



THE RIGHT FEES TO LIVE BETTER TOGETHER

REPORT

TASK FORCE ON FEES FOR PUBLIC SERVICES



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Report – The Right Fees to Live Better Together

Task Force on Fees for Public Services

Legal deposit - Bibliothèque et Archives nationales du Québec
March 2008

ISBN 978-2-550-52370-3 (Print)

ISBN 978-2-550-52371-0 (PDF)

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MESSAGE FROM THE CHAIR OF THE TASK FORCE

Ms. Monique Jérôme-Forget
Minister of Finance,
Minister of Government Services,
Minister responsible for Government Administration and
Chair of the Conseil du trésor

Dear Minister,

On behalf of the Task Force on Fees for Public Services, I am submitting to you the report stemming from our reflections. I thank you for your confidence in entrusting to us the mandate to advise you on a new user fee policy. Despite the difficulty posed by this undertaking, I responded enthusiastically to your invitation.

A daunting question

The question and the challenge it poses were considerable. For Quebecers, a change in user fees means that new taxes are being levied. Our task force was offered an opportunity to explain that this perception is erroneous and that it is a mistake to put user fees and taxes on the same footing.

Indeed, the two concepts differ considerably. Setting fees centres on the notion that those who use a service must also pay for it, i.e. the user-payer principle, while in the case of taxation, those who pay taxes will not necessarily use the services that the taxes fund.

A title that reflects a conviction

The task force has entitled its report *The Right Fees to Live Better Together*. This choice does not stem from a marketing exercise. It reflects a conviction that underpins the entire report, i.e. setting fees equitably is an effective, fair way to fund public services and, consequently, to enhance the lives of Quebecers.

To achieve greater efficiency and fairness means that by means of a well-defined user fee policy, we can better use public services, reduce the overall tax burden, bolster our productivity and thus strengthen a decisive factor in our economic progress, which in turn will broaden our financial capacity to display solidarity with the least privileged members of our society.

Principles and processes above all

We are proud of our report but do not claim to have provided all of the answers to such a sensitive, difficult topic. In this field as in many others, the devil is in the details.

For this reason, we wanted to emphasize principles and processes and the implementation of new ways of determining the fees for public services. We also chose certain public services among the most strategic ones in order to formulate precise recommendations concerning the fees set for them.

We recognize that the recommendations in this report will demand non-partisan discussions to ascertain the relevance and pragmatism of a new user fee policy. We will have to engage in an extensive public information campaign to enable Quebecers to grasp the facets and underlying factors. The problem is a complex one. We urgently need to act. Our approach upsets a historic way of doing things and it will take time to relinquish it.

We hope that this report will be examined dispassionately and according to its merit and that each recommendation will be judged at its true worth before decisions are made.

Acknowledgements

I would like to thank my colleagues on the task force, Joseph Facal and Lise Lachapelle, for their work and outstanding collaboration.

The task force is also greatly indebted to the team from the ministère des Finances headed by Luc Monty, in particular Simon Bergeron and Richard Masse, for whose support we are indeed grateful. We would also like to thank Jean-Pierre Pellegrin and his collaborators in the ministère du Conseil exécutif. These efficient, dedicated civil servants deserve our great esteem.

I would also like to thank the resource persons consulted and all those who shared with us their reflections on the question under study.

I hope that this report will meet with your expectations and enable you to alter our ways of doing things in a way that enhances our lives.

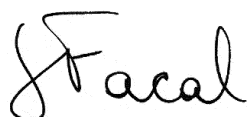


Claude Montmarquette
Chair of the Task Force on Fees for Public Services

SIGNATURES OF THE MEMBERS OF THE TASK FORCE



Claude Montmarquette
Chair of the Task Force on Fees for Public Services



Joseph Facal
Member of the Task Force on Fees for Public Services



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SUMMARY

On October 30, 2007, the Minister of Finance announced the establishment of a Task Force on Fees for Public Services to “examine the issues and advise the government in the elaboration of a new user fee policy.”¹ [TRANSLATION]

The mandate given to the task force focuses on a politically difficult question. The extent of the political pressure that any decision concerning the setting of fees arouses is, what is more, one of the factors to be considered in any reflection on user fees.

The question of user fees is also a politically sensitive topic since it is likely to affect all Quebecers. It is all the more sensitive as the least privileged members of society can be more extensively affected by increases in user fees pertaining to essential goods or services.

Indeed, the mandate that the government gave the task force specifies that user fees have social implications that must be carefully considered. The task force sought to analyse them closely bearing in mind the challenge of striking a balance between fairness and efficiency.

■ Numerous factors

The questions surrounding user fees involve numerous factors.

— First, the factors are financial. In 2006-2007, the user fee revenues of government departments, agencies, special funds and the health and education networks stood at \$6.6 billion, equivalent to 10.2 % of government revenues overall. When account is taken of other organizations that depend on the Québec government, the user fee revenues collected are over three times higher, totalling \$22.2 billion.

Again from a financial standpoint, the definition of user fees and the user fee policy raise the problem of the relative share of the user fees and taxes levied to fund public services. Any public service in respect of which insufficient fees are collected must be paid for one way or another through taxes.

¹ Establishment of the Task Force on Fees for Public Services. Press release issued by the office of the Minister of Finance, Minister of Government Services, Minister responsible for Government Administration, and Chair of the Conseil du trésor, October 30, 2007.

- The factors are also of another order. User fees, when they are properly defined, have a positive impact on user behaviour. A user fee policy determined in light of society's interests has the effect, depending on the good or the service concerned, of reducing waste, protecting the environment and ensuring the survival of our heritage, while releasing the funding necessary to ensure service quality and counter the ageing of infrastructure.

The factor in question thus goes beyond the strictly financial question: user fees are an essential tool to manage our collective behaviour as efficiently as possible in the best interests of all Quebecers.

By entitling its report *The Right Fees to Live Better Together*, the task force wishes to emphasize what it deems to be a fundamental dimension that must underpin any reflection on the setting of fees on goods and services offered by the State. The task force is convinced that user fees are or will be an essential tool available to Quebecers to efficiently attain their collective objectives.

❑ **Myths to be debunked, virtues to be recalled**

In **Chapter 1**, entitled “Myths to be debunked, virtues to be recalled,” the task force seeks to dismiss a number of received notions and play an educational role.

A number of myths cloud discussions of user fees that we must absolutely dispel before going any further in a serious analysis of the question. The task force has pinpointed five myths, which fully summarize the misunderstanding and distorted perceptions that sully any debate on user fees.

■ **First myth: public services are free**

The perception has developed that a service provided by a government body is not billable. A service offered by the government must be free of charge. This is what the task force calls a free-lunch culture.

Many reasons explain this perception. Citizens are not informed about the real cost of the public services they use, which is buried in the overall tax contribution. This perception of the free nature of services is even more pronounced among those who do not pay tax. In their case, they may forget, because they do not contribute to the service that they use, that such a service has a price and that someone pays the cost in their stead.

