013	9.4	3.6	5.8
2013-2014P	12.6	2.9	9.7

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

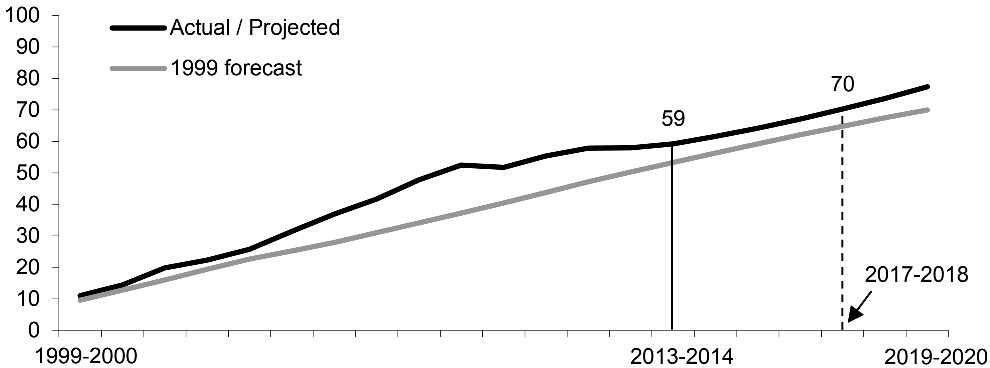
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the necessary flexibility in applying 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.

As at March 31, 2014, the RPSF's book value should represent 59% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the objective of 70% should be attained two years earlier than anticipated, i.e. in 2017-2018.

CHART E.15

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



3.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation. As at March 31, 2014, the market value of the Generations Fund was higher than its book value.

TABLE E.23

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007(1)	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	4 277	4 375	–98
2012-2013	5 238	5 550	–312
2013-2014P	5 659	6 299	–640

P: Preliminary results.
(1) The first deposit in the Generations Fund was made on January 31, 2007.

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 six years out of seven.

TABLE E.24

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund(1)	Cost of new borrowings(2)	Difference (percentage points)
2007-2008	5.6(3)	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	4.0	4.0	—
2012-2013	8.4	3.6	4.8
2013-2014P	12.0	2.9	9.1

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 was made in the Generations Fund on January 31, 2007.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2013, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec was 12.61% for the RPSF, 11.99% for the Generations Fund and 12.50% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page E.50.

TABLE E.25

Market value and return in 2013 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2013
	(%)	($ million)
Retirement Plans Sinking Fund	12.61	46 863
Generations Fund	11.99	5 908
Accumulated Sick Leave Fund	12.50	843

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 12.61% in 2013. Its market value was $46 863 million as at December 31, 2013.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 35.75% fixed-income securities (bonds, real estate debt, etc.), 16.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 48.25% equities. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE E.26

Investment policy of the RPSF as at January 1, 2014
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	35.75	34.6
Inflation-sensitive investments	16.00	16.9
Equities	48.25	46.5
Other investments	—	2.0
TOTAL	**100.00**	**100.0**

(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate an annual return of 6.45%. 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 12.11% in 2013.

3.3.2 **Generations Fund**

The Generations Fund posted a return of 11.99% in 2013. Its market value was $5 908 million as at December 31, 2013.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the Generations Fund consists of 41.0% fixed-income securities (bonds, real estate debt, etc.), 14.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 45.0% equities.

TABLE E.27

Investment policy of the Generations Fund as at January 1, 2014
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	41.0	34.6
Inflation-sensitive investments	14.0	16.9
Equities	45.0	46.5
Other investments	—	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

The investment policy of the Generations Fund aims to achieve a long-term return of 6.45% per year. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and is 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 11.39% in 2013.

3.3.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) posted a return of 12.50% in 2013. Its market value was $843 million as at December 31, 2013.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances 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 12.11% in 2013.

Comparison of investment policies

Investment policies as at January 1, 2014
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Short-Term Investments	1.0	1.0	1.1
Bonds	28.75	34.0	27.0
Long-Term Bonds	0.0	0.0	1.0
Real Estate Debt	6.0	6.0	5.5
Total – Fixed income	**35.75**	**41.0**	**34.6**
Real Return Bonds	0.0	0.0	0.6
Infrastructure	5.0	4.5	4.9
Real Estate	11.0	9.5	11.4
Total – Inflation-Sensitive Investments	**16.0**	**14.0**	**16.9**
Canadian Equity	11.75	10.0	11.4
Global Equity	2.0	2.0	2.0
Global Quality Equity	8.5	8.0	6.6
US Equity	4.5	5.0	5.5
Foreign Equity (EAFE)	4.5	5.0	5.3
Emerging Markets Equity	5.0	5.0	5.0
Private Equity	12.0	10.0	10.7
Total – Equity	**48.25**	**45.0**	**46.5**
Hedge Funds	—	—	2.0
Total – Other Investments	**0.0**	**0.0**	**2.0**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
EAFE: Europe, Australasia, Far East.
(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

3.4 Impact of the returns of the Retirement Plans Sinking Fund on debt service

The government records an interest charge on the retirement plans liability. This stems from the fact that, historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. However, the investment income of the RPSF must be subtracted from this amount. The interest charge on the retirement plans liability is included in the government's debt service.

TABLE E.28

Interest on the retirement plans liability
(millions of dollars)

	2012-2013
Interest on the actuarial obligations relating to the retirement plans(1)	5 066
Less: Investment income of the RPSF	–1 992
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 074**

(1) Net of the income of specific funds of the plans.

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.[5]

5 CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on realized returns. 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.[6]

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 14 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[7] This amortization mechanism and the period used are prescribed by GAAP.[8]

For example, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010, while a higher-than-expected rate of return in 2013-2014 increases RPSF income as of 2014-2015.

6 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.

7 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 10 years compared with 15 years under the other plans.

8 "…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." CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, the CPA Canada defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

TABLE E.29

Impact of the returns of the Caisse de dépôt et placement du Québec on debt service(1)

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Before 2008-2009	–48	–78	–57	11	10	16
From 2008-2009	307	629	972	1 337	1 710	1 710
From 2009-2010		–65	–134	–207	–280	–360
From 2010-2011			–53	–110	–169	–232
From 2011-2012				15	30	46
From 2012-2013					–23	–47
From 2013-2014						−73
IMPACT ON DEBT SERVICE	**259**	**486**	**728**	**1 046**	**1 278**	**1 060**

Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.
(1) The 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 rate for that period and that are amortized.

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 E.30

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1 **Aa2** Aa3	AA+ AA AA–	AA (high) AA AA (low)	AA+ AA **AA–**	**AA+** AA AA–
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1 A2 A3	**A+** A A–	**A (high)** A A (low)	A+ A A–	A+ A A–
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1 Baa2 Baa3	BBB+ BBB BBB–	BBB (high) BBB BBB (low)	BBB+ BBB BBB–	BBB+ BBB BBB–
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1 Ba2 Ba3	BB+ BB BB–	BB (high) BB BB (low)	BB+ BB BB–	BB+ BB BB–
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1 B2 B3	B+ B B–	B (high) B B (low)	B+ B B–	B+ 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, except for Fitch, which has assigned a "negative" outlook since December 2013.

TABLE E.31

The Québec government's credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Negative
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 E.32

Credit rating scales for short-term debt(1)

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P–1**	**A–1+** A–1	R–1 (high) **R–1 (middle)** R–1 (low)	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P–2	A–2	R–2 (high)	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P–3	A–3	R–2 (middle) R–2 (low) R–3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime(2)	B–1 B–2 B–3 C	R–4 R–5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime(2)	D	D	D

(1) JCR does not assign a short-term credit rating to Québec.
(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 2014 are those in effect as at May 29, 2014.

CHART E.16

Credit rating assigned to Québec by Moody's

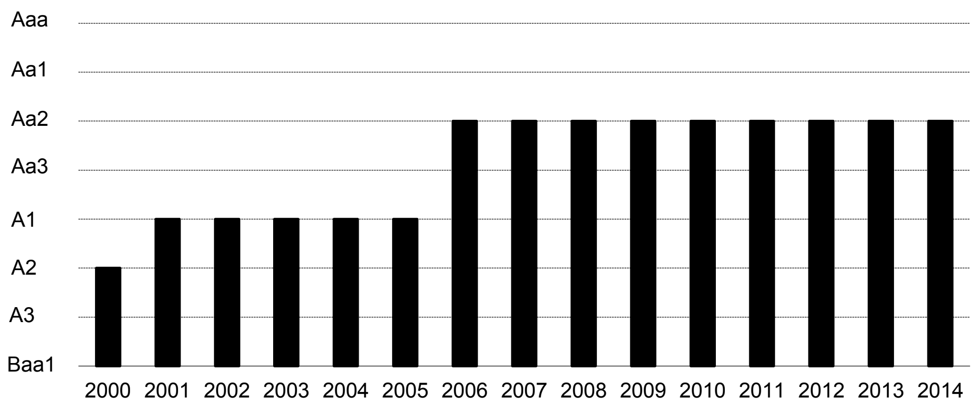


CHART E.17

Credit rating assigned to Québec by Standard & Poor's

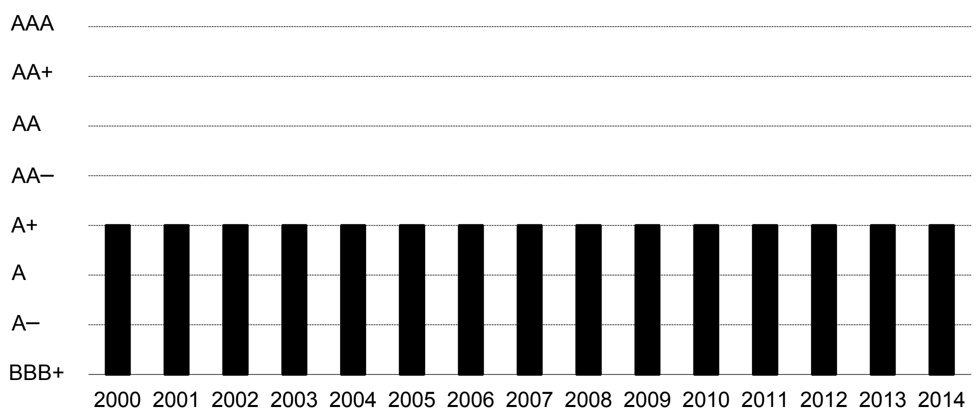
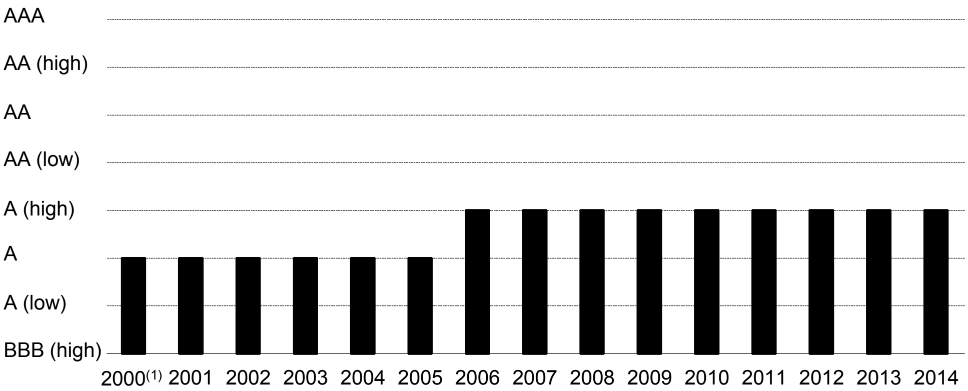


CHART E.18

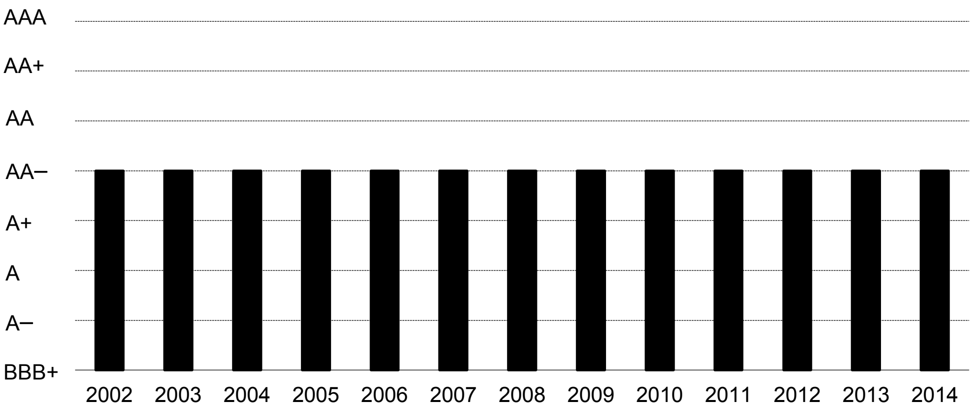
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART E.19

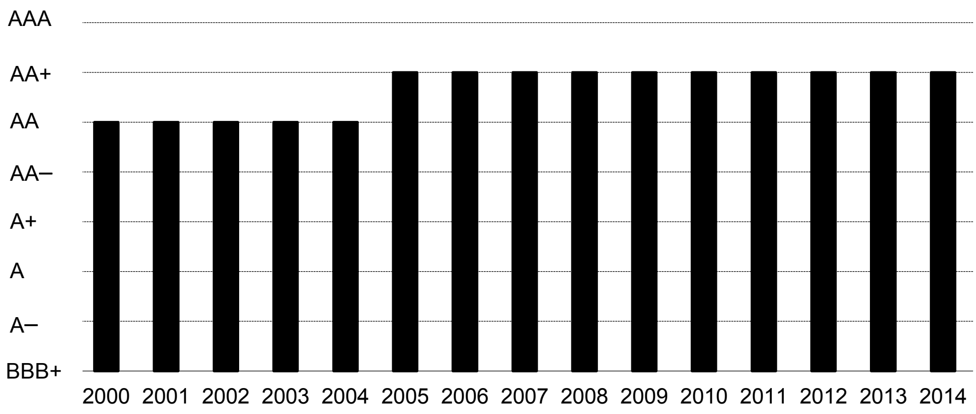
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART E.20

Credit rating assigned to Québec by JCR

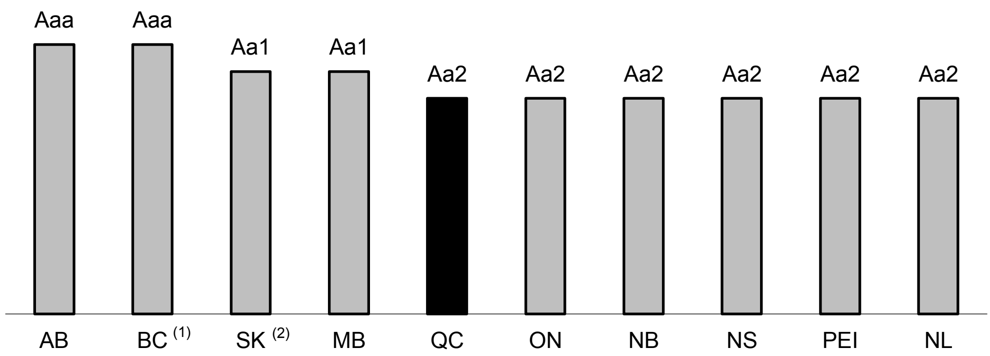


4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces as at May 29, 2014. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART E.21

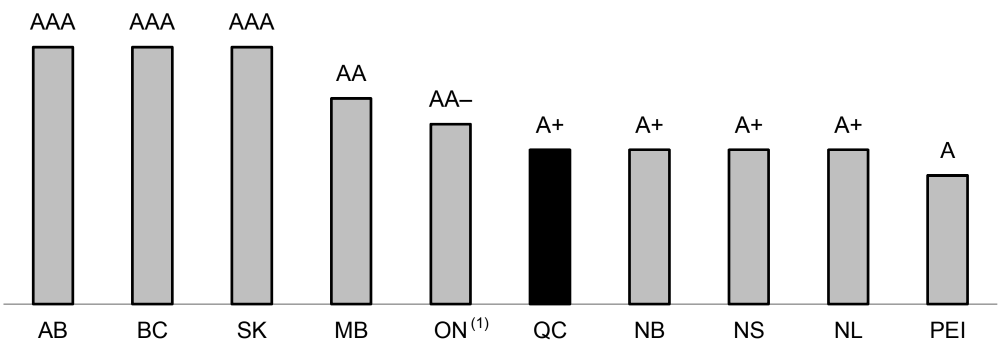
Credit ratings of Canadian provinces – Moody's



(1) Negative outlook.
(2) Positive outlook.

