THE GLOBE AND MAIL

Quebec budget includes $1-billion to keep head offices, like SNC-Lavalin's, in the province

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COMMENTS

Quebec Finance Minister Eric Girard, left, is applauded by the government and Quebec Premier François Legault, right, as he stands to present his budget on March 21, 2019 at the National Assembly in Quebec City.

JACQUES BOISSINOT/THE CANADIAN PRESS

The Quebec government of Premier François Legault and his conservative Coalition Avenir Québec introduced its first budget Thursday. Some highlights:

- Finance Minister Eric Girard presented the province's fifth-straight balanced budget with spending of $113-billion, an increase of 4.7 per cent over last year. Revenue is set to grow 1.8

per cent, to $116-billion. (The balance goes into the province's debt-repayment fund.)

- The bulk of the increased spending is on health and education, with plans to boost spending on home care and seniors' homes, improve schools, expand kindergarten for four-year-olds and provide more care for children with special needs.
- Quebec is returning $889-million to taxpayers by reducing property-tax rates, boosting family allowances and creating tax incentives for seniors to keep working.
- The province will begin to reduce the 70-cent to $13.90 daily surcharge for using the public daycare system. The base universal fee, currently set at $8.25 a day, will be the only cost in 2022.
- Quebec's own-source revenue is almost flat, with 0.6-per-cent growth expected in 2019-20. Federal transfers, which account for about a quarter of the budget, will increase 6.5 per cent.

The Quebec government has set aside $1-billion to encourage strategically important businesses to keep their head offices in the province, a measure Finance Minister Eric Girard says he could use to protect the Montreal executive suites of SNC-Lavalin Group Inc.

Mr. Girard announced the measure Thursday in his Coalition Avenir Québec government's first budget, which hikes spending 4.7 per cent and relies heavily on increased federal transfers to keep a clean balance sheet.

The budget is light on details of how the government would execute the head-office plan. Budget documents say the government will strike a team "whose mandate will be to develop business intelligence in the field of head office protection." Mr. Girard said details will be announced later by Economy Minister Pierre Fitzgibbon.

The retention of head offices has been a sensitive issue in Quebec since the 1970s, when companies fled the province amid a separatist movement and lagging economic prospects. Quebec independence is on the back burner, but the head-office issue reared up again after U.S. hardware giant Lowe's Companies Inc. made a surprise bid for Quebec-based Rona Inc. and troubles mounted for SNC-Lavalin, the engineering giant facing corporate fraud and bribery charges after years of international scandal.

If convicted, Ottawa could ban the company from bidding on federal projects for 10 years. A ban in Canada would force the company to seek more work outside the country and throw into question its commitment to maintaining its headquarters in Montreal.

SNC's stock is also trading at levels not seen in a decade, exposing it to a hostile takeover attempt. Quebec has vowed to prevent this but has so far sat back, preferring to let pension fund manager

Caisse de dépôt et placement du Québec act as SNC's key defensive pillar. The Caisse has increased its equity in SNC to just under 20 per cent, meaning any potential buyer would have to win its backing.

SNC is among several corporations the government has described as worth preserving because of its strategic value, meaning it carries a financial weight and profile vital to the Quebec economy. It is the only firm the government has publicly named as being strategic.

"The world is evolving to a point where governments around the globe are adopting a more defensive posture in the face of "commercial uncertainty caused by the Americans and Chinese," Mr. Fitzgibbon said in an interview on Jan. 31. "We're seeing countries take steps to protect their [business] environment. So we're not unique."

Montreal's Institute for Governance published a list in 2016 of 16 Quebec-based companies with more than $1-billion in revenue having no protection against hostile takeovers. Some of the companies on that list are almost certainly on Quebec's current list of strategic firms, including grocer Metro Inc., aerospace training firm CAE Inc. and engineering company WSP Global Inc., said Yvan Allaire, executive chairman of the institute. Other companies that are integral to the economy likely include Alimentation Couche-Tard Inc., Bombardier Inc. and CGI Inc., which all have dual class shares as defences.