The free-lunch culture does not only reflect an erroneous perception of the situation. It leads to waste and irresponsibility and thus to the use of public goods and services that is detrimental to society overall.

■ **Second myth: user fees always increase**

The public often has the impression that fees are constantly rising. In actual fact, a comparison of changes in fees and the consumer price index reveals that over the past 10 years, most of the fees levied in Québec for public services have increased less rapidly than inflation.

There are several explanations for this myth. A number of the public services in question are essential services. Consumers are directly affected by increases and are highly sensitive to any increase in their bills, which is obviously not true of non-essential goods and services. Moreover, it must be noted that increases in some of these fees are widely publicized by the media. The resulting perception does not reflect reality but sustains the myth of constantly rising fees.

■ **Third myth: user fees in Québec are higher than elsewhere**

We often hear that the fees levied in Québec appear to be higher than elsewhere. The task force deemed it important to shed light on this question, all the more so as the mandate the government gave it includes precisely a comparison of user fees in Québec with those in other jurisdictions, in particular the Canadian provinces.

Comparisons of this kind are always awkward if we wish to proceed rigorously. Despite these difficulties, the task force conducted a sweeping comparison of user fees in Québec, the Canadian provinces and Canada as a whole.

Regardless of how we proceed, we always reach the same conclusion: user fee revenues are lower in Québec than elsewhere and Québec relies to a lesser extent on such revenues than the other provinces.

■ **Fourth myth: user fees are disguised taxes**

In the realm of user fees, a fourth myth prevails according to which user fees appear to be disguised taxes. In fact, the opposite is true in Québec, in that taxes are disguised user fees.

A user fee is not a tax, but a price demanded of users in exchange for a good or a service offered by a government department or agency or an entity that depends on the State. A tax is paid by a taxpayer on his income and his purchases of private goods and services in order to fund the State's missions, without it being necessary that this consumer directly benefit from such goods and services. It is possible that the taxpayer will ultimately use the goods and services funded by the tax but there is no guarantee that such will be the case.

From the standpoint of economic behaviour, a user fee differs considerably from a tax. As the price linked to the consumption of a good or a service, the user fee is a signal for both the producer and the consumer. The tax, on the other hand, represents the citizen's contribution to the funding of the missions of the State. It reflects in practical terms our belonging to the community, whose rules are defined within the framework of our democratic system.

User fees are thus not disguised taxes. However, in the case of Québec, we might well invert the formulation and note that in many ways, taxes are disguised, denatured or hidden user fees. We wish to emphasize in this way that in many instances taxpayers and not users are mainly responsible for paying the prices of the goods and services offered by the State, which contributes directly to increasing Quebecers' tax burden in relation to the other provinces while reducing or eliminating the price signal that the user receives.

■ **Fifth myth: user fees are unfair**

The last of the five myths that the task force wished to dispel from the outset concerns the relationship between user fees and fairness. User fees are apparently unfair.

Fairness is a complex notion that contains a measure of subjectivity. A given situation may be deemed fair by one person and unfair by another person. The task force has noted that user fee policies are always an inevitably imperfect compromise between a concern for overall efficiency and various facets of fairness. In point of fact, governments tend for all sorts of reasons to set user fees without any connection to production costs, which usually fall well below such costs.

In reality, it is both more efficient and fairer to directly, specifically subsidize low-income households rather than to set an artificially low overall user fee for everyone.

- It is more efficient because the user fee's signal function is thus maintained in relation to the value of the goods offered and the judicious use of such goods.
- It is fairer because it focuses assistance on those who genuinely need it the most and eliminates the subsidy from which more privileged individuals benefit. In this way, both equal opportunities and overall efficiency are enhanced.

■ Virtues to be recalled

The task force rounded out its reflection by examining at least three virtues that must be associated with clearly defined user fees and that Quebecers should perceive as such.

- The first of these virtues concerns the existing links—of which Quebecers seem to be fully aware—between properly defined user fees and the quality of the service for which a fee has been set.

Recent surveys have proved that Quebecers accept increased fees if such increases cover new services or enhance the quality of existing services. However, we must have a guarantee that the additional revenues stemming from user fee increases are actually allocated to the enhancement of fee-based services.

- The second virtue linked to user fees stems from their efficiency from an economic standpoint. The existing link between user fees and efficiency is fundamental. One of the major advantages of the user-payer principle is that it enables the user of the good or the service to correctly assess the value of the good or the service received.

When this principle is only partially respected, the value of the good or the service cannot be accurately assessed. The result is often overconsumption of the good or the service or, indeed, in some instances, veritable waste of the resource concerned.

- User fees have a third virtue: they compel us to ask the right questions about the funding of a public service and thus encourage us to find the appropriate answers, given the nature of the service offered.

A new user fee or an increase in an existing fee might also end the underfunding of a hitherto underfund public service. It would also be logical for a new user fee or an increase in an existing fee to lead to an equivalent reduction in taxes, if the public service had until then been sufficiently funded, in particular through taxes.

■ **The diversity and mixed nature of funding methods**

User fees thus reveal themselves as the ideal instrument to allow for the collectively efficient use of certain goods and services offered by the State. However, this does not mean that all public funding must rely on user fees.

In point of fact, an array of funding methods is necessary to reflect the very nature of the goods and services that the government offers. In some instances, taxes are preferred over user fees. In other situations, it is more appropriate to rely on both taxes and user fees.

In fact, this is the crucial question that we must ask ourselves as regards user fees, i.e. to what extent private goods funded collectively by the State must be funded through taxes.

□ **The current method of setting user fees and its shortcomings**

Chapter 2 of the report is devoted to the current method of setting user fees and its shortcomings.

User fees for public services are set according to widely varying rules that can be divided into fairly homogeneous categories. The task force analysed methods of setting user fees for each of these categories by seeking, above all, to evaluate the results obtained and pinpoint the causes of the problems noted.

■ **Departmental control**

The first category contains user fees subject to direct or indirect departmental control. User fee revenues stemming from this form of control reached \$9.7 billion in 2006-2007. Since 1999, these government departments and agencies have been subject to a frame of reference that defines a number of principles in the setting of user fees.

- The task force has made a key observation: with the sole exception of the Régime d'assurance parentale, the result of direct or indirect departmental control is that user fees do not reflect costs. When the health network is excluded, user fee revenues represent only 36% of the cost of the programs concerned. This proportion falls to 17% when account is taken of the health network.

In absolute value, this means that in 2006-2007 in the sectors that we were able to evaluate, \$6.0 billion in user fee revenues were collected to fund programs whose total cost exceeded \$35.3 billion. The gap between user fees and costs is thus considerable.

In some instances, this existing distortion between user fees and actual costs is known. It has been the subject of public debate and stems from a clearly identified government policy. However, it is not certain that Quebecers are aware of the extent of the gap and that they fully realize that the difference is funded by means of taxes. Another problem arises because the government assesses neither the cost nor the outcome of public policies that have engendered the discrepancy between user fees and costs.

In other cases, the situation is worse: the distortion between user fees and costs is not centred on an explicit policy and users are often unaware of it.