CHART E.22

Credit ratings of Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART E.23

Credit ratings of Canadian provinces – DBRS

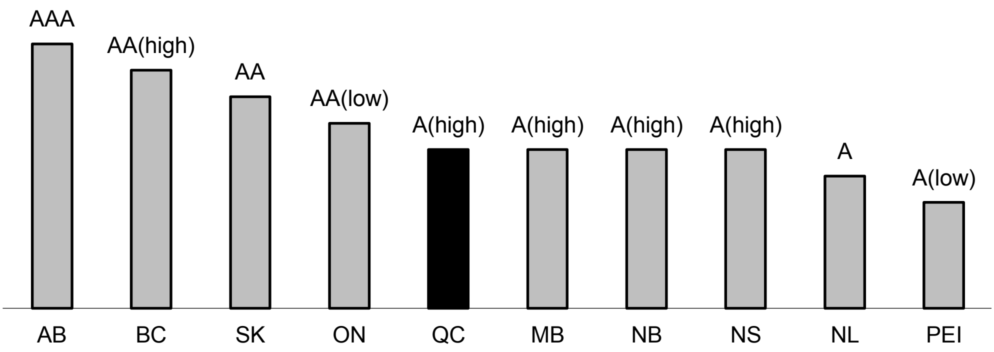
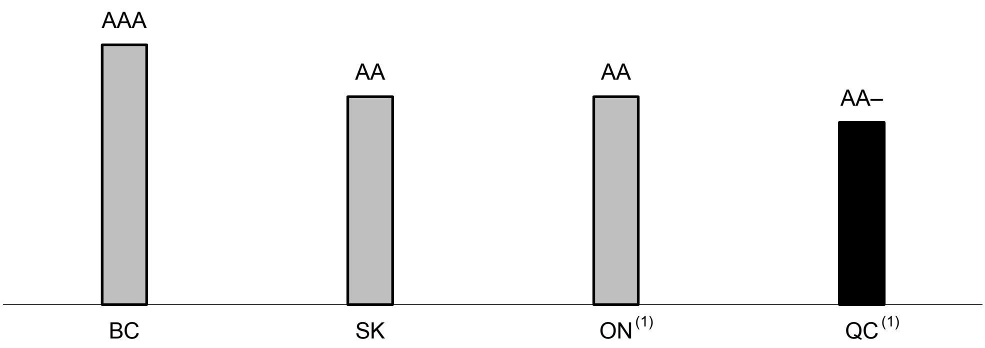


CHART E.24

Credit ratings of Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.
(1) Negative outlook.

Section F

UPDATE ON FEDERAL TRANSFERS

INTRODUCTION

This section provides a detailed description of the principal financial issues at stake between the federal government and Québec. It also presents tables that shed light on certain myths that have been perpetuated concerning federal transfers to Québec.

— The unilateral decisions that were taken by the federal government concerning equalization in 2008 and the Canada Health Transfer (CHT) in 2011 have reduced the financial capacity of the provinces. Québec is proposing gradual solutions to solve these problems.

  — In November 2008, the federal government decided to impose two caps on the equalization program which, since 2009-2010, have cost Québec more than $8 billion.

  — In December 2011, in regard to the CHT, the federal government decided, firstly, to no longer take the value of tax points into account for calculating payments starting 2014-2015 and, secondly, to reduce growth in the CHT starting 2017-2018. These decisions will deprive Québec of nearly $10 billion over the next ten years.

— Moreover, in regard to the new Building Canada Fund, Québec is seeking to quickly reach an agreement to simplify procedures and avoid duplication so as to expedite start-ups for infrastructure projects.

— Finally, certain other financial issues must be settled with the federal government in the short term.

1. FOR A MORE EFFECTIVE EQUALIZATION PROGRAM

1.1 Caps that deflect the program from its objective

In effect from March 2007 to November 2008, the “traditional” equalization program ensure that, after equalization payments were made, each of the recipient provinces would have the same fiscal capacity per capita. However, in November 2008, without consulting the provinces, the federal government modified the program, with the result that disparities in fiscal capacity are no longer fully offset to the average of the ten provinces.

— It should be noted that the capacity to generate revenue varies from province to province. To avoid a situation where the recipient provinces must impose a tax burden higher than the average of the ten provinces in order to offer services that are comparable in quantity and quality, the “traditional” equalization program bridged the gap between their lower fiscal capacity, in per capita dollars, and the average of the ten provinces.

❑ The GDP cap: a zero-sum game

In November 2008, a cap was implemented to restrict the growth in equalization payments to the growth rate of Canada’s nominal GDP. Thus, regardless of the gap in fiscal capacity of the recipient provinces compared to the average of the ten provinces, equalization payments correspond to the amount of the equalization envelope determined by the growth in Canada’s nominal GDP.

— The equalization program thus no longer fully bridges the gap between a recipient province’s fiscal capacity and the average fiscal capacity of the ten provinces.

— For 2014-2015 alone, the GDP cap will deprive Québec of $404 million.

Given that the increase in the equalization envelope is restricted by the growth of Canada’s nominal GDP, it will henceforth function as a closed envelope, resulting in an increase in equalization entitlements of one province necessarily occurs at the expense of those of the other recipient provinces.

This zero-sum game resulting from the closed envelope is contrary to the objective of the equalization program. Consequently, the GDP cap should be removed so that the equalization program can adequately bridge the disparities in fiscal capacity among the provinces and thus function more effectively.

❑ Return to the 2007 individual cap

The "traditional" equalization program took into account an individual cap that avoided the situation where the fiscal capacity of a recipient province, after equalization,[1] becomes greater than that of the least "rich" province not receiving equalization.

— After equalization, the recipient provinces thus had the same fiscal capacity.

However, in November 2008, the federal government replaced this individual cap with another individual cap, as a result of which a province receiving equalization that is "richer" than the average of provinces receiving equalization will have its fiscal capacity after equalization lowered to the average of those provinces.

— With this cap, recipient provinces no longer have the same fiscal capacity after equalization.

— For 2014-2015 alone, this individual cap will generate a shortfall of $686 million for Québec.

In the interests of fairness, a return to the 2007 cap is essential so that the recipient provinces will have the same fiscal capacity after equalization.

1.2 Financial losses for the recipient provinces

The caps imposed on the equalization program have deprived the recipient provinces of payments totalling $18.2 billion between 2009-2010 and 2014-2015, $6.1 billion of which is related to the individual cap and $12.1 billion to the GDP cap.

— Among the provinces receiving equalization payments, Québec is the one most penalized, with 47.4% of total losses, i.e. slightly more than $8.6 billion since 2009-2010.

1 Including 100% of revenue derived from natural resources and protection arising from offshore agreements.

TABLE F.1

Financial losses of the provinces receiving equalization arising from the caps, from 2009-2010 to 2014-2015
(millions of dollars and per cent)

	Individual cap	GDP cap	Total	% of losses
Québec	**4 656**	**3 972**	**8 627**	**47.4**
Ontario	—	6 614	6 614	36.3
Nova Scotia	1 368	480	1 848	10.2
Manitoba	36	617	654	3.6
New Brunswick	9	382	391	2.1
Prince Edward Island	—	72	72	0.4
TOTAL	**6 069**	**12 137**	**18 206**	**100**

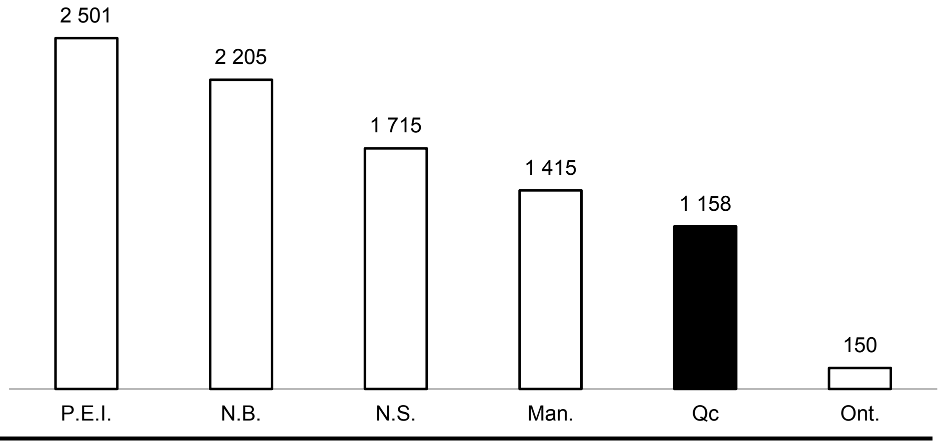
Note: Figures have been rounded off, so the total may not correspond to the total indicated.
Source: Department of Finance Canada.

Myth 1: Québec benefits the most from equalization

Equalization payments are set on a per capita basis. Thus, when the equalization amounts received by Québec in dollars per capita ($1 158) are compared with the amounts received by the other recipients, Québec ranks fifth in 2014-2015.

- Québec receives a large share of the equalization envelope since it is the most populous among recipient provinces (8 million people) after Ontario.

Equalization payment − 2014-2015
(dollars per capita)



Source: Department of Finance Canada.

1.3 A cost below the historic average

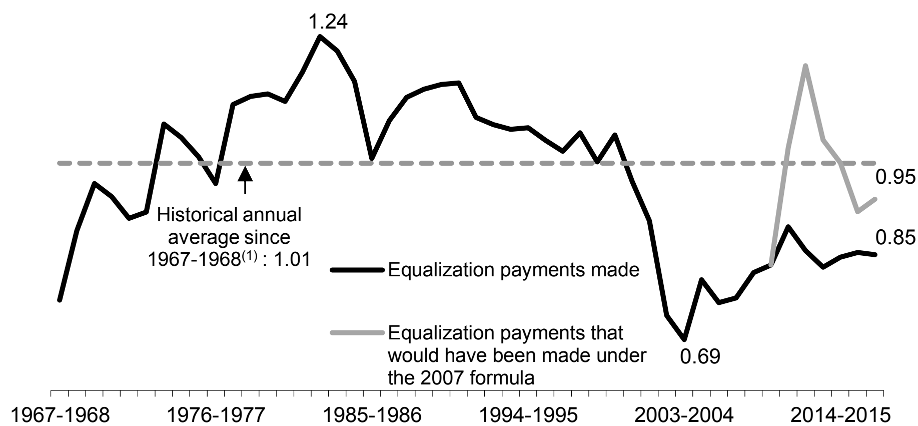
To adequately assess the cost of the equalization program, it must be compared with Canada's nominal GDP. Thus, in 2014-2015, the equalization envelope represents 0.85% of Canada's nominal GDP, whereas the historical annual average from 1967-1968[2] to 2014-2015 is 1.01%.

— This difference represents a shortfall of $3.3 billion in 2014-2015, including $1.1 billion for Québec.

Moreover, it should be noted that if the federal government had maintained the 2007 formula, the cost of the equalization program would have been 0.95% in 2014-2015, i.e. at a level below the historical annual average.

CHART F.1

Equalization as a proportion of Canada's nominal GDP
(per cent)



(1) The historical annual average since 1967-1968 is calculated including the equalization payments that would have been paid according to the 2007 formula as of 2009-2010.
Sources: Department of Finance Canada, Statistics Canada and Ministère des Finances du Québec.

2 The year 1967-1968 corresponds to the implementation of the average of the ten provinces as the standard of comparison among the fiscal capacities of the provinces.

1.4 For a gradual increase

So that the recipient provinces can have the same fiscal capacity per capita after equalization, equalization payments determined under the 2007 formula could be reduced by an equal amount of $82 per capita, and still remain consistent with the current equalization envelope, i.e. $16.7 billion in 2014-2015.

Moreover, to allow a gradual increase in the equalization envelope (which currently represents 0.85% of Canada's nominal GDP) to its historic level of 1.01% of Canada's nominal GDP, an increase of 0.016 percentage point could be applied annually over ten years to narrow the gap, thereby limiting the financial impact for the federal government of a sharp increase in the envelope.

— Such an increase of 0.016 percentage point annually would represent an increase of $13 per capita for each province, i.e. an increase in the total equalization envelope of approximately $330 million in 2014-2015.

CHART F.2

Québec's proposal regarding the equalization formula − 2014-2015
(dollars per capita)

	Fiscal capacity after equalization					
	Current formula	**2007 formula**	**Fair reduction**	**Fiscal capacity after equalization with fair reduction**	**Impact of a gradual increase(1)**	**Total**
Prince Edward Island	7 850	7 900	−82	7 818	13	7 831
Nova Scotia	7 772	7 900	−82	7 818	13	7 831
New Brunswick	7 850	7 900	−82	7 818	13	7 831
Québec	**7 764**	**7 900**	**−82**	**7 818**	**13**	**7 831**
Ontario	7 850	7 900	−82	7 818	13	7 831
Manitoba	7 832	7 900	−82	7 818	13	7 831

(1) By implementing a gradual increase of 0.016 percentage point per year over ten years, the proportion of the equalization envelope (0.85%) could be restored to its historical annual average of 1.01% of Canada's nominal GDP.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

This proposal would achieve the objective of refocusing the equalization program on its role by allowing the recipient provinces to achieve the same fiscal capacity per capita after equalization ($7 831 per capita). In addition, this proposal would enable the cost of the program as a proportion of Canada's nominal GDP to return to its historical annual average by 2024-2025, while limiting the consequences of a sharp increase in the envelope for the federal government.

Myth 2: More generous public services in Québec are financed by the other provinces

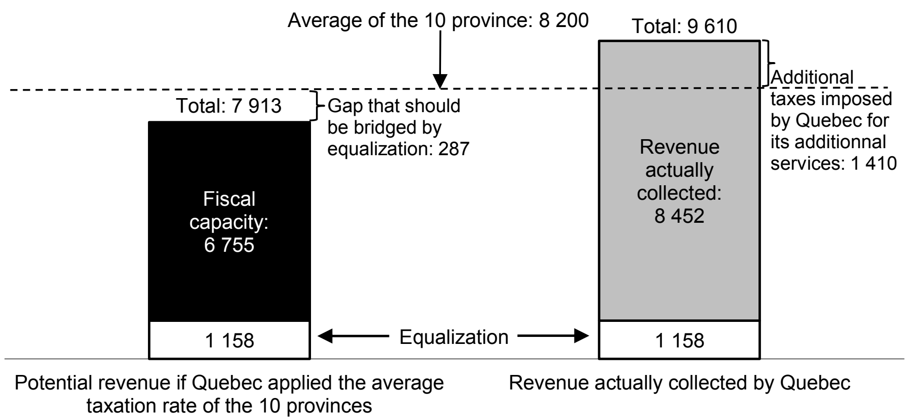
The services that are "supplementary" to the services "comparable" to the Canadian average offered by Québec to its citizens are funded by the supplementary revenue it collects from its level of taxation, which is higher than the Canadian average.

- Note that the equalization program does not require that the provinces offer a comparable level of taxation or similar services: the provinces are free to offer programs that are more or less generous and adjust their taxation level accordingly.
- Moreover, "[e]qualization payments are unconditional — receiving provinces are free to spend the funds according to their own priorities."[1]

Due to the caps imposed on the equalization program since 2009-2010 and because of the exclusion from the program of half the revenue derived from natural resources, Québec must impose a tax burden that is $287 per capita higher ($8 200 − $7 913) than the average of the ten provinces in order to offer a level of services "comparable" to that of the other provinces in 2014-2015. Beyond this "comparable" level of services, Québec has chosen to offer more public services than the Canadian average by raising its tax effort.

To offer these services "in addition" to the services that are "comparable" to the Canadian average, Québec imposes an additional tax burden of $1 410 per capita ($9 610 - $8 200), which represents $11.3 billion. The revenue Québec actually collects therefore totals $8 452 per capita ($6 755 + $287 + $1 410).

Fiscal capacity of and revenue actually collected by Québec − 2014-2015
(dollars per capita)



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

1 Department of Finance Canada. "Equalization Program", www.fin.gc.ca/fedprov/eqp-eng.asp, (consulted on May 26, 2014).

2. FOR A CONCERTED FUNDING OF HEALTH AND SOCIAL PROGRAMS

2.1 Shortfalls in respect of health

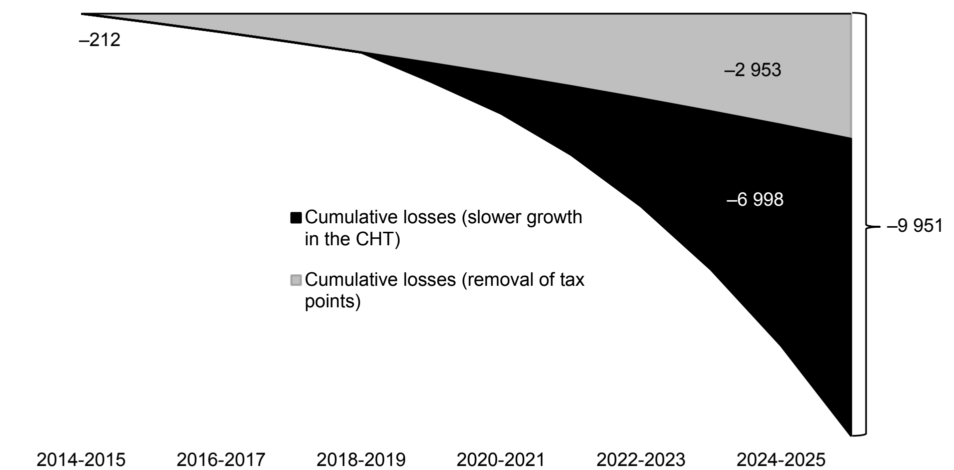
Following the federal government's unilateral decisions in 2011, new rules apply to the Canada Health Transfer (CHT). These changes will entail major financial losses for all the provinces from now to 2024-2025, including nearly $10 billion for Québec.

— Removing tax points from the allocation of the CHT will result in a revenue shortfall of $212 million in 2014-2015, totalling nearly $3 billion by 2024-2025.

— In addition, the downward adjustment in the growth of the CHT starting 2017-2018 will represent a shortfall that will total nearly $7 billion by 2024-2025.

CHART F.2

Impact for Québec of the federal government's changes to the Canada Health Transfer
(millions of dollars)



Source: Ministère des Finances du Québec.

❑ Impacts of the downward adjustment in the growth of the CHT

Starting 2017-2018, the CHT envelope will grow at the same rate as Canada's nominal GDP, subject to a floor of 3%. However, since 2004, the CHT has grown 6% annually.