SNC-Lavalin has a stock market value of $6.1-billion. If the government were to spend a significant portion of the $1-billion fund on SNC shares, it would quickly become one of the company's largest investors.

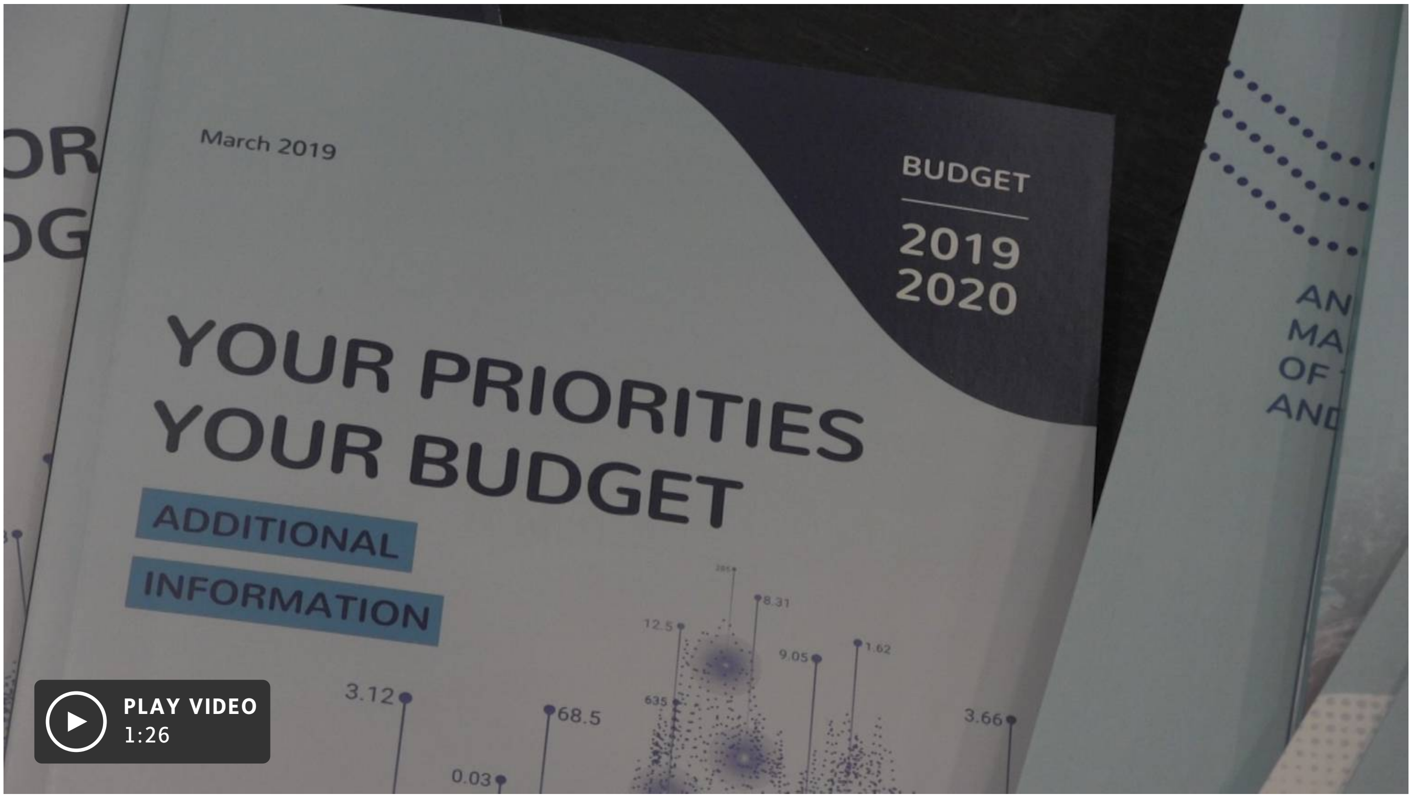
The new fund could be used for SNC-Lavalin but the program was not designed exclusively for the company, Mr. Girard said. "I wouldn't call this interfering in the economy. This is giving us the means to take a strategic participation in companies if need be.