- Independently of this fundamental problem, we must acknowledge that government departments and agencies do not comply with the approaches stipulated in the frame of reference that applies to them.

The frame of reference strongly urges government departments and agencies to conduct an annual or periodic review of existing user fees. According to the survey conducted at the request of the task force, 52% of total user fee revenues of government departments and agencies overall comprise user fees that are not indexed.

The frame of reference indicates that government departments and agencies must make presentations of their accounts. The task force has noted that, in fact, the user fees defined and applied by the government departments and agencies are not subject to systematic, widespread presentations of accounts.

The frame of reference fosters the direct allocation of user fee revenues to the maintenance and enhancement of fee-based services. We have noted this direct allocation in respect of government agencies and the two insurance plans. However, in the case of government departments, user fee revenues are paid into the Consolidated Revenue Fund.

- Failure to systematically revise user fees makes occasionally abrupt adjustments necessary, as university tuition fees illustrate. Over the past 40 years, we have witnessed a series of freezes and adjustments, sometimes abrupt, in keeping with how much the education system lags behind actual costs and the user fees adopted in Canadian universities.

The problems observed can be explained by an array of reasons.

- The first reason is mainly political: all governments find it very difficult to transmit the actual cost of services to users who are also voters, even bearing in mind the adjustments defined in public policy. The taxpayer thus assumes the discrepancy between this cost and the user fee applied and the gap contributes directly to increasing tax pressure.
- The frame of reference intended for government departments and agencies is subordinate to existing legislation and regulations but does not in itself have force of law.
- The problems encountered also stem from the absence of a guideline in the frame of reference concerning allocation of user fee revenues. In the case of government departments, a significant portion of such revenues is paid into the Consolidated Revenue Fund without systematic reconciliation with the expenditures that these revenues fund.

■ The quasi-judicial tribunal

The second category is the quasi-judicial tribunal. The Régie de l'énergie is the only example in Québec of this method of setting user fees. In 2006-2007, user fee revenues in this category, i.e. revenues collected by Hydro-Québec in the form of user fees for electricity, stood at \$9.4 billion, equivalent to nearly 42% of the overall user fee revenues of agencies that depend on the Québec government.

The result of the operation of the Régie de l'énergie and the methods used to set electricity rates is extremely positive.

- The electricity rates authorized by the Régie de l'énergie reflect actual costs or at least the costs considered in light of the legislative framework that defines the Régie's mode of operation.
- The process is partly depoliticized when the current situation is compared with the situation that preceded it.

- The current process is completely transparent. It stems from the quasi-judicial nature of debate surrounding the rate application filed by a distributor.
- The process can undoubtedly be regarded as fair. The Régie de l'énergie is a credible agency through which all parties can voice their opinions.
- The State in its capacity as shareholder receives a return on investment like any shareholder, which was not the case prior to the establishment of the Régie.
- The Régie renders a judgment on applications based on the arguments submitted to it. To this effect, the agency's accountability is adequate and transparent.

Despite this highly positive outcome, we must acknowledge that a number of problems persist, of which there are essentially three.

- First, the existing legislative framework prevents the Régie from taking into account the true cost of electricity when rates are set. Under its enabling legislation, the Régie may not set rates according to opportunity costs, i.e. the prices that Hydro-Québec can obtain on external markets for electricity that it does not sell on the domestic market.

Moreover, the Régie may not examine a portion of the costs of electricity generated in Québec under the legislative provision concerning heritage pool electricity. The government has set through the Act the selling price of heritage pool electricity at 2.79 cents/kWh. This provision makes a basic component of the price fixed and arbitrary. It does not centre on factors that change over time.

- Second, the government can influence the agency before the submission of a decision in a way that dictates to it certain parameters of the decisions. The Act empowers the government to intervene through directives. In this regard, the directive that the government addressed to the Régie in December 2007 marks a disturbing development in this direct government involvement.
- Third, political pressure persists in the method of defining electricity rates. Direct government intervention stems from pressure from consumers, who are also voters. Rate increases will give rise to stormy debate in the National Assembly as the Minister of Natural Resources and Wildlife is considered to be responsible and accountable for the increase that the Régie has adopted.

■ Specific insurance plans

Certain trustee plans have been grouped together in the third category. The two biggest ones are the Société de l'assurance automobile du Québec (SAAQ) and the Commission de la santé et de la sécurité du travail (CSST). We have also included in this category two other trustee plans, the Fonds d'assurance-stabilisation des revenus agricoles and the Fonds d'assurance-récolte. In 2006-2007, user fee revenues in respect of these four plans stood at \$3.1 billion, i.e. nearly 14% of such revenues of agencies that depend on the Québec government.

The CSST and the SAAQ, the two biggest plans, enjoy significant autonomy in the determination of rates for premiums, in particular by virtue of their status as trustees.

The picture that emerges from an analysis of the four specific insurance plans varies greatly depending on the plans considered.

- We have observed that fees are adjusted to costs in the case of the CSST and the SAAQ. Another positive factor is that, in both cases, the individuals concerned are now able to perceive the results of the sound management of user fees. They can thus make a connection between rates that are geared to costs and the positive impact of sound management on the fees that they must pay.

The two plans in the agricultural sector are in an entirely different situation: in conjunction with farmer support policies, the premiums collected from policyholders cover only a fairly small portion of the real cost of the insurance. Furthermore, the Fonds d'assurance-stabilisation des revenus agricoles is in deficit, with the result that policyholders' premiums cover an even smaller portion of the cost of the plan.

- In the case of the trustee plans, it must be noted that the approach adopted several years ago in respect of the two main plans is a step in the right direction: greater distance has been achieved between the government and the authorities responsible for the trustee plans.

At the same time, it must be emphasized that in the case of the SAAQ, the agency's autonomy and the accountability of its executives have not prevented the government from experiencing public pressure from clientele following increases in insurance premiums. In the case of the CSST, the government has not intervened since the agency's status changed.

As for the two trustee plans in the agriculture sector, it must be noted that the very principle whereby the plans are funded should be evaluated by explicitly putting a figure on the cost of the policy in light of which this funding method was adopted and by analysing the amounts paid by the taxpayer in light of the findings.

■ **Delegation to the municipalities**

A fourth category covers the municipalities. The government has delegated to them their power to levy user fees. The user fee revenue in question reached \$2.7 billion in 2005. It is not part of the Québec government's user fee revenue but it is important to examine it since the rules for setting fees applicable to it ultimately depend on government policy directions.

As is true of user fees that the government controls directly, it must be noted that in the case of the municipalities, such fees do not reflect costs. This situation is readily apparent when we compare the user fee revenues of Québec municipalities with such revenues collected by municipalities in other provinces.

Indeed, we have noted situations similar to those highlighted in respect of user fees under the direct or indirect control of the government, and for the same reasons. The users of municipal services are scarcely or not at all informed about the cost of the services from which they benefit. The process itself is subject to significant political pressure, which explains the reluctance of municipal authorities to charge the actual cost of the service provided.