— This downward adjustment in the growth of the CHT will result in major financial losses for all the provinces, including $7 billion for Québec from 2017-2018 to 2024-2025, i.e. an average loss of $875 million annually.

— On the other hand, the federal government will save an estimated $31.2 billion over the same period.

Changes to CHT that disadvantage the provinces according to the Office of the Parliamentary Budget Officer of Canada

In September 2013, the Office of the Parliamentary Budget Officer of Canada published the *Fiscal Sustainability Report 2013*, which claimed that the federal government's long-term budgetary outlook is more favourable thanks to the GDP cap imposed on the CHT.

> The federal fiscal structure has been transformed from unsustainable in 2011 to sustainable—with substantial fiscal room—largely through spending restraint and reform of the Canada Health Transfer (CHT) escalator. However, the federal fiscal room created by the change in the CHT escalator has transferred the fiscal burden to provinces and territories […].[1]

1 Office of the Parliamentary Budget Officer, *Fiscal Sustainability Report 2013*, September 26, 2013, p. 3, in Publications, on the website of the Office of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en.

❑ Impacts of an envelope allocated on an equal per capita basis

As of 2014-2015, the value of the tax points transferred to the provinces in 1977 is no longer taken into account in calculating the CHT. The envelope is therefore allocated on an equal per capita basis. For the federal government, the change in the CHT will cost nothing since it simply changes how the envelope is allocated between the provinces.

— Before 2014-2015, the CHT consisted of a cash transfer and a transfer of tax points whose total (total entitlements) was allocated on a per capita basis. Including tax points in the allocation of the CHT envelope would enable those provinces for which the value of their tax points is lower to receive a higher cash transfer. The CHT thus included a redistributional effect.

All the provinces except Alberta will experience a significant shortfall as a result of this change, including nearly $3 billion by 2024-2025 for Québec, i.e. an average of $268 million annually.

❑ Changes to the protection payment

The federal government also indicated in December 2011 that it would pay a protection payment, so that no province will receive a lower CHT from one year to the next compared to the transfer for 2013-2014.

— Only Newfoundland and Labrador receives such a protection payment of $13 million in 2014-2015, since its CHT revenue declined between 2013-2014 and 2014-2015. Thereafter, no province will be eligible for such a payment.

However, in its 2007 budget,[3] the federal government made a commitment to make a more generous 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. The new method announced in 2011 is very different from the 2007 method.

— Based on the 2007 approach, the provinces would have received a protection payment estimated at $936 million in 2014-2015, including $212 million for Québec, which corresponds to the estimated loss between an equal per capita transfer and a transfer taking into account the value of tax points.

TABLE F.3

Impacts for Québec of changes to the CHT
(millions of dollars)

	2014-2015	2017-2018	2020-2021	2024-2025	Cumulative
Decline in growth	—	−140	−694	−1 793	−6 998
Equal per capita allocation	−212(1)	−245	−277	−332	−2 953
TOTAL	**−212**	**−385**	**−971**	**−2 125**	**−9 951**

(1) Had the 2007 federal government commitment been maintained, Québec would receive a protection payment of $212 million in 2014-2015 to offset any loss.
Source: Ministère des Finances du Québec.

3 DEPARTMENT OF FINANCE CANADA. The Budget Plan 2007: Aspire to a Stronger, Safer, Better Canada, March 19, 2007, p. 115.

2.2 More adequate federal funding of health spending

Until the mid-1970s, the federal government covered 50% of the eligible spending of the provinces on health, post-secondary education and social services. In 2013-2014, the share of the CHT in health spending by the provinces represented only 22.2%. That share will only decrease in the coming years due to the implementation of a GDP cap on the CHT starting 2017-2018.

— The *Fiscal Sustainability Report 2013*[4] of the Office of the Parliamentary Budget Officer indicates that the CHT will amount to an average of 17.9% of health spending by the other orders of government[5] during the period from 2012-2013 to 2036-2037 and an average of 13.7% over the subsequent 25 years.

— A study[6] conducted in 2013 by the Society of Actuaries and the Canadian Institute of Actuaries indicates that with this GDP cap on the CHT, the federal government will fund a much lower share of health spending of the provinces and territories in 2037, i.e. 14.3%.

In a context where the provinces are making significant efforts to limit the growth in their health spending, the health funding derived from the CHT should be gradually increased so that it will reach 25% of the provinces' health spending within ten years, i.e. to a level comparable with that of 1977-1978. In this regard, it is worthwhile noting:

— 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 at the February 2004 meeting of the Council of the Federation, the Premiers had asked the federal government to restore its contribution to 25% of the provinces' health spending.[7]

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4 Office of the Parliamentary Budget Officer. *Fiscal Sustainability Report 2013*, September 26, 2013, in Publications, on the website of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en.

5 The other orders of government are the provincial and territorial governments, local and Aboriginal public administrations.

6 Society of Actuaries and Canadian Institute of Actuaries. *Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer*, September 2013.

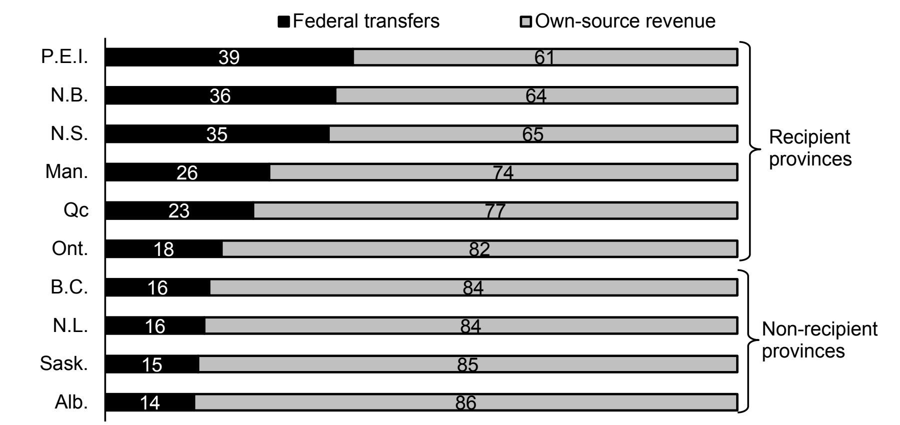
7 Council of the Federation, "Council of the Federation Sets Course for First Ministers' Health Summit". [Communique], February 24, 2004, in Newsroom on the website of the Council of the Federation, www.councilofthefederation.ca.

Myth 3: Québec receives a higher proportion of federal transfers

In 2014-2015, more than three quarters of Québec's budgetary revenue consists of own-source revenue (for example: personal and corporate income tax, consumption taxes and royalties). The remainder, 23%, comes from federal transfers.

- With the exception of Ontario, all the provinces receiving equalization have a larger share of federal transfers in their budgetary revenue than Québec, ranging from 39% for Prince Edward Island to 26% for Manitoba.

Federal transfers and own-source revenue as a proportion of total provincial revenue − 2014-2015
(per cent)



Note: Excludes Québec's special abatement.
Sources: Provincial budgets and Ministère des Finances du Québec.

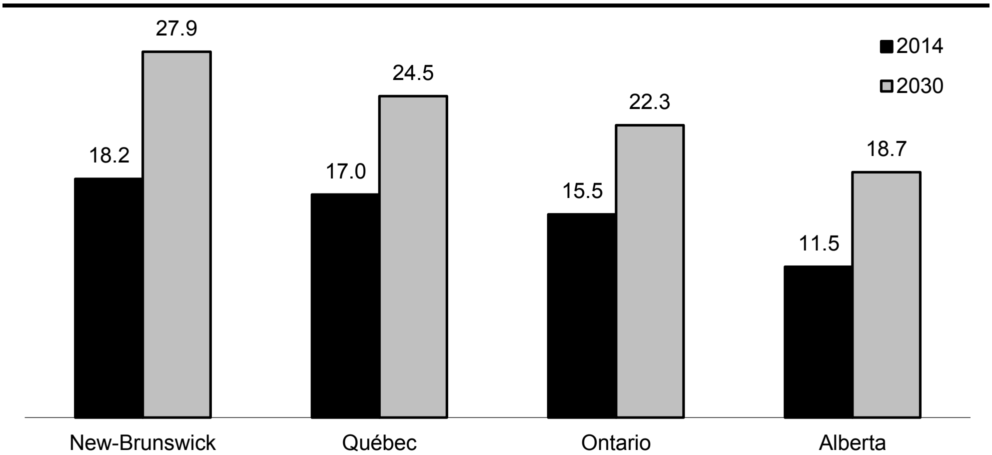
❑ A Canada Health Transfer that takes into account the demographic reality

In addition to having to face slower growth in the federal health contribution, several provinces will be confronted with strong financial pressure resulting from demographic changes.

— The aging of the population will be more pronounced in some provinces than in others, as the following chart shows. In Québec, according to forecasts, the proportion of persons aged 65 and over should rise from 17% to 24.5% between 2014 and 2030.

CHART F.3

Population share of persons age 65 and over in certain provinces
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

According to certain studies, it costs five to six times more to care for persons age 65 and over than for those under age 65.

— As indicated in a report by the Organization for Economic Cooperation and Development (OECD) published in 2012,[8] given the fact that it costs on average six times more to care for persons age 65 and over, an equal per capita allocation of the CHT would favour provinces with a younger population at the expense of those faced with faster aging of their population.

— An analysis published in *Policy Options* in 2012[9] noted that it costs on average five times more to care for a person age 65 and over than for a person under age 65 and proposed that the allocation of the CHT should take into account the demographic weight of persons age 65 and over.

8 OCDE. OECD Economic Surveys: Canada, June 2012, p. 17.

9 Jean-Pierre AUBRY, Pierre FORTIN and Luc GODBOUT. “Revoir le transfert fédéral en santé pour tenir compte du poids démographique des aînés”, in Policy Options, June-July 2012, p. 102-106.

In addition to being confronted by an increase in health spending, these same provinces will face a decline in their revenues due to the reduction of their potential labour pool (age 15 to 64).

Consequently, a CHT allocation that ignores the demographic weight of persons age 65 and over not only penalizes the provinces whose population is aging, but also advantages the provinces whose population is younger and whose revenues are likely to grow.

In this context, it is unacceptable not to take into account demography in the CHT allocation.

Québec therefore demands that the CHT take into consideration the demographic distribution of persons age 65 and over in each province.

2.3 An increase in federal funding for social programs

As part of the 2014 renewal of federal transfers, the federal government decided to maintain the annual indexing factor of the Canada Social Transfer (CST)[10] at 3% for the coming years. In this way, the CST envelope, taking into account inflation, will remain below the level established before the federal cuts in the mid-1990s.

— It should be recalled that, at its August 2005 meeting in Banff (Alberta), the Council of the Federation[11] asked the Prime Minister of Canada to immediately restore the CST to its 1994-1995 level.

— This request was prompted by the fact that, over the preceding ten years, the provinces and territories had increased their spending for post-secondary education and vocational training, but that during this period federal transfers for post-secondary education under the CST had not kept pace with needs.

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10 The CST is a federal transfer paid as a block to provinces and territories to support a portion of their expenditures in the following sectors: post-secondary education, social assistance and social services, early childhood development, early learning and childcare.

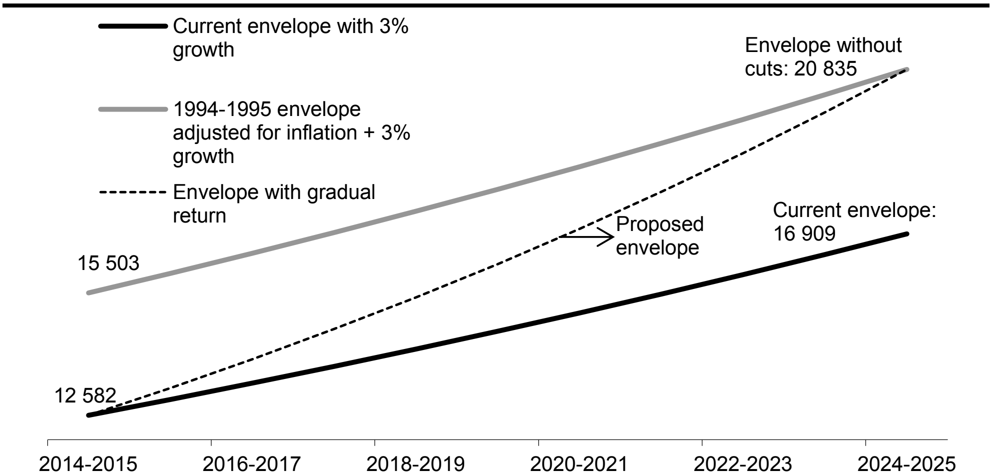
11 COUNCIL OF THE FEDERATION, *Communiqué – August 12, 2005*, in Newsroom on the website of the Council of the Federation, www.councilofthefederation.ca.

❑ Gradually narrowing the gap

To avoid a sudden $2.9 billion increase in 2014-2015, which corresponds to the difference between the current envelope and an envelope restored to the higher 1994-1995 level taking into account inflation, the federal government could gradually narrow the gap over ten years in the same way as with Québec's equalization proposal. Narrowing the gap in this way would correspond to an increase of approximately $3.9 billion in the envelope for Canada as a whole by the end of the ten-year period, including approximately $875 million for Québec.

CHART F.4

Gradual return of the Canada Social Transfer to its 1994-1995 level taking into account inflation
(millions of dollars)



Source: Ministère des Finances du Québec.

Finally, Québec is seeking to discuss proposals with the other provinces and the federal government in order to arrive at lasting solutions intended to secure an adequate funding for health and social programs benefiting all Canadians.

3. URGENT NEED TO REACH AGREEMENTS ON INFRASTRUCTURES

3.1 A plan that should be brought forward quickly

In March 2013, the federal government announced the new Building Canada Plan (BCP) for the period 2014-2015 to 2023-2024, following up on the 2007-2014 BCP whose main infrastructure programs ended on March 31, 2014.

— The new BCP, with $47.5 billion in new funds covering a ten-year period for Canada as a whole, consists of a number of programs with different methods for allocating funds to the provinces.

— Among the components of the BCP are the Provincial-Territorial Infrastructure Component ($10 billion), the National Infrastructure Component ($4 billion) and the Gas Tax Fund ($21.8 billion).

In February 2014, the federal government for the first time provided the provinces with certain information concerning the first two components mentioned above, including the share of funding allocated to them and certain program parameters.

— Under the Provincial-Territorial Infrastructure Component, Québec will receive $1.77 billion over ten years, representing 18.4% of the total envelope, i.e. less than its demographic share of 23.1%. Under the National Infrastructure Component, there is no share reserved for Québec since the funding will be allocated for projects on a merit basis. The provinces will thus be in competition against one another.

— Concerning the program parameters, the federal government has maintained the same approach taken in 2007 involving piecemeal negotiation of dozens of agreements. Moreover, the federal government wishes to exclude certain categories of projects from both components (culture, tourism, sports, recreation, local road work), even though such projects stimulate development and economic growth.

In regard to the Gas Tax Fund, negotiations have been ongoing since November 2013 to reach a new agreement with the federal government. Québec is confident that it will soon arrive at an agreement that is satisfactory for both parties.

TABLE F.4

Sums reserved for Québec under the Building Canada Plan 2014-2024
(millions of dollars)

	Canada	Québec
Gas Tax Fund	**21 800**	**4 995**
Building Canada Fund		
Provincial-Territorial Infrastructure Component	**10 000**(1)	**1 770**
National/Regional Projects Fund	8 678	1 593
Small Communities Fund	964	177
National Infrastructure Component	**4 000**(1)	**—**(3)
P3 Canada Fund	**1 250**	**—**(4)
TOTAL	**37 050**(2)	**6 765**

(1) An amount of $357.6 million under the Provincial-Territorial Infrastructure Component and another of $137.8 million under the National Infrastructure Component will be used by the federal government for management fees.
(2) Including the additional GST rebates for municipalities ($10.4 billion), the new federal infrastructure funds represent $47.5 billion. The total presented in the table does not take the rebates into account since the Québec government cannot access those funds to carry out infrastructure projects.
(3) Québec is asking for its demographic share, which would represent $924 million.
(4) Québec is asking for its demographic share, which would represent $289 million.
Sources: Infrastructure Canada and Ministère des Finances du Québec.

3.2 Québec's expectations in regard to the Building Canada Fund and the P3 Canada Fund

The Québec government intends to continue discussions with the federal government in order to quickly reach a comprehensive agreement to set up a streamlined method for payment of the funding to be allocated to it under the Building Canada Fund 2014-2024. While ensuring that projects are carried out under Québec's control and in compliance with its jurisdictions, this streamlined method must also make it possible to simplify procedures and avoid duplication so as to expedite project start-ups.

Moreover, Québec expects that its share of federal funding reserved for infrastructures will go to support the priorities established in the Québec Infrastructure Plan (QIP).

— Whereas the new BCP has $47.5 billion in new funds for the period 2014-2024 for all the provinces and territories, the QIP envelope is nearly double that amount, with $90.3 billion over the same period.

— Once the funds under the new BCP are apportioned among the provinces on a per capita basis, it becomes apparent that Québec is investing eight times more money than the federal government for the entire period.

Concerning the new federal requirement to submit any project priced at $100 million or over to a procurement options analysis in order to determine whether it should be carried out under the public-private partnership model, Québec expects that the conclusions thereby determined will be respected and that the expected funding will be granted.