"More head offices are good for Quebec. When you have a head office in your territory, this is where decisions are made. It's very important, and we want to support that."

Finance critic Carlos Leitao refused to set aside money to protect head offices when his Liberals were in government. He said he will wait to see details of the fund before deciding if it's a good idea. "It's important for the government to spell out how far it is willing to go," Mr. Leitao said. "A billion dollars won't necessarily go very far in this kind of exercise."

The province also added $1-billion in capital to Investissement Québec, raising the government's investment and loan arm to $5-billion. The government plans to overhaul the agency's mandate to boost innovation in the economy, but details have yet to be released.

The measures are part of a budget that will increase spending 4.7 per cent while maintaining a balanced budget after $2.5-million is set aside in Quebec’s debt-repayment fund. The budget boosts infrastructure spending by $1.5-billion a year over the next 10 years to update aging public works.



Finance Minister Eric Girard says his budget will leave more money in Quebecers' pockets and pour funding into the key portfolios of education and health. Both will see spending increase in 2019-20 by more than five per cent. The budget projects a $2.5 billion surplus on total revenue of $115.6 billion. Gross debt is estimated at $200.8 billion, which represents 46.1 per cent of gross domestic product, continuing a downward trend from a peak of 54.3 per cent five years ago.

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The budget projects the economy will grow 1.8 per cent in 2019, down from 2.3 per cent in 2018 and 2.8 per cent in 2017.

Premier François Legault campaigned on the slogan that his CAQ government would take in fewer immigrants while taking better care of them. He set aside a sizable amount of new cash to back his promise. The plan more than doubles the amount of money dedicated to teaching French to newcomers and assisting them with integration. Overall, the province will spend $466-million on assistance for immigrants, up 43 per cent over the previous year.

The government delivered the more controversial half of the promise earlier this year, cutting its immigration target to 40,000 for 2019, down from 52,000 the previous year. The province only partially controls the selection of immigrants and is negotiating with Ottawa to implement the plan.

"We are taking one step back in order to improve all of our program. It's a temporary decrease. As our program improves, the number of immigrants will increase," Mr. Girard said.

Mr. Leitao called that an "extraordinary statement," pointing to the contradiction of professing to favour immigration by reducing immigration.

With an aging population and labour shortage, the province is also boosting incentives for people over 60 to continue working.

Véronique Proulx, president of the Quebec Manufacturers and Exporters Association, said all the measures are good but factory owners need more immigrants. "We had 18,000 vacancies last quarter. We're happy they're going to support immigrants, help them speak French, but now we have to bring in more," she said.

Mr. Legault often says he wants to be the education premier. A 5.1-per-cent boost in education spending will include $4-billion over 10 years to renovate and build schools. Another $1-billion will be spent expanding kindergarten for four-year-olds. Smaller amounts will go to everything from special-needs screening to extracurricular activities, field trips and eyeglasses for students.

Health spending will increase 5.4 per cent.

Quebec's own-source revenue will only grow 0.6 per cent in 2019-20. The balanced budget relies on an increase of 6.5 per cent in federal transfers, including a 12-per-cent increase in equalization – the money Ottawa redistributes to poorer provinces.

Mr. Girard said the government is putting in place measures to change the long-term structure of the economy and raise incomes.

The province's gross debt will decline slightly to $201-billion in 2019, before infrastructure and capital spending will start to grow it again in 2020.

Still, the debt is projected to continue to decline as a percentage of the economy – to 46.1 per cent in 2019, down dramatically from the 1998 peak of 57.8 per cent. Mr. Girard said that "all things being equal," Quebec's debt burden will reach 35 per cent and be below that of Ontario and the federal government. "The day is not so far away, and it will not only bring better financial health to Quebeckers, but more pride," he said.