□ **A new user fee policy**

Chapter 3, entitled "A New User Fee Policy," reflects to some extent the outcome of the task force's reflection and responds to the questions raised by the government. In drafting this chapter, the task force wanted, first and foremost, to propose principles and a procedure that form the foundation and framework for what might become Québec's new user fee policy.

■ Objective

The task force is proposing that the objective of the new user fee policy be to define user fees that are both efficient and fair.

- The user fees must be efficient in order to send the right signals to users, properly manage our resources and public services, limit fiscal pressure and, ultimately, enhance our well-being and the livability of society.
- User fees must also be fair, since it is essential to take into account the consumer's ability to pay and the precarious situation of the least privileged members of society.

■ Principles

The task force has pinpointed six principles on the basis of which the government should elaborate the new user fee policy.

- coverage of costs;
- transparency;
- solidarity with the least privileged members of society;
- the allocation to fee-based services of user fees;
- accountability;
- the evaluation of public policies that include a user fee component.

■ Scope: a framework law

The task force recommends that the government define in a framework law the objective, principles and main terms of the new policy governing the setting of user fees for public services.

■ Terms

The task force recommends that in the new user fee policy and the framework law the government:

- confine itself to a few simple provisions that emphasize rapidity, efficiency and flexibility;
- seek to create greater distance between politicians and the authority responsible for defining user fees and immediately act upon this objective by transferring the definition of the fees levied pursuant to the Régime d'assurance parentale and the Québec drug insurance plan to the two agencies that administer the plans;
- ensure, in the event that user fees are increased to offset shortfalls, that the pace of adjustment is established according to the nature of the fee-based good or service;
- encourage the agencies responsible for setting fees to systematically take into account competition between the public sector and the private sector.

■ The process

Direct and indirect departmental control

In the case of user fees placed under the direct or indirect control of a government department, the task force recommends that the ministère des Finances be responsible for the administration of the framework law and the new policy, given the responsibilities it assumes in respect of revenues and fiscal and budgetary policy.

The task force recommends that the ministère des Finances assume mandates to:

- ensure follow-up to the provisions in the framework law;
- establish an expert panel on user fees to help government departments and agencies to comply with the new user fee policy;
- prepare the evaluations and accounting stipulated in the framework law.

The task force recommends that, in the case of government departments and agencies, the process of implementing the new user fee policy include:

- the establishment of an exhaustive inventory of the services offered and the fees demanded of users;
- a systematic evaluation of the costs of such services in order to compare them with the fees levied;
- an analysis of the discrepancy noted and the reasons for it;
- the definition of the revision of user fees;
- the determination of the period and pace of the adjustments to be made;
- identification of the measures implemented to take into account the situation of the least privileged members of society;
- once the proper level has been established, the determination of an indexation mechanism linked to cost or an indicator that reflects cost inflation;
- the implementation of measures to allocate user fee revenues to the fee-based service (creation of a dedicated fund or relaxation of budgetary rules);
- the introduction of an evaluation of the program or the public policy that justifies funding through taxes a portion of the cost of the service.

Clear instructions should be transmitted by the government to each government department and agency to initiate these steps and to make the managers concerned responsible for them. The ministère des Finances could ensure compliance with the process adopted.

User fees set by the municipalities

The task force recommends that in the new user fee policy and the framework law the government:

- define and administer efficient, fair user fees for the goods and services offered to residents;
- pursue this objective while respecting the principles of the coverage of costs, transparency, solidarity in respect of the least privileged members of society, the allocation to the fee-based services of user-fee revenues, accountability, and the evaluation of municipal policies that have a user fee component;
- define for this purpose the arrangements best adapted to their situation.

The quasi-judicial tribunal and the specific insurance plans

In the case of the quasi-judicial tribunal and the specific insurance plans, the user fees already reflect costs in most of the situations observed. However, the government could report each year on compliance with the existing rules.

The task force wanted to go beyond these principles and this procedure by formulating concrete suggestions concerning a number of user fees, all of which are closely linked to major government policies. Sections of Chapter 3 are specifically devoted to university tuition fees, electricity, water, transportation and childcare services.

■ To better manage a valuable asset: university tuition fees

The freeze on university tuition fees that has prevailed for most of the past four decades exemplifies a policy that has sought for a long time to be both efficient and fair. As a matter of fact, it is neither. In light of its analysis, the task force has noted that very low, uniform tuition fees that are frozen for a long time are both inefficient and unfair.

The task force recommends, with respect to tuition fees:

- an increase in the ceiling that the government applies to university tuition fees to gradually bring them (without abrupt adjustments) more into line with the Canadian average to better reflect the margin of economic viability of a university education;
- a corresponding adjustment in student loans and grants;
- differential tuition fees geared to level of studies and disciplines in order to better reflect differences in the cost of training and subsequent performance;
- once the adjustment has been made, annual indexation of the government grant to the universities and of tuition fees to take into account changing costs in order to maintain the government's contribution;
- regular monitoring of the relative position of Québec universities in relation to universities in the rest of Canada;

- that the universities be obliged to allocate a predetermined percentage of the additional revenues stemming from increased tuition fees to bursaries for students from genuinely underprivileged backgrounds that take into account the differences in fees demanded by sector and complement the existing financial assistance program, based on the model found in Ontario and British Columbia;
- a serious examination of the implementation of a student loan repayment system proportional to income, based on the model found in Australia or the model already proposed in Québec, whereby former students, once on the labour market and once they exceed a certain income threshold, must repay their student loans by paying an amount calculated by means of a repayment rate applied to the difference between gross earned income and the income threshold selected.

■ Electricity: a resource that is not sold at its true cost

The electricity rates applied in Québec send a poor price signal for two reasons.

- First, because rates are not set according to marginal cost, they do not sufficiently take into account the rising cost of generating hydroelectricity.
- Second, the price of electricity sold in Québec does not take into account its opportunity cost, i.e. the price at which this electricity could be sold on external markets. It would be much more efficient from an economic standpoint to sell electricity on the Québec market at a price comparable to the rates applied in neighbouring jurisdictions, just as Alberta sells its petroleum products at the same price inside and outside the province.

The task force recommends that the government review the legislative framework governing electricity costs so that electricity rates:

- take into account the opportunity cost of the electricity generated in Québec;
- send a price signal corresponding to the rising cost of electric power generation.

To this end, the best approach would be to amend the *Act respecting the Régie de l'énergie* by:

- stipulating that the Régie de l'énergie must take into account the opportunity cost and the marginal cost when electricity rates are set;
- eliminating, in exchange, the notion of heritage pool electricity, so that the Régie can evaluate all generation costs when it examines electricity rates.

Failing such an approach, the government should:

- itself ensure that the opportunity cost and the marginal cost of generating electricity are taken into account when it raises the price of heritage pool electricity.

The revision of the legislative framework governing electricity costs should be accompanied by sweeping energy conservation programs coordinated by the Agence de l'efficacité énergétique.

In any event, it is important that the increase in electricity rates not affect the least privileged members of society. The task force recommends that the government adjust accordingly social aid or one of the tax credits granted low-income earners and avoid altering the rates themselves.