4. OTHER ISSUES TO BE SETTLED IN THE SHORT TERM

In addition to Québec's positions set forth above regarding the equalization program, the CHT, the CST and infrastructures, Québec is seeking to settle certain other issues in the short term.

4.1 Reconstruction of downtown Lac-Mégantic

The hauling of dangerous freight and the security of rail transport are federal responsibilities. The federal government must therefore adequately support the decontamination and reconstruction efforts already under way.

— Québec expects the federal government to contribute its fair share of the costs related to the decontamination and reconstruction of downtown Lac-Mégantic.

4.2 Hydro-Québec's dividends

Since 2008, under the equalization program, the federal government has considered the dividends paid by Hydro One, an Ontario government-owned corporation that transmits and distributes electricity, as part of the corporate income tax base rather than the natural resources base, the category under which Hydro-Québec's dividends are treated.

However, a large share of Hydro-Québec's dividends is derived from its transmission and distribution activities and is still treated as part of the natural resources base. As a result, similar income sources are treated differently.

— Treating Hydro-Québec's dividends as part of the natural resources base rather than the corporate income tax base deprives Québec of more than $330 million each year.

Québec demands that the federal government grant fair treatment to Hydro-Québec's dividends in the short term.

4.3 Protection payments

Between 2010-2011 and 2013-2014, the federal government paid protection payments to offset the shortfall for any province where the total of its principal transfers (CHT, CST and equalization) decreased compared to the preceding year.

— Québec obtained protection payments twice: a payment of $369 million in 2011-2012 and a payment of $362 million in 2012-2013.

For 2014-2015 and subsequent years, the federal government ended protection payments, saying they were a temporary measure adopted in response to the effects of the global economic slowdown. However, as long as caps are maintained in the equalization program, such protection payments must be maintained.

4.4 Revenue stabilization program

Under the revenue stabilization program, the Québec government determined that it qualified for a stabilization payment of $127 million for 1991-1992 and filed suit against the federal government after being denied the payment.

— In force since 1967, the revenue stabilization program allows a province to qualify for federal compensation when it suffers a decline in its revenue because of the economic situation that is unrelated to changes in the province's tax structure.

Despite two decisions in favour of Québec by the Federal Court and the Federal Court of Appeal in 2007 and in 2008 respectively, the federal government has made no payment to Québec. A quick resolution of this issue, which has dragged on for nearly twenty years, is expected.

CONCLUSION

The federal government must take certain corrective measures in regard to the decisions made respecting federal transfers. In this regard, Québec proposes:

— to bring back the 2007 equalization formula and to gradually restore, over ten years, the equalization envelope to its historical level as a proportion of Canada’s nominal GDP;

— to increase the federal financial contribution to 25% of the provinces’ health spending over ten years and to take into account the demographic weight of persons age 65 and over in the allocation of the CHT;

— to raise the level of the CST envelope, gradually over ten years, to that of 1994-1995, taking into account inflation.

Moreover, Québec is seeking to come to agreement in the short term with the federal government on certain issues that have dragged on too long, as well as on the terms of a comprehensive agreement providing for a streamlined method for payment of the funding that will be granted to it under the Building Canada Fund 2014-2024.

Section G

THE FIGHT AGAINST TAX EVASION AND UNREPORTED WORK

INTRODUCTION

For a number of years, the government has been stepping up the fight against tax evasion and unreported work in every sphere of the economy where the risk is high. Among other things, these efforts improve fairness for taxpayers who pay their full taxes, and clean up practices in certain sectors of economic activity.

Despite the many initiatives implemented by the government, tax evasion, money laundering, collusion and corruption persist in our society. The government is therefore announcing the implementation of new initiatives aimed, in particular, at:

- improving tax auditing in the construction sector;
- ensuring a greater presence in certain at-risk sectors;
- installing sales recording modules (SRMs) in bars and resto-bars;
- expediting penal case management.

These new initiatives will increase revenues by more than $110 million a year as of 2014-2015.

TABLE G.1

Revenue increase related to the new measures to fight tax evasion and unreported work
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Improved auditing in the construction sector	16	21	21
Greater presence in certain at-risk sectors	50	50	50
Installation of SRMs in bars and resto-bars	25	42	42
Expediting of penal case management and other actions	20	20	20
TOTAL	**111**	**133**	**133**

Source: Ministère des Finances du Québec.

1. THE FIGHT AGAINST TAX EVASION AND UNREPORTED WORK IN THE CONSTRUCTION SECTOR

Despite the many initiatives implemented in the past several years, such as the creation of ACCES[1] construction[2] in 2004, the construction sector continues to be the sector where tax losses are the highest.

— Tax losses in this sector represent $1.5 billion annually, that is, over 40% of total estimated tax losses for Québec.

— These losses stem in large part from unreported hours worked.

— This estimate does not take into account losses from false-billing fraud, collusion, corruption and misappropriation of funds.

Consequently, the government will continue its efforts to fight tax evasion and unreported work in this important sector of the economy.

— In 2013, public and private capital spending in Québec's construction sector totalled a little over $48 billion, accounting for nearly 13% of gross domestic product (GDP).

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1 Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

2 ACCES construction brings together several government departments and bodies, such as the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail, Revenu Québec, the Directeur des poursuites criminelles et pénales and the Canada Revenue Agency.

1.1 New measures to fight tax evasion and unreported work

The government is announcing the introduction of new measures to fight tax evasion and unreported work in the construction sector, in particular:

— implementation of the attestation from Revenu Québec respecting private construction sites;

— closer monitoring of at-risk registrations for the Québec sales tax;

— improved means of identifying contractors in violation of the law;

— increased evening and weekend inspections;

— raising awareness in the construction sector.

1.1.1 Implementation of the attestation from Revenu Québec respecting private construction sites

The tax debts—outstanding amounts of income tax and other taxes—of companies in the construction sector were estimated at over $600 million in 2009-2010.

Given these high debts, and in order to curtail tax evasion, the government is announcing that the requirements relative to the attestation from Revenu Québec for public contracts will also apply to private construction contracts of $25 000 or more.

The attestation respecting public contracts is a measure that has proven itself, by enabling Revenu Québec to recover more than $142 million in tax debts since its implementation.

— An attestation of tax compliance issued by Revenu Québec for the purpose of entering into a contract over $25 000 with a government department, a public body, a state-owned enterprise or a municipality was implemented on June 1, 2010.

— The measure worked well, in particular because it is easy to obtain the attestation from Revenu Québec, whether the applicant is a services business, a construction contractor, a supplier for public contracts, or a public sector body.

❑ How the attestation works

As of January 1, 2015, contractors will be required to obtain an attestation from Revenu Québec and provide it to the recognized client before entering into certain private construction contracts. These requirements will apply:

— where the cumulative amount of contracts between a recognized client and a given contractor exceeds $25 000 in a calendar year;

— to all levels of subcontracting.

A contractor can be both a recognized client and a subcontractor, and must meet the respective requirements of these statuses.

The recognized client will be required to validate, on Revenu Québec's website, the authenticity of the attestation obtained from the contractor.

The attestation from Revenu Québec will be valid for contracts entered into during a 90-day period as of the date on which it is issued.

— At the end of the 90-day validity period, the contractor will be required to obtain a new attestation from Revenu Québec in order to enter into new contracts.

❑ Persons or entities subject to the measure

The attestation from Revenu Québec for private construction sites applies to contractors and recognized clients operating a business. For the purposes of the attestation, the following persons, in particular, are subject to the measure:

— a contractor who holds a valid licence from the Régie du bâtiment du Québec and who is hired for a construction contract;

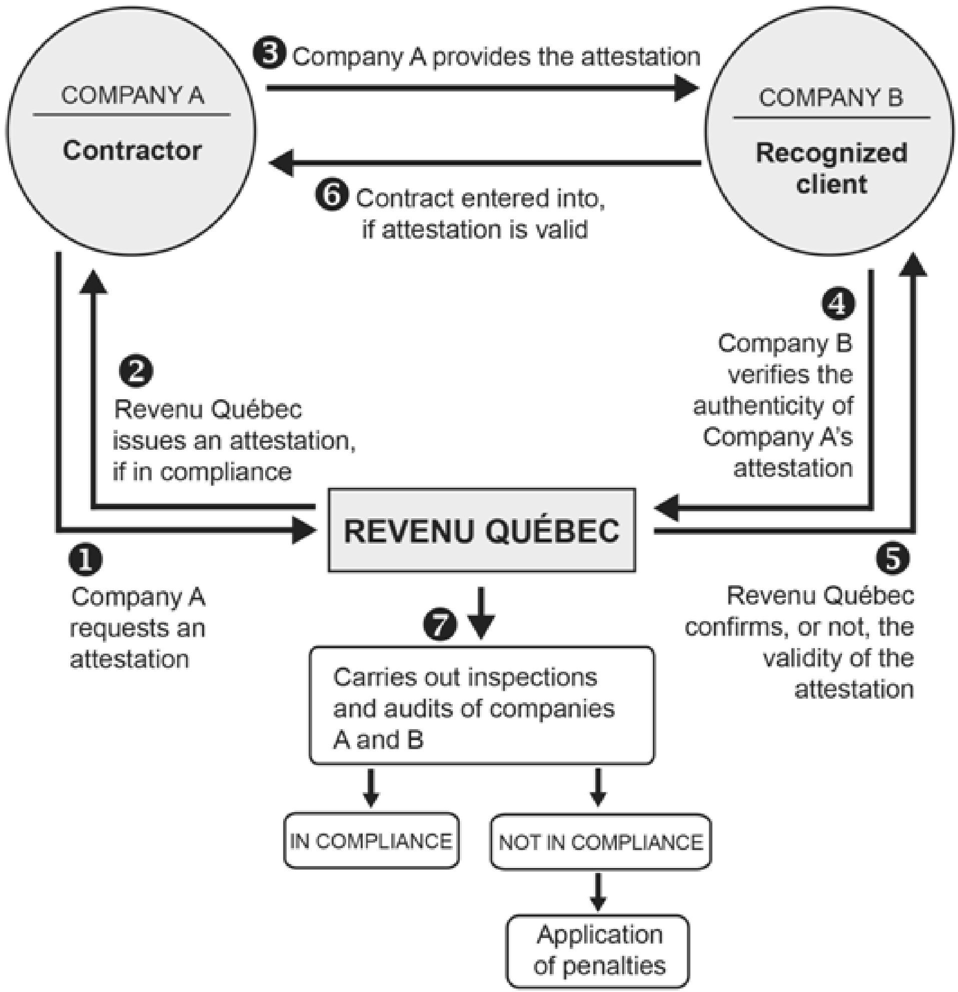
— a recognized client who is a registrant within the meaning of the *Act respecting the Québec sales tax*[3] and who holds a valid licence from the Régie du bâtiment du Québec, other than a government department, public body, state-owned enterprise, or municipality, who enters into a contract with a construction contractor holding a valid licence from the Régie du bâtiment du Québec.

Contracts entered into with individuals or with businesses that are not in the construction sector are therefore excluded.

3 CQLR, chapter T-0.1.

ILLUSTRATION G.1

How the attestation from Revenu Québec works respecting private construction site, where the cumulative amount of contracts exceeds $25 000



Source: Revenu Québec.

❑ A quick and easy process

To fight tax evasion, the government will implement audit measures while ensuring it does not needlessly add to the administrative burden of businesses.

The process for obtaining an attestation from Revenu Québec online has the advantage of being quick and easy for contractors who meet all the conditions for issuing one. The same is true for recognized clients with respect to authenticating the attestation from Revenu Québec received from a contractor.

— It takes less than ten seconds for a contractor to obtain an attestation.

— Authenticating the contractor's attestation with Revenu Québec takes less than one minute.

Many construction companies are familiar with the process for obtaining an attestation from Revenu Québec, because they already perform contracts for various public sector bodies, such as government departments, state-owned enterprises, and municipalities.

Through this measure, Revenu Québec will:

— ensure better tax compliance by companies in the construction sector;

— reduce tax debts in the construction sector;

The application details of this measure will be announced at a later date, after consultation with representatives from the construction sector.

1.1.2 Closer monitoring of at-risk registrations for the Québec sales tax

False-billing fraud generates cash for use in collusion, corruption and payment of unreported work, such as unreported overtime.

— Such fraud enables a company registered for the Québec sales tax (QST) to fraudulently claim input tax refunds (ITRs) using fake invoices.

The government is announcing that, to more effectively identify companies that commit such fraud, Revenu Québec will monitor at-risk registrations more closely by:

— increasing the number of companies audited in the construction sector;

— improving selection criteria for at-risk files;

— inspecting and auditing certain companies to ensure they actually carry out economic activities.

Closer monitoring of at-risk registrations will enable Revenu Québec to:

- more readily identify at-risk companies or companies likely to engage in false-billing fraud, and thus cancel their registration for the QST;
- reduce the number of companies that do not carry out genuine activities;
- curtail fraudulent ITR claims.

1.1.3 Improved means of identifying contractors in violation of the law

Construction contractors occasionally bid, or carry out construction work or cause it to be carried out, without holding a valid licence from the Régie du bâtiment du Québec or, if they hold one, they are unqualified for the type of work performed. In so doing, these contractors:

- are likely to engage in tax evasion and unreported work;
- expose Quebecers to various types of prejudice, such as poor workmanship.

The government is announcing that, to improve the means of identifying contractors in violation of the law, the Régie du bâtiment du Québec will use more site reports from the Commission de la construction du Québec.

For 2014-2015, the Régie du bâtiment du Québec plans, first, to increase the number of site reports processed in the Montréal region. These reports will enable the compliance of nearly 1 000 additional contractors to be determined.

Subsequently, in 2015-2016, the number of site reports processed for all other regions of Québec will also be increased.

The Régie du bâtiment du Québec will thus be able to:

- optimize the intervention of its investigators;
- process more site reports from the Commission de la construction du Québec;
- identify more contractors carrying out work without a licence, by detecting at least 800 additional offences;
- monitor construction contractors more closely.

Contractors that perform construction work without a valid licence from the Régie du bâtiment du Québec may be fined from $5 290 to $158 700.[4]

4 *Building Act* (CQLR, c. B-1.1), s. 197.1.

1.1.4 **Increased evening and weekend inspections**

In summer 2013, representatives from the construction sector briefed the government on the scale of the issue of unreported hours worked in evenings and on weekends.

The action taken in the past year confirmed the issue.

Revenu Québec, the Commission de la construction du Québec and the Régie du bâtiment du Québec will increase the number of their inspections and checks of large construction sites, new construction sites and residential renovation sites in evenings and on weekends.

This will result in the detection of unreported work, including unreported overtime and unlicensed work.

1.1.5 **Raising awareness in the construction sector**

Unreported work in the construction sector can seem an attractive option to workers.

Indeed, they see agreeing to be paid in cash and not reporting their income as a fast way to get ahead financially. However, they are depriving themselves of vacation days, social protection in the event of illness or job loss, and the opportunity to accumulate recognized hours of experience.

Consequently, some construction workers do not realize how much unreported work affects their fringe benefits.

Hours worked and reported to the Commission de la construction du Québec are an important factor in determining:

— the insurance coverage provided under the MÉDIC Construction plan;

— contributions to the construction workers' pension plan;

— when a construction worker is eligible to retire.

Through ACCES construction, the government will use various means of communication to provide workers with more information on the negative consequences of unreported work on their fringe benefits.

1.2 Summary of ACCES construction results

For 2013-2014, the actions of ACCES construction led to:

- the recovery of approximately $400 million;
- the levying of $5.4 million in fines, that is, $1.5 million in tax-related fines and $3.9 million in penal fines;
- over 6 700 convictions for unreported work under the *Act respecting labour relations, vocational training and workforce management in the construction industry*[5] (statute R-20) and the *Building Act*.[6]

TABLE G.2

Summary of results in the fight against tax evasion and unreported work in the construction sector
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014(1)
Tax component				
Tax recovery	221.6	314.7	402.3	396.7
Fines	0.4	1.2	1.0	1.5
Penal component				
Offence reports (units)	9 820	10 091	10 378	12 342
Convictions (units)	8 096	8 418	8 527	6 744
Fines	3.7	3.9	4.4	3.9

Note: The results shown in the penal component relate to offences under statute R-20 and the *Building Act*, solely for unreported work.
(1) Preliminary results as of March 31, 2014.
Sources: Commission de la construction du Québec, Revenu Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances du Québec.

5 CQLR, chapter R-20.

6 CQLR, chapter B-1.1.

2. TAX AUDITS BY REVENU QUÉBEC

Revenu Québec's mission is to ensure that all taxpayers pay their fair share of funding for public services and to collect revenue owing to the government.

To that end, Revenu Québec must:

— foster voluntary tax compliance by ensuring quality services for taxpayers and simplifying the process for filing tax returns;

— design innovative approaches and make use of new technologies to encourage non-compliant taxpayers to follow the tax rules.

To achieve these objectives, Revenu Québec must conduct regular tax audits, making it necessary to constantly rethink its procedures. New measures will therefore be implemented in 2014-2015.

2.1 New tax audit measures

Determined to fight tax evasion even more effectively, the government is announcing the implementation of new tax audit measures.

2.1.1 Ensuring a greater presence in certain at-risk sectors

In recent years, Revenu Québec has stepped up its tax audit activities respecting at-risk strategic economic sectors, such as construction, trusts, real estate and financial markets.

The government is announcing that Revenu Québec will now step up its tax audits in these sectors, respecting individuals who present a higher risk of tax losses, using targeted audit methods.

These interventions will be carried out in all regions of Québec and will result in the recovery of an additional $50 million in taxes annually.