Moreover, the government should ask Hydro-Québec to accelerate the implementation of rates that are adjusted according to the time of consumption, as already announced in the *Québec Energy Strategy 2006-2015*.

The additional revenues that the government would collect in its capacity as the shareholder should be paid, as a priority, into a new dedicated fund, which could be called the Fonds de pérennité du patrimoine, earmarked for the development of new energy sources.

■ Water: halt waste

Québec is facing a daunting challenge stemming from the overconsumption of water for which adequate user fees are absent and municipal responsibility for distributing this resource.

However, the conclusions of studies devoted to setting rates for water are very clear. All of the inquiries have revealed that consumption rates are considerably higher both at the national level and in each province when an inclusive rate is charged instead of a rate based on volume. Universal metering of water consumption reduces by 15% to 30% overall water consumption in homes, businesses and industries. As is true of electricity, it is big water consumers that benefit the most from current deficiencies in the setting of rates.

The task force recommends that Québec adopt umbrella legislation governing water that establishes a coherent legislative framework that allows for the implementation of the measures necessary to ensure sustainable water management.

In the medium term, over a period of 10 years, for example, it would be advisable to introduce a water meter incentive program. Water meters would ultimately be compulsory for all homes, businesses and industries. This program, for which subsidies would gradually diminish, would seek to more quickly satisfy the requirement stipulated in the legislation.

The government should establish water pricing that comes into force once the water meters are installed. The task force is proposing that the government analyse the method of administering such pricing.

- The pricing would be based on actual production costs combined with a share that reflects the future cost of replacing obsolescent production, distribution and water purification equipment in order to update infrastructure.
- The regulation of pricing would be assigned to a quasi-judicial tribunal, either a Régie de l'eau or the Régie de l'énergie, which would have a broad mandate as is already the case elsewhere in Canada.
- As is the case in the electricity sector, it would be judicious to elaborate usage-sensitive pricing that is differentiated according to the time of day. This would both reduce peak demand and offer consumers the possibility of saving water based on deliberate environmental choices.
- The new water pricing scheme should be accompanied by water conservation programs.

In the immediate future, any support that Québec offers in respect of production, distribution and water purification infrastructure should be contingent on the installation of water meters.

As is true of electricity, revenues derived from water pricing should be used, first and foremost, to cover distribution and purification costs.

■ To enhance our services and protect the environment: toll roads and urban tolls

The revenues that the government collects from motorists are not directly tied to road use. The users of the road network do not receive any price signal in this regard. Furthermore, Québec's road infrastructure is ageing and requires significant upgrading to meet North American standards. The public is very much aware of the ageing of the road network and the need to find new sources of funding to repair it.

Some people defend the hypothesis of tolls aimed at controlling congestion in Montréal, similar to the system that was successfully introduced in London.

Based on these observations, the task force wishes to propose a number of avenues for reflection about the future.

To make better use of user fees to enhance the road network, the task force recommends that:

- driver's licence and vehicle registration fees be paid into the Fonds de conservation et d'amélioration du réseau routier;
- the level of the fees be linked to future needs for investment in road infrastructure;
- ideally, that road users pay for new road infrastructure through tolls, whether or not the infrastructure is built in partnership with the private sector and insofar as there is, of course, an alternative route;
- the government consider the possibility of adjusting vehicle registration fees according to the annual kilometrage that motorists travel;
- the ministère des Transports du Québec immediately conduct complete, rigorous feasibility analyses to study the possibility of levying user fees on motorists according to their use of the road network and the characteristics of the vehicle driven;
- the ministère des Transports be mandated to thoroughly study the possibility of implementing urban tolls around Montréal Island or Greater Montréal in order to manage rush-hour congestion, accompanied by additional investment in mass transit in the Montréal area.

■ **To verify coherence between user fees and the objectives pursued:
childcare costs in childcare centres and home childcare services**

The task force wished to examine the question of childcare expenses in order to emphasize the financial issues at stake. These issues warrant an evaluation of the results obtained and an estimate of future costs, even though Quebecers appear to have established a clear consensus concerning the relevance of the initiatives that the government has undertaken.

The task force deems reduced-contribution childcare spaces to be the perfect example of a public policy whose cost was very badly evaluated when it was implemented and in respect of which user fees are directly subject to political pressure.

There is indeed a consensus among Quebecers concerning the relevance of this policy and the importance of maintaining it, above all from the standpoint of the demographic challenge that Québec is facing.

However, an efficient, fair user fee policy assumes that Quebecers are well aware of the cost of this policy, since funding for it increases fiscal pressure. It seems inevitable that current user fees will be indexed, at least in order to stabilize the proportion of the government's contribution.

The task force recommends that the government:

- rigorously evaluate the current and projected costs of the policy respecting funding for childcare expenses;
- evaluate the impact of the childcare service funding policy on the objectives that it is pursuing;
- periodically adjust the contribution demanded of parents to stabilize the proportion of the government subsidy and thus reflect cost increases.

❑ Conclusion

At the conclusion of its report, the task force hopes to send a clear message to the government and to all Quebecers: user fees, used efficiently and fairly, are a means of achieving collective enrichment and enhancing the well-being of everyone that it is in our best interest to use.

User fees are not a disguised tax. To the contrary, they are an indispensable means of sending the right signal to the user. An effective user fee policy is compatible with the necessary protection of the least privileged members of society. The government must simply avoid altering the fees themselves but intervene instead by transferring to low-income households the resources they need to acquire essential goods and services.

Bearing in mind the extent of the government's financial involvement in our economy, it is unthinkable that the criteria of efficiency and fairness not prevail when rates are set. It is unacceptable for Quebecers to be so ill-informed of the existing links between user fees and taxes, what they pay and how they pay it.

As the Chair has noted in his message that introduces this report,² the task force recognizes that the recommendations in this report will demand non-partisan discussions to ascertain the relevance and pragmatism of a new user policy. We will have to engage in an extensive public information campaign to enable Quebecers to grasp the facets and underlying factors. The problem is a complex one. We urgently need to act. Our approach upsets a historic way of doing things and it will take time to relinquish it.

The task force hopes that this report will be examined dispassionately and according to its merit and that each recommendation will be judged at its true worth before decisions are made.

² See page III.

INTRODUCTION

On October 30, 2007, the Minister of Finance announced the establishment of a Task Force on Fees for Public Services to “examine the issues and advise the government in the elaboration of a new user fee policy.”³ [TRANSLATION]

The government had precisely defined the mandate assigned to the task force on October 5, 2006.⁴

❑ Mandate of the task force

The mandate is defined as follows:

“ ... The mandate of the Task Force [on Fees for Public Services] comprises six sections:

- draw up a list of user fees levied by the Québec government;
- compare user fees in Québec with those in other jurisdictions, in particular the Canadian provinces;
- propose the key principles on which the government should rely to establish a user fee policy covering the entire public sector, bearing in mind the following factors:
 - fairness, e.g. the consumer’s capacity to pay, including measures to protect the least privileged members of society;
 - efficiency, e.g. the existence of substitute products in the private sector and the attendant competition;
 - the terms and conditions, e.g. incentives for government departments to levy adequate user fees;
- propose new possible fields for setting user fees and their application, e.g. tolls on provincial autoroutes;
- propose a process to systematically review different types of user fees, e.g. in light of the rising cost of services or based on the CPI;
- propose an adjustment timetable and process in the case of user fees that have not been indexed for several years, or in cases where current fees are markedly lower than the cost of the services rendered ...”⁴ [TRANSLATION]

³ Establishment of the Task Force on Fees for Public Services. Press release issued by the office of the Minister of Finance, Minister of Government Services, Minister responsible for Government Administration, and Chair of the Conseil du trésor, October 30, 2007.