Through this measure, Revenu Québec will:

— ensure a greater presence in certain at-risk sectors, with a view to increasing compliance;

— more readily identify taxpayers likely to create high tax losses for the government.

Examples of interventions by Revenu Québec in certain at-risk sectors

In recent years, the government has announced various tax audit measures. As a result, Revenu Québec has recovered substantial amounts of tax.

Large worksites

In 2010-2011, the government announced that Revenu Québec auditors would be present on an ongoing basis on 50 large public worksites. In 2012-2013, Revenu Québec doubled its presence on large public worksites and broadened its interventions to include large private worksites. These initiatives fostered an increase in self-assessment by businesses, representing over $110 million as at March 31, 2014.

Projet Resto

The sales recording module technology, which became mandatory in all Québec restaurants on November 1, 2011, is a concrete example of an innovative tax audit measure. The project fosters tax compliance by companies and leads to increased self-assessment. Nearly 20 000 restaurant establishments are subject to the measure further to its implementation. The project has reduced tax evasion by over $670 million.

2.1.2 Installation of sales recording modules in bars and resto-bars

Given the success of Projet Resto, in which the sales recording module (SRM) technology facilitates tax compliance and makes for more efficient inspections and investigations, the government is announcing that SRMs will be installed in bars and resto-bars as of June 1, 2015.[7]

This measure is therefore the logical extension of their installation in the restaurant sector.

— Overall tax losses for bars and activities of resto-bars not covered by the measures currently applicable in the restaurant sector are estimated at over $75 million a year.

— Approximately 6 100 establishments, that is, nearly 3 300 bars and 2 800 resto-bars, will be required to use an SRM.

7 Installation will be carried out in accordance with the *Canada-Québec Comprehensive Integrated Tax Coordination Agreement.*

The measures associated with the installation of SRMs in the restaurant sector also apply to bars and resto-bars. These are:

— the requirement to give customers a bill;

— the requirement to produce bills using an SRM;

— increased inspection activities;

— a campaign to raise customer awareness about the importance of having their bill in hand before leaving an establishment.

To support bar and resto-bar owners who will be required to use SRMs, the government will bring in a subsidy program to fund the acquisition, installation and updating of the equipment necessary for their installation. The program will be similar to the one available as part of Projet Resto.

The particulars of the installation of SRMs in the bar and restor-bar sector will be specified at a later date.

Through this measure, Revenu Québec will:

— reduce the rate of sales under-reporting in the bar and resto-bar sector;

— foster healthy competition;

— increase government revenues.

Revenu Québec estimates the associated revenues at almost $40 million a year as of 2015-2016.

2.1.3 Implementation of the attestation from Revenu Québec for employment agencies

Certain unreported-work networks sometimes set themselves up as employment agencies. The leaders of these networks exploit workers who often know little about their rights, in particular by:

— sometimes paying workers less than minimum wage;

— not complying with labour standards;

— depriving workers of social protection in the event of illness or job loss.

In addition, this stratagem enables them, in particular, to evade source deductions and social contributions paid by workers.

The government is announcing the following terms and conditions relative to this measure.

— The attestation from Revenu Québec[8] will be mandatory beginning on January 1, 2015, where the cumulative amount of the contracts between the client company and a particular employment agency exceeds $2 500 in the calendar year.

The other application details of the measure will be announced at a later date, after consultation with representatives from the sector.

8 See Illustration G.1 for further details on how the attestation from Revenu Québec works.

Persons or entities subject to the measure
An employment agency is any person or entity who offers placement services to client companies with temporary labour needs, in return for a fee or another form of remuneration. Employment agencies are active in many sectors of the economy: – crop farming – wholesale trade – food manufacturing – slaughter and processing of animals – food product wholesalers-distributors

Through this measure, Revenu Québec will:

- ensure greater compliance by employment agencies;
- increase tax debt recovery;
- curtail unreported work.

2.2 Tax recovery results and targets for 2014-2015 and 2015-2016

In the past several years, Revenu Québec has stepped up the fight against tax evasion, thereby substantially increasing tax recovery. From 2010-2011 to 2013-2014, total tax recovery rose by $1.1 billion, representing 41.1% growth.

— Revenu Québec's recovery activities should reach $3 768 million in 2014-2015 and $3 862 million in 2015-2016.

These figures include all activities, including tax audits of credits and refunds.

— Identification of fraudulently claimed input tax refunds at the source is an example of this type of tax auditing.

■ Detailed tax recovery targets

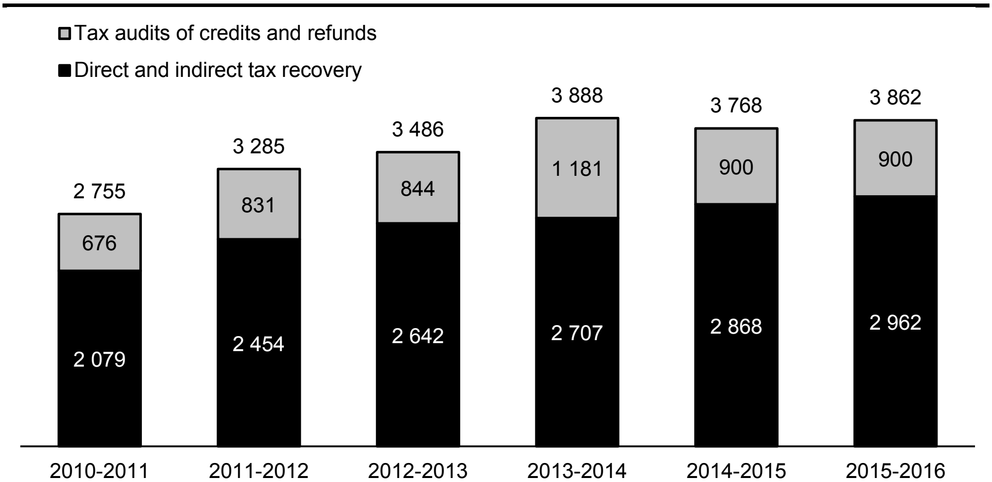
To provide more complete information, detailed tax recovery targets will be presented from now on.

— Direct and indirect tax recovery should reach $2 868 million in 2014-2015 and $2 962 million in 2015-2016;

— Tax audit activities respecting credits and refunds should lead to the recovery of $900 million annually as of 2014-2015.

CHART G.1

Tax recovery by Revenu Québec
(millions of dollars)



R: Results.
T: Targets.
Sources: Revenu Québec and Ministère des Finances du Québec.

Additional information on Revenu Québec's tax audit results and targets

Tax recovery definitions

Direct tax recovery: Stems from Revenu Québec's tax auditing, which consists of activities relating to assessments, re-assessments and non-filing, as well as audit and investigative activities.

Indirect tax recovery: Is comprised of estimated revenues from self-assessment whose results cannot be recorded in a formal, personalized manner. These revenues stem from the incidental effects of Revenu Québec's interventions, and from specific interventions, such as SRMs in the restaurant sector and interventions on large construction sites, as well as from legislative or regulatory measures, awareness activities and customer service.

Tax audit activities respecting credits and refunds: Consist of auditing prior to the determination of the credits and refunds claimed by taxpayers and mandataries.

Details of recovery results

Direct and indirect tax recovery reached $2 707 million in 2013-2014, representing an increase of $65 million over 2012-2013.

Tax audit activities respecting credits and refunds have expanded in recent years and now account for approximately 30% of total tax recovery by Revenu Québec. In 2013-2014, in particular due to certain exceptional cases, these activities resulted in the recovery of $1 181 million, an increase of 39.9% over 2012-2013.

3. OTHER INITIATIVES

In addition to the initiatives in the fight against tax evasion and unreported work in the construction sector, and the new Revenu Québec tax audit measures, the government will step up its actions respecting other issues, such as the illicit tobacco trade. Also, the government is proposing to boost management capacity in penal court cases related to tax evasion and economic and financial crime, as well as other measures respecting the Ministère de l'Emploi et de la Solidarité sociale.

3.1 Fight against the illicit tobacco trade

Québec adopted a wide-ranging intervention strategy to fight the illegal tobacco trade through ACCES tobacco.[9]

ACCES tobacco aims primarily to dismantle smuggling networks, recover the tax losses linked to the illicit trade in tobacco and thus increase revenue from the specific tax on tobacco products.

Actions by ACCES tobacco served particularly to:

— increase police intervention in the fight against smuggling networks, including neighbourhood networks;

— implement police surveillance on the main supply and transportation channels used by tobacco smugglers;

— constantly adapt police intervention to the stratagems used by smugglers;

— improve information sharing between Québec's various police forces;

— protect the integrity of the tax system.

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9 ACCES tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Directeur des poursuites criminelles et pénales, the Ministère des Finances du Québec, Québec police forces, and the Royal Canadian Mounted Police, as well as the Canada Revenue Agency and the Canada Border Services Agency.

Moreover, other measures were implemented after the *Act to amend the Act respecting the Québec sales tax and other legislative provisions*[10] was assented to on December 7, 2012, including the:

— increase of certain fines provided for in the *Tobacco Tax Act*;[11]

— conferral on police officers of the investigative powers stipulated in section 40.1.1 of the *Tax Administration Act*;[12]

— implementation of the "Québec" stamp—a new, unique, secure and indelible tobacco products identification scheme.

❑ Summary of ACCES tobacco results

For 2013-2014, actions by ACCES tobacco led to the:

— seizure of $19.1 million in cash and tobacco products;

— recovery of $22.9 million in taxes;

— levying of $37.1 million in fines;

— protection of the integrity of the tax system.

TABLE G.3

Results of the fight against the illicit tobacco trade
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Value of seizures	22.6	20.3	20.8	19.1
Tax recovery	8.0	8.6	4.7	22.9
Fines	11.2	30.8	34.7	37.1
TOTAL	**41.8**	**59.7**	**60.2**	**79.1**

Sources: Revenu Québec and Ministère de la Sécurité publique du Québec. Compilation by the Ministère des Finances du Québec.

10 S.Q. 2012, chapter 28.

11 CQLR, chapter I-2.

12 CQLR, chapter A-6.002.

❑ Additional funding for ACCES tobacco

To prevent an upswing in tobacco smuggling, particularly given the increase in the specific tax on tobacco products,[13] an additional $1.0 million will be allocated to ACCES tobacco's partners in 2014-2015 in order to fight the illicit tobacco trade.

— Two new local investigative teams in two municipal police forces will be added to the ten existing teams.

— The investigative capacity of the Sûreté du Québec and the Service de police de la Ville de Montréal in the fight against smuggling will also be strengthened.

13 See subsection 2.3.1 of section A of this document.

3.2 Expedited case management in financial penal matters

The fight against tax evasion and economic and financial crime remains a priority for the government. This involves working with the penal justice system to produce a deterrent effect, in order to recover unpaid amounts and build a sense of trust and fairness within the public.

In recent years, a number of large-scale initiatives and operations have been carried out to uncover economic and financial crime and tax evasion. These efforts have led to an increase in penal prosecutions, including complex cases involving claims of several million dollars.

The substantial increase in the number of cases before the Court of Québec has led to a backlog of penal cases, which can cause case-management delays.

Due to this rise in the number of cases, the government is proposing to boost case-management capacity in penal matters.

Sample situation stemming from the long delays in penal cases

On April 26, 2013, in *Agence du revenu du Québec* v. *Khoury*,[1] a case brought before the Court of Québec, the judge ordered a stay of proceedings. The attorneys of the three people accused of tax fraud in the case had filed a motion for a stay of proceedings, citing unreasonable delays.

The Court having put the institutional delays in the case at 51 months, the judge was of the opinion that excessive delays violated the rights of the accused, as defined in sections 7, 11*(b)* and 24(1) of the *Canadian Charter of Rights and Freedoms*. He stated the following in his judgment:

> The prejudice experienced by the applicants is directly related to the institutional delays. Nevertheless, the Court cannot simply accept the government's allocation of resources and consequently find that the length of the delay is acceptable. The lack of institutional resources cannot be used to render the section 11*(b)* guarantee meaningless.

On April 30, 2014, the Superior Court dismissed Revenu Québec's appeal. That decision thereby confirmed the order for a definitive stay of proceedings, on the ground of delays deemed to be excessively long.

As a result of that stay of proceedings, Revenu Québec lost the opportunity to impose, depending on the possible decision of the Court, fines ranging from $30 million to $60 million.

1 *Agence du revenu du Québec* v. *Khoury*, 2013 QCCQ 4486 (CanLII).

❑ Status report

The substantial increase in the number of cases before the Court of Québec adds to the pressure on the justice system.

The number of penal cases brought before the courts as at March 31, 2014 by prosecutors with Revenu Québec, the Autorité des marchés financiers and the Directeur des poursuites criminelles et pénales testifies to this additional pressure.

— Close to 6 500 cases of offences, brought by Revenu Québec, were pending or wending their way through the Court;

— The Autorité des marchés financiers accounted for 59 active cases. The cases are usually complex and take a relatively long time to be heard in court;[14]

— More than 76 600 cases were brought by the Directeur des poursuites criminelles et pénales, approximately 8 000 of which pertained to the construction sector.[15]

Furthermore, more than $620 million in fines was claimed in these cases.

TABLE G.4

Active penal cases as at March 31, 2014

	RQ(1)	AMF(2)	DPCP(3)	Total
Active penal cases (units)	6 498	59	76 597	**83 154**
Fines levied ($M)	342	245	34	**621**

(1) Revenu Québec.
(2) Autorité des marchés financiers.
(3) Directeur des poursuites criminelles et pénales.
Source: Compilation by the Ministère des Finances du Québec.

14 For example, the Mount Real case alone required a hearing totalling 10 months.

15 Cases relative to the *Building Act* (CQLR, chapter B-1.1) and the *Act respecting labour relations, vocational training and workforce management in the construction industry* (CQLR, chapter R-20).

❑ Principal causes associated with the increase in and complexity of penal cases

Several factors explain the increase in and complexity of penal cases. The primary ones are:

— the broadening of the mandates to fight tax evasion and economic and financial crime in a number of government departments and public bodies, and the creation of special investigative units;

— the multiplication of large-scale operations carried out against traditional organized crime by Revenu Québec and the Autorité des marchés financiers, in collaboration with the Unité permanente anticorruption;

— the investigations conducted prior to and during the hearings before the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, and the actions to be taken further to the revelations;

— the challenges for the judicial system, in particular with respect to administering the often complex and massive amount of evidence stemming from the fight against economic and financial crime.

Thus, the effort deployed to counter tax evasion and economic and financial crime has brought prosecuting bodies to a level of activity respecting the number of investigations conducted and the number of cases brought before the courts that impacts the case-management capacity of the judicial system.

❑ Impacts of the increase in penal cases

The efficacy of the overall effort to fight tax evasion depends, in part at least, on the ability of the Court of Québec to hear financial penal cases within a reasonable time.

Decisions of the Criminal and Penal Division of the Court of Québec are necessary, in particular to:

— recover unpaid amounts;

— ensure the conviction of individuals who break tax laws, laws respecting the construction sector and laws governing Québec's financial sector;

— deter the rest of the population from engaging in tax evasion and economic and financial crime.

Long delays can also lead to a stay of proceedings.

— If the justice system were unable to handle cases in a reasonable time, efforts to fight tax evasion and financial crime would be in vain.

Excessive delays have a direct impact on victims of economic and financial crime, and undermine their trust in the judicial system, because a long period generally elapses between the occurrence of the prejudice and the conviction of the perpetrators of the crime.

— This situation could prompt victims not to report offences to the authorities or affect their ability to testify accurately at trial.

Due to the increase in the number of cases, the government is proposing to bolster penal case-management capacity.

3.3 Measures at the Ministère de l'Emploi et de la Solidarité sociale

The Ministère de l'Emploi et de la Solidarité sociale handles more than 300 000 last resort financial assistance files every year.

Consequently, to foster payment of assistance benefits to people who are genuinely entitled to them, the Ministère de l'Emploi et de la Solidarité sociale intends to, in particular:

— carry out more investigations into network fraud scams in order to put an end to them;

— continue and step up the fight against unreported work relative to employment agencies.

3.4 Additional amount for the Provision to increase any appropriation for initiatives concerning revenue

The government will allocate an additional amount to the Provision to increase any appropriation for initiatives concerning revenue, to:

— support the fight against the illicit tobacco trade;

— expedite penal case management;

— implement the measures of the Ministère de l'Emploi et de la Solidarité sociale.

To that end, additional appropriations of $10 million in 2014-2015 and $15 million a year as of 2015-2016 will be allocated to the spending budget of the Ministère des Finances du Québec.

— The appropriations for 2014-2015 will be drawn from the Contingency Fund.

Section H

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

1. THE *BALANCED BUDGET ACT*

Under the *Balanced Budget Act*, the Minister of Finance must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

1.1 Current stipulations and requirements of the Act

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budget estimates. The Act sets out the applicable rules in the case of an overrun.

The *Balanced Budget Act*
The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly of Québec on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets out 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* (S.Q. 2009, chapter 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession and authorize deficits that would have to be reduced gradually in order to return to a balanced budget in 2013-2014. Under the Act, if an overrun of less than $1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year. 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, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government. 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 at least $1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister 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 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 budgetary 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 organization Chartered Professional Accountants Canada (CPA Canada). Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

1.2 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. Table H.1 shows the components for establishing the budgetary balance within the meaning of the Act.

Budgetary balance within the meaning of the Act was maintained from 2006-2007 to 2008-2009.

In 2009-2010 and 2010-2011, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit of $3.2 billion, as allowed under the Act.

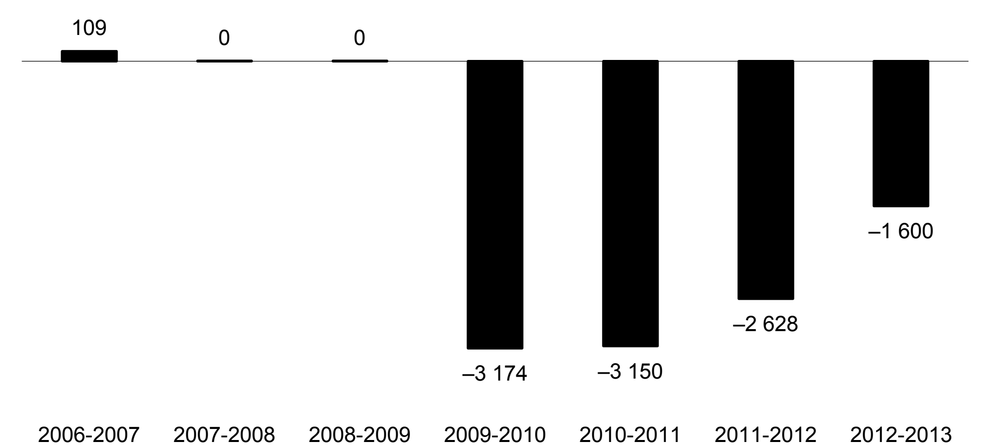
In 2011-2012, the budgetary balance was a deficit of $2.6 billion–an improvement of $1.2 billion compared to the target of $3.8 billion set pursuant to the *Balanced Budget Act*.

For 2012-2013, the budgetary deficit was $1.6 billion–a difference of $100 million in relation to the objective of $1.5 billion indicated in the March 2013 *Update* and corresponding to the target set in accordance with the *Balanced Budget Act*.

— In addition, the *Balanced Budget Act* was amended in June 2013 to exclude, from the calculation of the budgetary balance for 2012-2013, the result of $1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

CHART H.1

Budgetary balance from 2006-2007 to 2012-2013(1)
(millions of dollars)



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

TABLE H.1

Budgetary balance within the meaning of the *Balanced Budget Act*

(millions of dollars)

						Stabilization reserve			
Fiscal year	Surplus (deficit) reported in the public accounts(1)	Extraordinary loss relative to Gentilly-2	Generations Fund	Accounting changes	Budgetary balance within the meaning of the Act before reserve	Annual surplus	Allocations	Uses	Budgetary balance within the meaning of the Act after reserve(2)
2006-2007	1 993	—	–584	—	1 409	1 409	1 300(3)	—	109
2007-2008	1 650	—	–449	—	1 201	1 201	1 201	—	0
2008-2009	–1 258	—	–587	—	–1 845	—	109(4)	1 845	0
2009-2010	–2 940	—	–725	58	–3 607	—	—	433	–3 174(5)
2010-2011	–2 390	—	–760	—	–3 150	—	—	—	–3 150(5)
2011-2012	–1 788	—	–840	—	–2 628	—	—	—	–2 628(6)
2012-2013	–2 515	1 876	–961	—	–1 600	—	—	—	–1 600(7)
2013-2014P	–1 979	—	–1 121	—	–3 100	—	—	—	–3 100(8)

P: Preliminary results.
(1) The amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.
(2) 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.
(3) In 2006-2007, only $1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.
(4) In accordance with section 32 of the Act (S.Q. 2009, chapter 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 achieve a balanced budget was suspended in 2009-2010 and in 2010-2011.
(6) For 2011-2012, the budgetary deficit of $2.6 billion represents an improvement of $1.2 billion compared to the budgetary deficit target of $3.8 billion set in the March 2011 budget pursuant to the *Balanced Budget Act*.
(7) For 2012-2013, the budgetary deficit of $1.6 billion is $100 million higher than forecast compared to the target of $1.5 billion established in the March 2011 budget.
(8) For 2013-2014, the Act stipulates that the revenue and expenditure established in accordance with the government's accounting policies must be balanced. Amendments will have to be made to the *Balanced Budget Act* to authorize the government to delay the return to a balanced budget to 2015-2016.

1.3 Amendment of the *Balanced Budget Act*

Given the current budgetary situation, the achievement of a balanced budget, which had been forecast for 2013-2014, is delayed for two years.

In this context, the government will propose amendments to the *Balanced Budget Act* in order to set the budgetary deficit objectives for 2013-2014 and 2014-2015, and establish fiscal 2015-2016 for the return to a balanced budget.

In addition, the legislative amendments will take into account the overrun of $100 million relative to the budgetary deficit objective of $1.5 billion established in accordance with the Act for 2012-2013.

1.4 Status of the stabilization reserve

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 Maintaining the debt reduction objectives

Budget 2014-2015 confirms the maintenance of the debt reduction objectives[1] set forth in the *Act to reduce the debt and establish the Generations Fund* 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.

The following revenue sources, added to those dedicated to the Generations Fund since its creation in 2006, will enable the government to achieve its debt reduction objectives set in the Act.

❑ Specific tax on alcoholic beverages

As of 2016-2017, additional deposits of $400 million per year drawn from revenues from the specific tax on alcoholic beverages will be made in the Generations Fund.

These additional contributions will be over and above the deposits of $100 million per year currently provided for in the Act, as of 2014-2015. Thus, $500 million per year drawn from the specific tax on alcoholic beverages will be deposited in the Generations Fund as of 2016-2017.

Legislative amendments will be made to the *Act to reduce the debt and establish the Generations Fund* in order to allocate the additional deposits of $400 million to the Generations Fund starting in 2016-2017.

❑ Heritage electricity

Revenues relating to the indexation of the price of heritage electricity will be deposited in the Generations Fund as of 2014-2015.

These deposits will be $71 million in 2014-2015, $105 million in 2015-2016, $205 million in 2016-2017, $305 million in 2017-2018 and $410 million in 2018-2019.

❑ Mining Revenues

Deposits in the Generations Fund of all mining revenues collected by the government starting in 2015-2016 will represent $114 million in 2015-2016, $149 million in 2016-2017, $194 million in 2017-2018 and $219 million in 2018-2019.

1 Section E provides detailed information on the Québec government's debt.

❑ Gentilly-2 nuclear power plant

An amount of $215 million per year, corresponding to Hydro-Québec's savings resulting from the closure of the Gentilly-2 nuclear power plant, will be deposited in the Generations Fund from 2017-2018 to 2043-2044.

Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter 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 gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

Under the current provisions of the Act, which do not take into account the amendments provided for in Budget 2014-2015, the Generations Fund is constituted of the following amounts from revenue sources dedicated to debt repayment:

- 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;[1]
- revenues from the indexation of the price of heritage electricity as of 2014;
- fees or charges for water withdrawal;[1]
- as of 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount will be established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted. For 2014-2015, the amount of mining revenues allocated to the Generations Fund will correspond to one quarter of the amount by which the sums collected by the government exceed $200 million in accordance with the above statutes;
- as of 2014-2015, $100 million a year from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, $215 million per year corresponding to Hydro-Québec's savings resulting from the closure of the Gentilly-2 nuclear power plant;
- sale of government assets, rights or securities;[1]
- unclaimed property administered by Revenu Québec;
- 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* also 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.

Requirements of the Act (cont.)

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit amounts in 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 any amounts used to repay the gross debt.

1 An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

2.2 Sums dedicated to the Generations Fund

In 2013-2014, $1 421 million will have been devoted to the Generations Fund, that is, $1 121 million from revenue sources dedicated to the Fund, to which is added $300 million resulting from the allocation of part of the accumulated surplus from the Territorial Information Fund of the Ministère de l'Énergie et des Ressources naturelles. The $49-million increase compared to the financial situation at February 20, 2014 is due primarily to higher investment income than forecast.

For 2014-2015 and 2015-2016, the revenue of the Generations Fund should reach, respectively, $1 301 million and $1 583 million.

Taking into account the deposits since its creation and those forecast for the coming years, as well as the use of the Generations Fund to repay maturing borrowings, the book value of the Generations Fund will reach:

— $5 659 million as at March 31, 2014;[2]

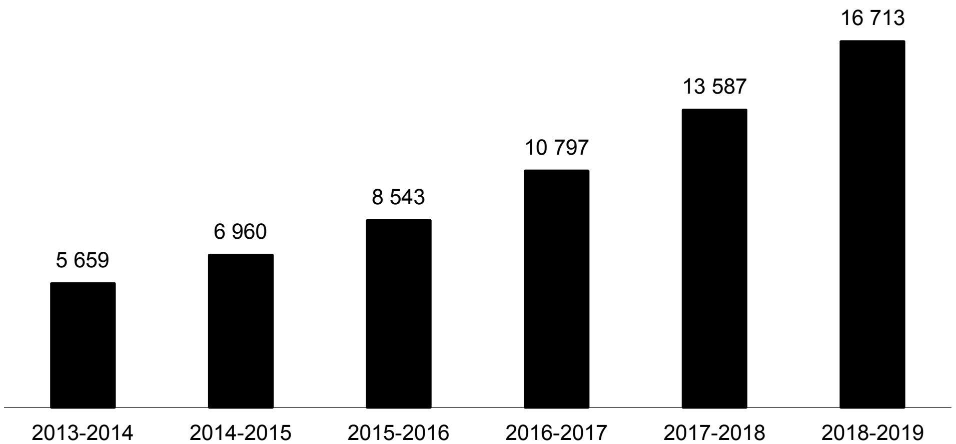
— $6 960 million as at March 31, 2015;

— $8 543 million as at March 31, 2016.

The Generations Fund should reach $16 713 million as at March 31, 2019.

CHART H.2

Growth in the book value of the Generations Fund[P]
(millions of dollars)



P: Preliminary results for 2013-2014 and forecasts for subsequent years.

2 In 2013-2014, the government used $1 billion of the Generations Fund to repay maturing borrowings.

TABLE H.2

Generations Fund

(millions of dollars)

	Financial situation as at February 20, 2014		Budget 2014-2015P					
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
BOOK VALUE, BEGINNING OF YEAR	**5 238**	**—**	**5 238**	**5 659**	**6 960**	**8 543**	**10 797**	**13 587**
DEDICATED REVENUES								
Water-power royalties								
Hydro-Québec	668	2	670	661	677	691	707	726
Private producers	91	2	93	91	93	95	97	99
	759	4	763	752	770	786	804	825
Indexation of the price of heritage electricity	—	—	—	71	105	205	305	410
Mining revenues	—	—	—	—	114	149	194	219
Tax on alcoholic beverages	—	—	—	100	100	500	500	500
Savings relative to the closure of Gentilly-2	—	—	—	—	—	—	215	215
Unclaimed property	19	—	19	10	10	10	10	10
Investment income	294	45	339	368	484	604	762	947
Total of dedicated revenues	**1 072**	**49**	**1 121**	**1 301**	**1 583**	**2 254**	**2 790**	**3 126**
Deposit from the Territorial Information Fund	300	—	300	—	—	—	—	—
Total of deposits	**1 372**	**49**	**1 421**	**1 301**	**1 583**	**2 254**	**2 790**	**3 126**
Use of the Generations Fund to repay maturing borrowings	–1 000	—	–1 000	—	—	—	—	—
BOOK VALUE, END OF YEAR	**5 610**	**49**	**5 659**	**6 960**	**8 543**	**10 797**	**13 587**	**16 713**

P: Preliminary results for 2013-2014 and forecasts for subsequent years.

Section I

ADDITIONAL INFORMATION HISTORICAL DATA

Note:
Data for 1997-1998 and subsequent years take into account the changes made to the family policy over the years, the creation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF), the amalgamations and abolitions ensuing from Bill 130 (2011, chapter 16), the reclassification of doubtful tax accounts and the changes made to the recording of transfers made through the tax system.

1. ADDITIONAL INFORMATION

TABLE I.1

Summary of consolidated budgetary and financial transactions[1]
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
Budgetary transactions of the general fund				
Own-source revenue	44 129	47 225	50 272	49 983[2]
Federal transfers	15 161	15 425	15 243	15 707
Total budgetary revenue	**59 290**	**62 650**	**65 515**	**65 690**
Program spending	–58 215	–59 978	–61 503	–62 247
Debt service	–6 240	–7 084	–7 348	–7 766
Total budgetary expenditure	**–64 455**	**–67 062**	**–68 851**	**–70 013**
Consolidated entities[3]	**2 225**	**2 022**	**1 548**	**1 808**
Contingency reserve	—	—	—	—
SURPLUS (DEFICIT)	**–2 940**	**–2 390**	**–1 788**	**–2 515**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund	–725	–760	–840	–961
Amounts used from the reserve	433	—	—	—
Accounting changes[4]	58	—	—	—
Exclusion – Extraordinary loss[5]	—	—	—	1 876
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT* AFTER STABILIZATION RESERVE[6]	**–3 174**	**–3 150**	**–2 628**	**–1 600**
Deposits of dedicated revenues in the Generations Fund	725	760	840	961
Extraordinary loss – Closure of Gentilly-2	—	—	—	–1 876
CONSOLIDATED BUDGETARY BALANCE	**–2 449**	**–2 390**	**–1 788**	**–2 515**
Non-budgetary transactions				
Investments, loans and advances	–2 009	–3 173	–1 861	–775
Capital expenditures[7]	–3 939	–4 018	–3 623	–3 312
Retirement plans and other employee future benefits	2 612	3 526	2 918	2 898
Other accounts	1 354	1 901	–1 160	–414
NON-BUDGETARY REQUIREMENTS	**–1 982**	**–1 764**	**–3 726**	**–1 603**
NET FINANCIAL REQUIREMENTS	**–4 431**	**–4 154**	**–5 514**	**–4 118**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. The health and social services and education networks are consolidated line by line as of 2009-2010. Therefore, consolidated net financial requirements henceforth take into account the budgetary and non-budgetary transactions of the networks.

(1) Certain data for previous fiscal years have been reclassified for consistency with the presentation adopted in the subsequent fiscal year. However, as regards accounting changes, the data for previous years have not been restated because they cannot be established with reasonable effort.

(2) Including Hydro-Québec's extraordinary loss $1 876 million stemming from the closure of the Gentilly-2 nuclear power plant.

(3) The net results of consolidated entities include consolidation adjustments.

(4) The *Balanced Budget Act* stipulates that the budgetary balance must take the impact of certain accounting changes into account.

(5) Since this is a one-time event unrelated to management of the government's current operations, the *Balanced Budget Act*, as amended on June 14, 2013, excludes from the budgetary balance Hydro-Québec's extraordinary loss stemming from the closure of the Gentilly-2 nuclear power plant.

(6) The budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve corresponds to the budgetary balance that takes into account the amounts allocated to and used from the stabilization reserve.

(7) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

TABLE I.2

General fund revenue by source

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
Own-source revenue				
Income and property taxes				
Personal income tax	16 459	17 913	18 980	18 753
Contributions to the Health Services Fund	5 797	5 974	6 246	6 597
Corporate taxes	3 601	3 639	3 894	3 919
Subtotal	**25 857**	**27 526**	**29 120**	**29 269**
Consumption taxes				
Sales	10 473	11 468	13 159	14 287
Tobacco	664	764	802	795
Alcoholic beverages	433	446	440	480
Other	16	–9	18	21
Subtotal	**11 586**	**12 669**	**14 419**	**15 583**
Duties and permits				
Natural resources	105	310	340	199
Other	249	275	263	252
Subtotal	**354**	**585**	**603**	**451**
Miscellaneous				
Sales of goods and services	448	438	366	369
Interest	387	438	455	488
Fines, forfeitures and recoveries	619	731	560	591
Subtotal	**1 454**	**1 607**	**1 381**	**1 448**
Revenue from government enterprises				
Société des alcools du Québec	867	915	1 000	1 030
Loto-Québec(1)	1 252	1 247	1 196	1 194
Hydro-Québec(1)	2 978	2 481	2 549	919(2)
Other(1)	–219	195	4	89
Subtotal	**4 878**	**4 838**	**4 749**	**3 232**
Total	**44 129**	**47 225**	**50 272**	**49 983**
Federal transfers				
Equalization	8 355	8 552	7 815	7 391
Protection payment	—	—	369	362
Health transfers	4 148	4 309	4 511	4 792
Transfers for post-secondary education and other social programs	1 461	1 455	1 488	1 486
Compensation for harmonization of the QST with the GST	—	—	—	733
Other programs	1 197	1 109	1 060	943
Total	**15 161**	**15 425**	**15 243**	**15 707**
TOTAL REVENUE	**59 290**	**62 650**	**65 515**	**65 690**

(1) Consolidated adjustments are included in the results of the entities to which they refer.
(2) Including Hydro-Québec's extraordinary loss $1 876 million stemming from the closure of the Gentilly-2 nuclear power plant.

TABLE I.3

General fund expenditure
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
Expenditure excluding debt service[1]	**58 215**	**59 978**	**61 503**	**62 247**
Debt service				
Direct debt service	3 878	4 429	4 595	4 770
Interest ascribed to the retirement plans	2 371	2 662	2 763	3 007
Interest ascribed to employee future benefits	–9	–7	–10	–11
Total	**6 240**	**7 084**	**7 348**	**7 766**
TOTAL EXPENDITURE	**64 455**	**67 062**	**68 851**	**70 013**

(1) Expenditure by department is not presented in this section, since it has not been determined yet in accordance with the 2014-2015 budgetary structure.