⁴ Conseil du trésor du Québec, C.T. 205495 of October 5, 2007. In the C.T. and the press release quoted earlier, the Groupe de travail sur la tarification des services publics is called the “Groupe de travail sur la tarification.”

❑ A broad mandate

The mandate that the government has assigned to the task force is obviously extremely broad.

- It covers all facets of a government user fee policy, i.e. the principles adopted, the fields covered and the processes implemented.
- It concerns all of the user fees levied by the government, i.e. those collected by government departments and agencies and all of the organizations that depend directly on the Québec government.

Certain facets of a Québec user fee policy could even apply to the municipalities, which are under the direct authority of the Québec government.

This broad mandate is also very precise as regards the components to be broached. It thus pinpoints certain avenues concerning the principles to be adopted, the new fields subject to user fees to be explored or the process to be implemented.

❑ A sensitive mandate

The mandate assigned to the task force concerns a politically sensitive topic. Moreover, the importance of the political pressure that any decision regarding the setting of user fees arouses is one of the issues to be taken into account in any reflection on user fees.

The task force is very much aware of these difficulties and constraints that the government faces when it launches initiatives in the realm of user fees. However, it hopes to tackle the mandate assigned to it by avoiding any hint of complacency.

The establishment of a task force responsible for laying the foundations for a new policy is intended, for that matter, to overcome these constraints by entrusting to individuals who are removed from partisan interests the task of engaging in the most constructive reflection possible on a question that is crucial for the smooth functioning of our society.

❑ All Quebecers are affected, especially the least privileged members of society

The question of user fees is also a politically sensitive topic since it is likely to affect all Quebecers. It is all the more sensitive as the least privileged members of society may be affected more than others by increases in fees for essential goods or services.

Indeed, as the mandate assigned by the government indicates, user fees have social implications that must be carefully considered. The task force has sought to analyse them attentively and to meet the challenge of striking a balance between fairness and efficiency.⁵

❑ A topic that cannot be ignored

The task force wishes to emphasize the importance of questions surrounding user fees, which stems from the nature of the issues at stake.

■ Financial issues

These issues are, first and foremost, of a financial nature. User fees are a topic that cannot be ignored, first because of the questions that they raise from the standpoint of public finances.

User fees can be defined as the rules and decisions taken by the government or government bodies to determine the amounts demanded of users in exchange for a good or a service offered by a government department, agency or entity.

The funds collected by the authorities that depend on the Québec government and deemed to be user fee revenues are significant.

— In 2006-2007, the user fee revenues of government departments and agencies, special funds and the health and education networks stood at \$6.6 billion, i.e. 10.2% of all government revenues. They could be broken down almost equally between the user fee revenues of government departments and agencies and special funds (\$3.5 billion) and the user fee revenues collected by the health and education networks (\$1.4 billion and \$1.7 billion, respectively).

⁵ The task force has grouped together in an appendix to the report the countervailing measures defined by the Québec government in favour of low-income households (see Appendix 3).

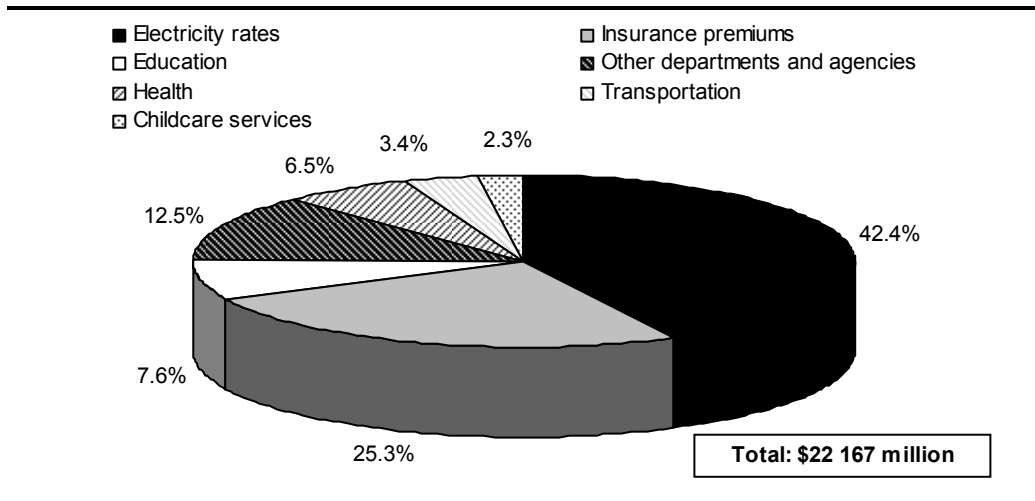
— In fact, if we take into account the other agencies that depend on the Québec government, user fee revenues are three times higher and stand at \$22.2 billion. We must, in actual fact, add to the preceding category electricity rates, childcare service fees and insurance fees (occupational health and safety insurance, parental insurance, automobile insurance, drug insurance, farm income stabilization insurance, and crop insurance⁶).

All told, the user fee revenues of the agencies that depend on the Québec government were equivalent in 2006-2007 to 7.8% of Québec GDP.

CHART 1

Breakdown of the user fee revenues of agencies that depend on the Québec government, 2006-2007

(as a percentage)



Source: Ministère des Finances du Québec.

⁶ The task force has excluded from its analysis the Régie des rentes du Québec, which administers a compulsory insurance plan that could have been classified with the trustee plans. However, its mission is very specific and the guarantees surrounding its operations appear to be entirely satisfactory. Appendix 2 on page 157 provides a description of the agency's operating method and the method of defining contributions.

TABLE 1

**User fee revenues of agencies that depend on the Québec government,
2006-2007**

(in millions of dollars)

	Revenues
Departments, agencies and networks	
Departments, agencies and special funds	3 522
Health network	1 439
Education network ¹	1 681
Subtotal – Departments, agencies and networks	6 642
Other sources of user fees	
Electricity rates (Hydro-Québec)	9 402
\$7-a-day childcare services ²	518
Insurance:	
– Occupational health and safety insurance (CSST)	2 262
– Parental insurance	1 184
– Drug insurance	1 302
– Automobile insurance	698
– Other insurance	
– Farm income stabilization insurance	134
– Crop insurance	25
Subtotal – Other sources of user fees	15 525
TOTAL	22 167

1 Higher education and school boards.

2 Childcare centres, home childcare services and school childcare services.

Source: Ministère des Finances du Québec.

■ User fees and taxes

The definition of user fees and the user fee policy that controls them thus have a direct impact on public finances.

Such impact does not stem solely from the relative place that user fees occupy in government revenues but also from the need to pay for through taxes goods or services on which inadequate user fees are set.

In fact, we raise here the problem of the relative share of user fees and taxes on which we rely to fund public services. Any public service on which an inadequate fee has been set must be paid for one way or another through taxes. Some people even believe that any public service should be mainly paid for through taxes.

We will return to this question later. However, everyone must agree that, unless we are willing to reduce services, user fees that are too low in relation to the cost of the good or the service will oblige taxpayers to pay for a portion of this good or service instead of the user.

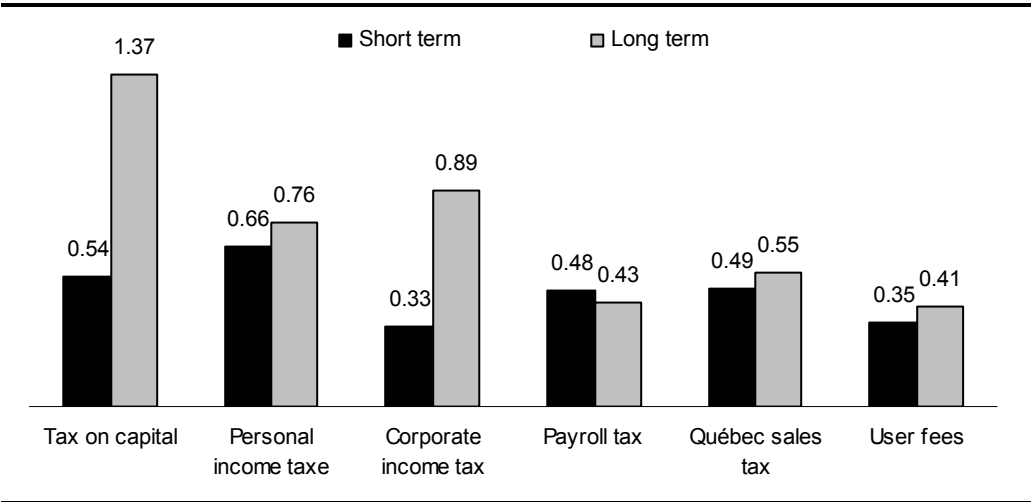
Strictly from the standpoint of public finances, user fees that reflect the cost of the good or the service offered would thus reduce fiscal pressure and put us in a better position in terms of tax competition. In the final analysis, we can thus easily show that clearly defined user fees accompanied by a competitive income tax system would foster economic growth and vitality.

Simulations conducted by the ministère des Finances confirm from a macroeconomic perspective the advantage of replacing taxation by user fees. When we compare the impact on GDP of an equivalent increase in taxation or user fees, we note that sometimes significant gains are achieved by replacing in the short and long terms possible forms of taxation by user fees.

CHART 2

Comparison of the impact on the Québec economy of increases in taxes and user fees

(cost in dollars of real GDP of a \$1 increase in expenses)



Note: A one-dollar increase in user fees reduces GDP by \$0.35 in the short term and \$0.41 in the long term.
Source: Calculable general equilibrium model of the ministère des Finances du Québec.

■ A tool that enables us to live better together

The financial issues are considerable but they are not the only ones.

The user fee is the price at which a good or a service is offered by an agency that depends on the State to the user who wishes to take advantage of it. Like any price, the user fee is a signal both for the producer and for the consumer. The producer and the consumer will define the quantities that they wish to produce or consume according to the level of the user fee.

This means that the user fees levied by the agencies that depend on the government directly affect the efficiency with which the goods and services in question are produced and consumed.

- User fees, when they are properly defined, have a positive influence on users' behaviour. As we will see later, a user fee policy that is set according to society's interests has the effect, depending on the goods or services concerned, of reducing waste, protecting the environment and ensuring the survival of our heritage, while releasing the funding necessary to ensure the quality of service and counteract ageing infrastructure.
- The issue in question goes beyond the strictly financial question: user fees are an essential tool to manage our collective behaviour as efficiently as possible in the best interests of everyone. By entitling its report *The Right Fees to Live Better Together*, the task force wished to emphasize what it deems to be a fundamental dimension, one that must underpin any reflection on the setting of user fees for the goods and services offered by the State.

□ The need to choose priorities

The government set a short timetable on the task force to cover a mandate whose scope we have just emphasized. The task force has thus targeted the reflection and analyses undertaken by pinpointing a number of priorities.

- From the outset of its deliberations, the task force has deliberately excluded from its specific analyses user fees in the health care sector. The Task Force on the Funding of the Health System chaired by Claude Castonguay has examined the question of user fees for certain services in the health care sector and it thus seemed unnecessary to duplicate the reflections of other experts.⁷

⁷ Report of the Task Force on the Funding of the Health System (2008). *En avoir pour notre argent*, page 262.

- The task force focused its reflection in light of the impact that it might have on user fees for public services overall. It thus devoted a significant amount of time to pinpointing the principles to be respected and the processes to be implemented, in direct response to the mandate defined by the government.
- The task force sought to analyse the existing links between the user fee policy and certain major government objectives, essentially the energy policy, the reconciliation of work and family life, the policy to support families, access to education, environmental protection, the promotion of sustainable development, and the maintenance and sound management of infrastructure.
 - Indeed, if we believe in these objectives, it is entirely legitimate to rely on user fees as a means of attaining them.
 - However, we must verify the achievement of these objectives and evaluate the cost that society agrees to pay to do so.
- It was essential to take into account the current and foreseeable position of Québec's public finances. The precariousness of our fiscal balance is a key dimension in the definition of a user fee policy since it determines the financial leeway that the government actually enjoys.
- The task force believes that it is important to improve matters in respect of a topic that, as we have emphasized, is subject to political pressure and the difficulty for a government to implement initiatives that are as much in keeping with the public interest as possible.

To ensure that Québec progresses in this sensitive area, the task force has devoted much of its efforts to facilitating better understanding of the question. To this end, it has sought to play an educational role and display transparency bearing in mind that the veritable “free-lunch culture” that appears to exist in Québec cannot be altered in a few months.

At the same time, the task force has emphasized principles and processes by wagering that it would be both more logical and easier to achieve a consensus on a new user fee policy building from the outset this policy on solid foundations that society accepts.

❑ The approach adopted by the task force

The task force has voluntarily confined its consultation approach. The mandate assigned to it by the government did not include a section devoted to possible public hearings. In any event, the task force could rely on extensive reflection and existing analyses pertaining to the question and widely available to everyone.⁸

However, the task force wished to thoroughly examine several aspects of its mandate by meeting with certain experts whose opinions struck it as especially relevant.⁹

With the same aim in view, the task force sponsored specific analyses in order to validate certain hypotheses or better grasp certain of the problems in question. In this way, it had at its disposal a study elaborated on user fees policies abroad, especially in countries whose political institutions are based on the British model,¹⁰ and a study of the possible setting of fees for water and the supervision of such fees by a Régie de l'eau.¹¹

❑ A key concern, balance to be achieved between fairness and efficiency

The very title of the report illustrates the key concern that has motivated the task force, which is convinced that user fees are or will be an essential instrument at the disposal of Quebecers to efficiently achieve their collective objectives.