TABLE I.4

Consolidated non-budgetary transactions
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
Investments, loans and advances				
General fund				
Government enterprises				
Share capital and investments				
Investissement Québec	—	—	–400	—
Société générale de financement du Québec	–250	—	—	—
Other	—	2	—	—
Change in the equity value of investments	–591	–790	–595	–363
Loans and advances				
Investissement Québec	—	—	–127	–46
IQ FIER inc.	–21	—	—	—
Hydro-Québec	–143	–49	200	—
Loto-Québec	–32	–99	101	–34
Other	–1	–1	1	—
Total government enterprises	**–1 038**	**–937**	**–820**	**–443**
Individuals, corporations and others				
Investments with the Caisse de dépôt et placement du Québec	296	—	—	—
Other	–135	274	–806	5
Municipalities and municipal bodies	—	—	16	16
Total general fund	**–877**	**–663**	**–1 610**	**–422**
Consolidated entities	–1 132	–2 510	–251	–353
TOTAL INVESTMENTS, LOANS AND ADVANCES	**–2 009**	**–3 173**	**–1 861**	**–775**

TABLE I.4 (cont.)

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
Capital expenditures(2)				
General fund				
Net investments	–242	–312	–169	–168
Depreciation	256	149	150	147
Consolidated entities	–3 953	–3 855	–3 604	–3 291
Total capital expenditures	**–3 939**	**–4 018**	**–3 623**	**–3 312**
Retirement plans and other employee future benefits				
Cost of vested benefits,(3) amortization and contributions	2 122	2 623	2 554	2 581
Interest on the actuarial obligation	4 627	4 817	4 931	5 079
Benefits, repayments and administrative expenses	–4 294	–4 095	–4 791	–4 991
Consolidated entities	157	181	224	229
Total retirement plans and other employee future benefits	**2 612**	**3 526**	**2 918**	**2 898**
Other accounts				
General fund	1 128	1 362	–832	–236
Consoldated entities	226	539	–328	–178
Total other accounts	**1 354**	**1 901**	**–1 160**	**–414**
TOTAL NON-BUDGETARY TRANSACTIONS	**–1 982**	**–1 764**	**–3 726**	**–1 603**

(1) On May 1, 2010, the Fonds d'indemnisation du courtage immobilier was transferred without consideration to an entity not included the government's reporting entity in accordance with the *Real Estate Brokerage Act* (CQLR, chapter C-73.2).

(2) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

(3) Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE I.5

Consolidated financing transactions[1]

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013
CHANGE IN CASH POSITION				
General fund	3 878	–235	82	951
Consolidated entities	–176	–1 653	69	–51
Total	**3 702**	**–1 888**	**151**	**900**
NET BORROWINGS				
General fund				
New borrowings	7 126	9 321	14 228	12 498
Repayment of borrowings	–6 848	–4 581	–7 503	–8 045
Subtotal	278	4 740	6 725	4 453
Consolidated entities				
New borrowings	7 251	10 194	7 068	7 798
Repayment of borrowings	–3 481	–3 810	–4 321	–4 778
Subtotal	3 770	6 384	2 747	3 020
Total	**4 048**	**11 124**	**9 472**	**7 473**
Retirement Plans Sinking Fund,[2] other retirement plan assets and funds dedicated to employee future benefits[3]	**–2 594**	**–4 322**	**–3 269**	**–3 294**
Generations Fund	**–725**	**–760**	**–840**	**–961**
TOTAL FINANCING TRANSACTIONS	**4 431**	**4 154**	**5 514**	**4 118**

Note: As of 2009-2010, data take into account the line-by-line consolidation of the results of institutions in the health and social services and education networks with those of the government.

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

(2) This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

(3) Employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and survivor's pension) payable to government employees.

2. HISTORICAL DATA

TABLE I.6

Budgetary transactions of the general fund[(1),(2)]

(millions of dollars)

	Own-source revenue[(3),(4)]	Federal transfers[(5)]	Budgetary revenus	Program spending	Debt service	Budgetary expenditure
1988-1989	23 366	6 386	29 752	–27 654	–3 802	–31 456
1989-1990	24 359	6 674	31 033	–28 782	–4 015	–32 797
1990-1991	26 073	6 972	33 045	–31 583	–4 437	–36 020
1991-1992	27 720	6 747	34 467	–34 102	–4 666	–38 768
1992-1993	27 561	7 764	35 325	–35 599	–4 756	–40 355
1993-1994	28 165	7 762	35 927	–35 534	–5 316	–40 850
1994-1995	28 815	7 494	36 309	–36 248	–5 882	–42 130
1995-1996	30 000	8 126	38 126	–36 039	–6 034	–42 073
1996-1997	30 522	6 704	37 226	–34 583	–5 855	–40 438
After government accounting reform in 1997-1998						
1997-1998	30 387	5 656	36 043	–32 954	–7 039	–39 993
1998-1999	32 906	7 813	40 719	–35 352	–6 853	–42 205
1999-2000	35 370	6 064	41 434	–35 955	–7 035	–42 990
2000-2001	37 441	7 895	45 336	–38 311	–7 248	–45 559
2001-2002	35 652[(6)]	8 885	44 537[(6)]	–40 088	–6 930	–47 018
2002-2003	37 332[(6)]	8 932	46 264[(6)]	–41 865	–6 804	–48 669
2003-2004	38 849[(6)]	9 370	48 219[(6)]	–43 357	–6 850	–50 207
2004-2005	41 097	9 229	50 326	–45 480	–7 035	–52 515
2005-2006	42 391	9 969	52 360	–46 782	–7 042	–53 824
After government accounting reform in 2006-2007						
2006-2007	46 184	11 015	57 199	–49 022	–7 185	–56 207
2007-2008	45 881	13 629	59 510	–51 774	–7 160	–58 934
2008-2009	45 152	14 023	59 175	–55 197	–6 639	–61 836
2009-2010	44 129	15 161	59 290	–58 215	–6 240	–64 455
2010-2011	47 225	15 425	62 650	–59 978	–7 084	–67 062
2011-2012	50 272	15 243	65 515	–61 503	–7 348	–68 851
2012-2013	49 983[(6)]	15 707	65 690[(6)]	–62 247	–7 766	–70 013

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

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances du Québec.

(2) Data for the general fund exclude the revenue and expenditure of specified purpose accounts, agencies and special funds, the health and social services and education networks, and the Generations Fund.

(3) Own-source revenue includes that of government enterprises.

(4) For 1997-1998 and subsequent years, doubtful tax accounts are applied against revenue.

(5) Federal transfer revenues are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

(6) Revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004, as well as the Hydro-Québec's extraordinary loss of $1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013.

TABLE I.7

Budgetary transactions of consolidated entities[1] from 1997-1998 to 2008-2009[2]

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accouting reforms[3]							
1988 to 1997							
After government accounting reform in 1997-1998							
1997-1998	3 904	319	4 223	–2 127	–303	–2 430	1 793
1998-1999	4 281	298	4 579	–2 633	–334	–2 967	1 612
1999-2000	4 445	325	4 770	–2 869	–338	–3 207	1 563
2000-2001	4 439	239	4 678	–2 720	–358	–3 078	1 600
2001-2002	4 561	262	4 823	–2 939	–331	–3 270	1 553
2002-2003	4 947	262	5 209	–3 204	–328	–3 532	1 677
2003-2004	5 177	299	5 476	–3 455	–391	–3 846	1 630
2004-2005	5 252	323	5 575	–3 636	–414	–4 050	1 525
2005-2006	5 795	317	6 112	–4 094	–517	–4 611	1 501
After government accounting reform in 2006-2007[4],[5]							
2006-2007[4]	6 338	383	6 721	–4 266	–1 538	–5 804	917
2007-2008[4]	6 746	388	7 134	–4 917	–1 592	–6 509	625
2008-2009[4]	6 666	349	7 015	–4 707	–1 492	–6 199	816

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

(1) Consolidated entities include non-budget-funded bodies, special funds (excluding the Generations Fund) and organizations in the health and social services and education networks.

(2) As of 2009-2010, following the line-by-line consolidation of organizations in the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables I.7(a), I.7(b) and I.7 (c)).

(3) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.

(4) From 2006-2007 to 2008-2009, the results of the health and social services and education networks were established using the modified equity method. For 2009-2010 and subsequent years, the revenue and expenditure of the networks are consolidated line by line.

(5) Since the 2006-2007 accounting reform, pursuant to the *Balanced Budget Act,* the financial data presented correspond to those published in the financial statements for the fiscal year concerned. They do not include restatements that may be made in subsequent fiscal years.

TABLE I.7(a)

Budgetary transactions of consolidated entities
Special funds
2009-2010 and subsequent years
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks[1]								
2009-2010	4 590	1 776	465	6 831	–5 141	–654	–5 795	1 036
2010-2011	5 083	1 845	382	7 310	–5 649	–817	–6 466	844
2011-2012	6 054	2 161	86	8 301	–6 645	–973	–7 618	683
2012-2013	6 707	1 882	160	8 749	–7 040	–1 047	–8 087	662

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

(1) For 2009-2010 and subsequent years, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables I.7(b) and I.7 (c)).

TABLE I.7(b)

Budgetary transactions of consolidated entities
Non-budget-funded bodies
2009-2010 and subsequent years

(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks[1]								
2009-2010	5 632	10 639	1 000	17 271	–15 918	–1 086	–17 004	267
2010-2011	5 885	10 593	604	17 082	–15 681	–1 194	–16 875	207
2011-2012	6 086	10 963	911	17 960	–16 638	–1 219	–17 857	103
2012-2013	6 197	11 316	1 087	18 600	–17 270	–1 140	–18 410	190

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

(1) For 2009-2010 and subsequent years, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables I.7(a) and I.7 (c)).

TABLE I.7(c)

Budgetary transactions of consolidated entities
Organizations in the health and social services and education networks
2009-2010 and subsequent years

(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks(1)								
2009-2010	5 413	28 022	229	33 664	–32 828	–677	–33 505	159
2010-2011	5 234	29 016	310	34 560	–33 602	–798	–34 400	160
2011-2012	5 527	30 079	230	35 836	–35 280	–851	–36 131	–295
2012-2013	5 702	31 657	306	37 665	–36 768	–850	–37 618	47

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

(1) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables I.7(a) and I.7(b)).

TABLE I.8

Budgetary transactions of consolidated entities
Generations Fund[1]
(millions of dollars)

	Dedicated revenues							
	Water-power royalties							
	Hydro-Québec	Private producers	Unclaimed property	Other	Investment income	Total	Other deposits	Deposits in the Generations Fund
2006-2007	65	11	5	500	3	584	—	584
2007-2008	367	46	—	—	36	449	200	649
2008-2009	548	88	1	—	–50	587	132[2]	719
2009-2010	569	89	7	—	60	725	—	725
2010-2011	560	90	16	—	94	760	—	760
2011-2012	591	91	9	—	149	840	—	840
2012-2013	625	92	12	—	232	961	—	961

(1) The Generations Fund began operations on January 1, 2007 pursuant to the *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1).
(2) Deposit of $132 million from the stabilization reserve derived from the sale of assets by the Société immobilière du Québec.

TABLE I.9

Budgetary transactions
Specified purpose accounts

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms[1]							
1988-1997							
After government accounting reform in 1997-1998							
1997-1998	119	486	605	–605	—	–605	—
1998-1999	121	181	302	–302	—	–302	—
1999-2000	138	141	279	–279	—	–279	—
2000-2001	158	185	343	–343	—	–343	—
2001-2002	193	329	522	–522	—	–522	—
2002-2003	242	263	505	–505	—	–505	—
2003-2004	219	451	670	–670	—	–670	—
2004-2005	211	387	598	–598	—	–598	—
2005-2006	229	836	1 065	–1 065	—	–1 065	—
After government accounting reform in 2006-2007							
2006-2007	237	572	809	–809	—	–809	—
2007-2008	267	716	983	–983	—	–983	—
2008-2009	257	709	966	–966	—	–966	—
2009-2010	295	857	1 152	–1 152	—	–1 152	—
2010-2011	135	1 481	1 616	–1 616	—	–1 616	—
2011-2012	252	1 225	1 477	–1 477	—	–1 477	—
2012-2013	225	873	1 098	–1 098	—	–1 098	—

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.
(1) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.

TABLE I.10

Expenditures financed through the tax system and consolidation adjustments

(millions of dollars)

	Expenditures financed through the tax system				Consolidation adjustments[1],[2]				
	Transfers financed through the tax system		Reclassification of doubtful tax accounts						
	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
Before government accounting reforms[3]									
1988-1997									
After government accounting reform in 1997-1998									
1997-1998	2 577	–2 577	649	–649					
1998-1999	2 613	–2 613	404	–404					
1999-2000	2 551	–2 551	298	–298					
2000-2001	2 453	–2 453	265	–265					
2001-2002	2 535	–2 535	143	–143					
2002-2003	2 868	–2 868	278	–278					
2003-2004	2 988	–2 988	195	–195					
2004-2005	3 291	–3 291	414	–414					
2005-2006	3 729	–3 729	497	–497					

(1) The consolidation adjustments stem mainly from the elimination of transactions between entities in different sectors.
(2) For 1997-1998 to 2008-2009, consolidation adjustments are not shown separately and are included in the budgetary transactions of consolidated entities.
(3) Not all of the information is available for 1988-1989 to 1996-1997. Therefore, the financial data are not presented.

TABLE I.10 (suite)

(millions of dollars)

	Expenditures financed through the tax system								
	Transfers financed through the tax system		Reclassification of doubtful tax accounts		Consolidation adjustments[1],[2]				
	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
After government accounting reform in 2006-2007									
2006-2007	4 248	–4 248	548	–548					
2007-2008	4 382	–4 382	668	–668					
2008-2009	4 686	–4 686	798	–798					
With line-by-line consolidation of the networks									
2009-2010	4 978	–4 978	900	–900	–5 168	–40 437	–602	45 432	813
2010-2011	5 163	–5 163	933	–933	–5 048	–41 454	–709	46 304	958
2011-2012	5 142	–5 142	871	–871	–5 572	–43 203	–757	48 809	940
2012-2013	5 317	–5 317	697	–697	–5 309	–44 855	–616	49 764	964

TABLE I.11

Summary of consolidated budgetary transactions[1],[2],[3]

(millions of dollars)

	Own-source revenue	Federal transfers[4]	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure
Before government accounting reforms						
1988-1989	23 366	6 386	29 752	–27 654	–3 802	–31 456
1989-1990	24 359	6 674	31 033	–28 782	–4 015	–32 797
1990-1991	26 073	6 972	33 045	–31 583	–4 437	–36 020
1991-1992	27 720	6 747	34 467	–34 102	–4 666	–38 768
1992-1993	27 561	7 764	35 325	–35 599	–4 756	–40 355
1993-1994	28 165	7 762	35 927	–35 534	–5 316	–40 850
1994-1995	28 815	7 494	36 309	–36 248	–5 882	–42 130
1995-1996	30 000	8 126	38 126	–36 039	–6 034	–42 073
1996-1997	30 522	6 704	37 226	–34 583	–5 855	–40 438
After government accounting reform in 1997-1998						
1997-1998	37 636	6 461	44 097	–38 912	–7 342	–46 254
1998-1999	40 325	8 292	48 617	–41 304	–7 187	–48 491
1999-2000	42 802	6 530	49 332	–41 952	–7 373	–49 325
2000-2001	44 756	8 319	53 075	–44 092	–7 606	–51 698
2001-2002	43 084[7]	9 476	52 560	–46 227	–7 261	–53 488
2002-2003	45 667[7]	9 457	55 124	–48 720	–7 132	–55 852
2003-2004	47 428[7]	10 120	57 548	–50 665	–7 241	–57 906
2004-2005	50 265	9 939	60 204	–53 419	–7 449	–60 868
2005-2006	52 641	11 122	63 763	–56 167	–7 559	–63 726
After government accounting reform in 2006-2007[8]						
2006-2007	57 639	11 970	69 609	–58 893	–8 723	–67 616
2007-2008	58 393	14 733	73 126	–62 724	–8 752	–71 476
2008-2009	58 146	15 081	73 227	–66 354	–8 131	–74 485
With line-by-line consolidation of the networks[8]						
2009-2010	61 494	17 110	78 604	–73 700	–7 844	–81 544
2010-2011	65 370	17 493	82 863	–76 318	–8 935	–85 253
2011-2012	69 472	16 938	86 410	–78 747	–9 451	–88 198
2012-2013	70 480[7]	17 517	87 997	–80 673	–9 839	–90 512

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) At the time of an accounting reform or an accounting change, the data for previous years are not restated because they cannot be established with reasonable effort. Therefore, judgment must be exercised in making comparisons.
(3) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter. 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of Bill 40 into account.
(4) Shown on a cash basis until 2004-2005 and on an accrual basis thereafter.
(5) Since this is a one-time event unrelated to management of the government's current operations, the *Balanced Budget Act*, as amended on June 14, 2013, excludes from the budgetary balance Hydro-Québec's extraordinary loss stemming from the closure of the Gentilly-2 nuclear power plant.

Revenues dedicated to the Generations Fund	Amounts used (allocated from) the reserve	Exclusion of extraordinary loss(5)	Budgeray Balance within the meaning of the Act after reserve(6)	Revenues dedicated tho the Generations Fund	Extraordinary loss – Closure of Gentilly-2	Consolidated budgetary balance
			–1 704			–1 704
			–1 764			–1 764
			–2 975			–2 975
			–4 301			–4 301
			–5 030			–5 030
			–4 923			–4 923
			–5 821			–5 821
			–3 947			–3 947
			–3 212			–3 212
			–2 157			–2 157
			126			126
			7			7
	–950		427			427
	950		22			22
			–728			–728
			–358			–358
			–664			–664
			37			37
–584	–1 300		109	584		693
–449	–1 201			449		449
–587	1 845			587		587
–725	491(9)		–3 174	725		–2 449
–760			–3 150	760		–2 390
–840			–2 628	840		–1 788
–961		1 876	–1 600	961	–1 876	–2 515

(6) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve, which takes into account amounts allocated to and used from the stabilization reserve.
(7) Own-source revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-200, as well as the Hydro-Québec's extraordinary loss of $1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013.
(8) From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.
(9) Including an accounting change of $58 million.

TABLE I.12

Consolidated revenue and expenditure restated for historical growth analysis purposes[(1),(2)]

(millions of dollars)

	Revenue		Expenditure					
	Consolidated revenue	Growth rate	Expenditure excluding debt service	Growth rate	Debt service	Growth rate	Consolidated expenditure	Growth rate
Before government accounting reforms[(3)]								
1988-1997								
After government accounting reform in 1997-1998								
1997-1998	44 097	n/a	–38 912	n/a	–7 342	n/a	–46 254	n/a
1998-1999	48 617	10.3%	–41 304	6.1%	–7 187	−2.1%	–48 491	4.8%
1999-2000	49 332	1.5%	–41 952	1.6%	–7 373	2.6%	–49 325	1.7%
2000-2001	53 075	7.6%	–44 092	5.1%	–7 606	3.2%	–51 698	4.8%
2001-2002	52 560	−1.0%	–46 227	4.8%	–7 261	−4.5%	–53 488	3.5%
2002-2003	55 124	4.9%	–48 720	5.4%	–7 132	−1.8%	–55 852	4.4%
2003-2004	57 548	4.4%	–50 665	4.0%	–7 241	1.5%	–57 906	3.7%
2004-2005	60 204	4.6%	–53 419	5.4%	–7 449	2.9%	–60 868	5.1%
2005-2006	63 763	5.9%	–56 167	5.1%	–7 559	1.5%	–63 726	4.7%

(1) At the time of an accounting reform or an accounting change, the data for previous years are not restated because they cannot be established with reasonable effort. Therefore, judgment must be exercised in making comparisons.
(2) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter. 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of Bill 40 account.
(3) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.

TABLE I.12 (cont.)

Consolidated revenue and expenditure restated for historical growth analysis purposes(1),(2)

(millions of dollars)

	Revenue		Expenditure					
	Consolidated revenue	Growth rate	Expenditure excluding debt service	Growth rate	Debt service	Growth rate	Consolidated expenditure	Growth rate
After government accounting reform in 2006-2007(4)								
2006-2007	69 609	9.2%	–58 893	4.9%	–8 723	15.4%	–67 616	6.1%
2007-2008	73 126	5.1%	–62 724	6.5%	–8 752	0.3%	–71 476	5.7%
2008-2009	73 227	0.1%	–66 354	5.8%	–8 131	–7.1%	–74 485	4.2%
2009-2010(5)	74 898	2.3%	–70 060	5.6%	–7 778	–4.3%	–77 838	4.5%
With line-by-line consolidation of the networks(4)								
2009-2010(5)	78 604	n/a	–73 700	n/a	–7 844	n/a	–81 544	n/a
2010-2011	82 863	5.4%	–76 318	3.6%	–8 935	13.9%	–85 253	4.5%
2011-2012	86 410	4.3%	–78 747	3.2%	–9 451	5.8%	–88 198	3.5%
2012-2013(6)	87 997(7)	2.0%	–80 673	2.5%	–9 839	4.1%	–90 512	2.7%

(4) From 2006-2007 to 2008-2009, the results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.
(5) To facilitate the comparability of historical data and due to the amounts involved, we have presented two results for 2009-2010. The first is obtained using the modified equity basis of consolidation for network organizations and the second, using the line-by-line consolidation method. The latter method is used as of this fiscal year.
(6) The growth rates were established using 2011-2012 data restated to reflect the accounting changes made in 2012-2013. These data are available on page 81 of Volume 1 of Public Accounts 2012-2013.
(7) Including Hydro-Québec's extraordinary loss $1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013.

TABLE I.13

Summary of non-budgetary transactions(1)

(millions of dollars)

	Consolidated budgetary balance	Non-budgetary transactions		
		Investments, loans and advances	Capital expenditures(2)	Net investments in the networks(3)
Before government accounting reforms				
1988-1989	–1 704	–670		
1989-1990	–1 764	–516		
1990-1991	–2 975	–458		
1991-1992	–4 301	–411		
1992-1993	–5 030	–490		
1993-1994	–4 923	–623		
1994-1995	–5 821	–1 142		
1995-1996	–3 947	–287		
1996-1997	–3 212	–792		
After government accounting reform in 1997-1998				
1997-1998	–2 157	–1 315	–209	
1998-1999	126	–1 402	–217	
1999-2000	7	–2 006	–359	
2000-2001	427	–1 632	–473	
2001-2002	22	–1 142	–995	
2002-2003	–728	–1 651	–1 482	
2003-2004	–358	–1 125	–1 019	
2004-2005	–664	–979	–1 083	
2005-2006	37	–1 182	–1 166	
After government accounting reform in 2006-2007				
2006-2007	693	–2 213	–1 177	–1 002
2007-2008	449	–2 658	–1 378	–487
2008-2009	587	–966	–2 150	–622
With line-by-line consolidation of the networks(4)				
2009-2010	–2 449	–2 009	–3 939	
2010-2011	–2 390	–3 173	–4 018	
2011-2012	–1 788	–1 861	–3 623	
2012-2013	–2 515	–775	–3 312	

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

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.
(3) From 2006-2007 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.
(4) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.

Non-budgetary transactions			
Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
1 634	–265	699	–1 005
1 164	300	948	–816
1 874	77	1 493	–1 482
1 916	141	1 646	–2 655
1 525	82	1 117	–3 913
1 668	52	1 097	–3 826
1 509	578	945	–4 876
1 701	–415	999	–2 948
1 928	–60	1 076	–2 136
1 888	109	473	–1 684
1 020	996	397	523
1 740	1 328	703	710
1 793	–631	–943	–516
2 089	–589	–637	–615
2 007	217	–909	–1 637
2 219	–1 183	–1 108	–1 466
2 134	174	246	–418
2 310	–208	–246	–209
2 559	–1 620	–3 453	–2 760
2 458	988	–1 077	–628
2 274	645	–819	–232
2 612	1 354	–1 982	–4 431
3 526	1 901	–1 764	–4 154
2 918	–1 160	–3 726	–5 514
2 898	–414	–1 603	–4 118

TABLE I.14

Debt of the Québec government[1]

	Consolidated direct debt[2]		Retirement plans			
			Retirement plans liability[3]	Less: Retirement Plans Sinking Fund	Net retirement plans liability	
	($ million)	(as a % of GDP)	($ million)	($ million)	($ million)	(as a % of GDP)
Before government accounting reforms						
1988-1989	27 091	18.9			12 597	8.8
1989-1990	27 699	18.4			14 320	9.5
1990-1991	29 637	19.0			16 227	10.4
1991-1992	33 106	21.0			18 143	11.5
1992-1993	39 231	24.3			19 668	12.2
1993-1994	45 160	27.3	21 337	–854	20 483	12.4
1994-1995	52 468	30.2	22 846	–849	21 997	12.6
1995-1996	52 886	29.2	24 547	–923	23 624	13.0
1996-1997	52 625	28.5	26 475	–1 014	25 461	13.8
Data restated to include the impact of the accounting reform in 2006-2007						
1997-1998	69 995	36.2	42 242	–1 179	41 063	21.3
1998-1999	73 803	36.7	43 350	–2 209	41 141	20.5
1999-2000	76 166	35.2	45 129	–5 040	40 089	18.6
2000-2001	80 108	34.7	47 001	–7 059	39 942	17.3
2001-2002	84 451	35.4	49 106	–10 199	38 907	16.3
2002-2003	89 083	35.8	51 167	–11 840	39 327	15.8
2003-2004	93 325	36.0	53 414	–14 204	39 210	15.1
2004-2005	98 842	36.4	55 634	–18 333	37 301	13.7
2005-2006	103 339	36.8	58 214	–22 563	35 651	12.7
2006-2007	110 412	38.0	60 802	–26 877	33 925	11.7
2007-2008	118 032	38.6	63 442	–31 749	31 693	10.4
2008-2009	124 629	39.7	65 803	–36 025	29 778	9.5
Data taking into account line-by-line consolidation of the networks						
2008-2009	129 745	41.4	65 803	–36 025	29 778	9.5
2009-2010	136 074	43.1	67 989	–38 200	29 789	9.4
2010-2011	147 748	44.8	71 315	–42 265	29 050	8.8
2011-2012	158 887	46.0	74 079	–45 352	28 727	8.3
2012-2013	168 616	47.1	76 703	–48 344	28 359	7.9

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) Excludes deferred foreign exchange gains or losses, the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity, and pre-financing.
(3) Gross retirement plans liability less the assets of the retirement plans other than the Retirement Plans Sinking Fund.

Employee future benefits					
Employee future benefits liability	Less: funds dedicated to employee future benefits	Net employee future benefits liability	Less: Generations Fund	Debt(2)	
($ million)	($ million)	($ million)	($ million)	($ million)	(as a % of GDP)
				Total debt – Data not restated to include the impact of the 1997-1998 and 2006-2007 accounting reforms	
				39 688	27.7
				42 019	27.9
				45 864	29.4
				51 249	32.5
				58 899	36.5
				65 643	39.7
				74 465	42.8
				76 510	42.2
				78 086	42.3
				Gross debt – Networks consolidated at modified equity value	
759	–292	467		111 525	57.7
805	–317	488		115 432	57.4
867	–361	506		116 761	54.0
894	–382	512		120 562	52.3
938	–384	554		123 912	52.0
1 083	–358	725		129 135	51.9
1 034	–338	696		133 231	51.3
1 086	–335	751		136 894	50.4
1 095	–357	738		139 728	49.8
1 176	–424	752	–584	144 505	49.7
1 166	–433	733	–1 233	149 225	48.8
1 114	–1 055	59	–1 952	152 514	48.6
				Gross debt – Networks consolidated line-by-line	
1 114	–1 055	59	–1 952	157 630	50.3
1 238	–1 106	132	–2 677	163 318	51.8
1 222	–1 147	75	–3 437	173 436	52.6
1 243	–1 196	47	–4 277	183 384	53.1
1 262	–1 243	19	–5 238	191 756	53.6

TABLE I.15

Net debt of the Québec government[(1),(2)]

	($ million)	(as a % of GDP)
Before government accounting reforms[(3)]		
1988-1989	32 819	22.9
1989-1990	34 583	22.9
1990-1991	37 558	24.1
1991-1992	41 885	26.5
1992-1993	46 914	29.1
1993-1994	51 837	31.4
1994-1995	57 677	33.1
1995-1996	61 624	34.0
1996-1997	64 833	35.1
After government accounting reform in 1997-1998[(4)]		
1997-1998	88 597	45.9
1998-1999	88 810	44.2
1999-2000	89 162	41.3
2000-2001	88 208	38.2
2001-2002	92 772	38.9
2002-2003	95 601	38.4
2003-2004	97 025	37.4
2004-2005	99 042	36.5
2005-2006	104 683	37.3
After government accounting reform in 2006-2007[(5)]		
2006-2007	124 297	42.7
2007-2008	124 681	40.8
2008-2009	134 237	42.8
With line-by-line consolidation of the networks[(6)]		
2009-2010	151 608	48.0
2010-2011	159 333	48.3
2011-2012	167 700	48.6
2012-2013	175 487	49.0

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) For certain fiscal years, the data presented on the net debt is the data that was restated in the public accounts for the subsequent fiscal year because of accounting changes.
(3) Data for 1988-1989 to 1996-1997 are not comparable with those for 1997-1998 to 2012-2013.
(4) Data for 1997-1998 to 2005-2006 are not comparable with those for 1988-1989 to 1996-1997 and 2006-2007 to 2012-2013.
(5) Data for 2006-2007 to 2008-2009 are not comparable with those for previous years and 2009-2010 to 2012-2013.
(6) Data for 2009-2010 to 2012-2013 are not comparable with those for previous years.

TABLE I.16

Debt representing accumulated deficits[1]

	Debt representing accumulated deficits for the purposes of the public accounts[2],[3]	
	($ million)	(as a % of GDP)
Before government accounting reforms[4]		
1988-1989	32 819	22.9
1989-1990	34 583	22.9
1990-1991	37 558	24.1
1991-1992	41 885	26.5
1992-1993	46 914	29.1
1993-1994	51 837	31.4
1994-1995	57 677	33.1
1995-1996	61 624	34.0
1996-1997	64 833	35.1
After government accounting reform in 1997-1998[5]		
1997-1998	82 581	42.8
1998-1999	82 577	41.1
1999-2000	82 469	38.2
2000-2001	81 042	35.1
2001-2002	84 538	35.5
2002-2003	85 885	34.5
2003-2004	86 290	33.2
2004-2005	87 224	32.1
2005-2006	91 699[6]	32.7
After government accounting reform in 2006-2007[7]		
2006-2007	96 124	33.1
2007-2008	94 824	31.0
2008-2009	103 000	32.8
2009-2010	109 125	34.6
2010-2011	111 946	34.0
2011-2012	115 220	33.4
2012-2013	118 095	33.0

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) Before taking the stabilization reserve into account.
(3) For certain fiscal years, the data presented on the net debt is the data that was restated in the public accounts for the subsequent fiscal year because of accounting changes
(4) Data for 1988-1989 to 1996-1997 are not comparable with those for 1997-1998 to 2012-2013.
(5) Data for 1997-1998 to 2005-2006 are not comparable with those for 1988-1989 to 1996-1997 and 2006-2007 to 2012-2013.
(6) The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.
(7) Data for 2006-2007 to 2012-2013 are not comparable with those for previous years.

Plus: balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
($ million)	($ million)	(as a % of GDP)
	32 819	22.9
	34 583	22.9
	37 558	24.1
	41 885	26.5
	46 914	29.1
	51 837	31.4
	57 677	33.1
	61 624	34.0
	64 833	35.1
	82 581	42.8
	82 577	41.1
	82 469	38.2
950	81 992	35.6
	84 538	35.5
	85 885	34.5
	86 290	33.2
	87 224	32.1
	91 699(5)	32.7
1 300	97 424	33.5
2 301	97 125	31.8
433	103 433	33.0
	109 125	34.6
	111 946	34.0
	115 220	33.4
	118 095	33.0

TABLE I.17

Change in debt service[1]

	General fund			
	Direct debt	Interest ascribed to the retirement plans[2]	Employee future benefits[3]	Total
	($ million)	($ million)	($ million)	($ million)
Before government accounting reforms				
1988-1989	2 665	1 137		3 802
1989-1990	2 829	1 186		4 015
1990-1991	3 026	1 411		4 437
1991-1992	3 222	1 444		4 666
1992-1993	3 475	1 281		4 756
1993-1994	3 750	1 566		5 316
1994-1995	4 333	1 549		5 882
1995-1996	4 287	1 747		6 034
1996-1997	3 906	1 949		5 855
After government accounting reform in 1997-1998				
1997-1998	4 074	2 965		7 039
1998-1999	4 439	2 414		6 853
1999-2000	4 403	2 632		7 035
2000-2001	4 654	2 594		7 248
2001-2002	4 213	2 717		6 930
2002-2003	4 156	2 648		6 804
2003-2004	4 108	2 742		6 850
2004-2005	4 248	2 787		7 035
2005-2006	4 211	2 831		7 042
After government accounting reform in 2006-2007				
2006-2007	4 503	2 643	39	7 185
2007-2008	4 687	2 436	37	7 160
2008-2009	4 507	2 116	16	6 639
With line-by-line consolidation of the networks				
2009-2010	3 878	2 371	–9	6 240
2010-2011	4 429	2 662	–7	7 084
2011-2012	4 595	2 763	–10	7 348
2012-2013	4 770	3 007	–11	7 766

(1) Historical data prior to 1988-1989 are available on the website of the Ministère des Finances du Québec.
(2) Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the Retirement Plans Sinking Fund and retirement plan assets.
(3) Employee future benefits correspond to interest on the accumulated sick leave obligation minus the investment income of the Accumulated Sick Leave Fund, and to the interest on the survivor’s pension plan obligation minus the investment income of the Survivor’s Pension Plan Fund.

	As a % of budgetary revenue	Consolidated entities	Total debt service	
		($ million)	($ million)	(as a % of consolidated revenue)
	12.8		3 802	12.8
	12.9		4 015	12.9
	13.4		4 437	13.4
	13.5		4 666	13.5
	13.5		4 756	13.5
	14.8		5 316	14.8
	16.2		5 882	16.2
	15.8		6 034	15.8
	15.7		5 855	15.7
	19.5	303	7 342	16.6
	16.8	334	7 187	14.8
	17.0	338	7 373	14.9
	16.0	358	7 606	14.3
	15.6	331	7 261	13.8
	14.7	328	7 132	12.9
	14.2	391	7 241	12.6
	14.0	414	7 449	12.4
	13.4	517	7 559	11.9
	12.6	1 538	8 723	12.5
	12.0	1 592	8 752	12.0
	11.2	1 492	8 131	11.1
	10.5	1 604	7 844	10.0
	11.3	1 851	8 935	10.8
	11.2	2 103	9 451	10.9
	11.8	2 073	9 839	11.2