Properly used, user fees can enable us to enrich ourselves collectively.

Moreover, such fees must stem from rules that strike a delicate balance between fairness and efficiency. As we noted earlier, user fees significantly affect redistribution and we must pay close attention to this impact. We must avoid unwanted impact on the most vulnerable Quebecers, without for all that distorting the recommendations presented or provoking perverse effects that would make all Quebecers suffer.

⁸ The task force examined with considerable interest the study *La tarification des services publics : financement différent ou taxe supplémentaire ?* by Gilles N. Larin and Daniel Boudreau, Chaire de recherche en fiscalité et en finances publiques, Université de Sherbrooke, January 18, 2008.

⁹ See Appendix 4 for a list of individuals and agencies consulted and the list of analyses conducted at the request of the task force.

¹⁰ Appendix 5 is devoted entirely to the study on user fee policies abroad conducted by the École nationale d'administration publique at the request of the task force.

¹¹ See Appendix 6.

□ The plan of the report

The report devoted to the analyses and reflections of the Task Force on Fees for Public Services is divided into three parts to reflect the approach adopted and the priorities that the task force pinpointed to fulfil the mandate assigned to it.

- In **Chapter 1**, entitled “Myths to be debunked, virtues to be recalled,” the task force seeks to dismiss a number of received notions and play an educational role.

A number of myths cloud discussions of user fees that we must absolutely dispel before going any further in a serious analysis of the question.

By debunking these myths, the task force is also covering several facets of the mandate it received from the government, i.e. an inventory of the user fees that Québec levies and a comparison of practices in Québec and in other jurisdictions.

- **Chapter 2** is devoted to the current method of setting user fees and its shortcomings.

User fees for public services are set according to widely varying rules that can be grouped together in fairly homogeneous categories. The task force analysed methods of setting user fees for each of these categories by seeking, above all, to evaluate the results obtained and pinpoint the causes of the problems noted.

Before the task force suggests new initiatives, it was important to specify the root of the difficulties encountered. These problems and the reasons that explain them obviously clearly indicate the direction of the future efforts to be made.

- **Chapter 3**, entitled “A New User Fee Policy,” reflects to some extent the outcome of the task force’s reflection and responds to the questions raised by the government.

In drafting this chapter, the task force wanted, first and foremost, to propose principles and a procedure that form the foundation and framework for what might become Québec’s new user fee policy.

The task force wished to go further by formulating concrete suggestions concerning a number of user fees, all of which are closely linked to key government policies. Chapter 3 also includes sections specifically devoted to university tuition fees, electricity, water, transportation, and childcare services.

In the **conclusion**, the Task Force on Fees for Public Services reviews the key points that it believes encapsulate the messages and recommendations submitted to the government and to society as a whole.

The report includes six appendices.

- **Appendix 1**, entitled “The Task Force on Fees for Public Services,” provides information on the task force members and the support team.
- **Appendix 2** is devoted to the user fees levied by the Québec government. It provides an exhaustive inventory of user fees that the government levies accompanied by statistical data.
- **Appendix 3** lists the compensatory measures defined by the Québec government in favour of low-income households.
- **Appendix 4** indicates the individuals and organizations that the task force consulted in the course of its deliberations and the analyses conducted.
- **Appendix 5** presents one of these analyses, devoted to user fee policies abroad. It summarizes the observations made by the École nationale d’administration publique at the request of the task force.
- **Appendix 6** presents another analysis, entitled Judicious, rational water use: the establishment of a Régie de l’eau.

CHAPTER 1 – MYTHS TO BE DEBUNKED, VIRTUES TO BE RECALLED

The task force wanted to begin its report with the examination a number of myths that are all too prevalent concerning user fees and the setting of user fees.

With the same concern to play an educational role, it was important for the task force to look at least succinctly at a number of virtues that accompany a definition of user fees that reflects society's interests.

1.1 Myths to be debunked

The task force has pinpointed five myths, which fully summarize the misunderstanding and distorted perceptions that sully any debate on user fees.

Formulated in a deliberately provocative manner, the five myths are:

- public services are free;
- user fees always increase;
- user fees in Québec are higher than elsewhere;
- user fees are disguised taxes;
- user fees are unfair.

We will examine each of these perceptions one by one to emphasize both their erroneous nature and their root cause.

1.1.1 First myth: public services are free

No one thinks that food, gasoline or clothing are free goods. The reason is simply that, to consume such goods, we must pay something.

There are several public services the price of which asked of those who use them is low or non-existent, or disguised in another form. This is true of health or education services, roads and autoroutes, and water, to mention but a few examples.¹²

¹² Appendix 2 lists the user fee revenues levied by the Québec government and, therefore, public services subject to user fees.

Even if these services are not subject to user fees, they are not free: taxpayers pay for health and education services and road and autoroute maintenance, whose existence and availability are ensured by the taxes that they pay the government. In the case of roads and autoroutes, contributions are levied indirectly on motorists but they are not directly linked to the use of road infrastructure. As for water, it is usually invoiced in the form of fees integrated into municipal taxes without any relationship to actual consumption.

Taxpayers often believe that they are paying enough taxes and that there is no question of adding a user fee to the amounts that they have paid directly to the State. Those who pay no taxes do not even ask the question: for them, a public service is synonymous with a free service.

The perception has developed that a service provided by a government body is not billable. A service offered by the government must be free of charge. This is what the task force calls a free-lunch culture.

We can illustrate this situation very concretely: two ferries on the St. Lawrence River engage in similar operations. The ferry that operates between Rivière-du-Loup and Saint-Siméon belongs to a private firm¹³ but the ferry that operates between Matane and Baie-Comeau–Godbout is controlled by a government-owned corporation.

- In the first case, users find it entirely normal for the operator to regularly adjust the rates in order to maintain the quality of service.
- In the case of the ferry operated by a public enterprise, a fare increase inevitably provokes an outcry. The users believe that the public nature of the ferry service should mean that it is free of charge.

There are many reasons for this perception.

- Quebecers are not informed of the real cost of the public service that they use. Rare indeed are patients who know the cost of a visit to their physician or parents who have a notion of the cost of one year of education for their child in the public system. Even the real cost of childcare services is known to only a small minority.

¹³ The service is partly subsidized.

- The real cost of public services is buried in the overall tax contribution. The link between a public service and its price is so distended that the user of the service forgets its existence and reality.
- Obviously, this perception of the free nature of services is even more pronounced among those who do not pay tax. In their case, they may forget, because they do not contribute to the service that they use, that such a service has a price and that someone pays the cost in their stead.

Indeed, with the exception of the air we breathe, nothing is free.¹⁴ The free-lunch culture does not only reflect an erroneous perception of the situation. It leads to waste and irresponsibility and thus to the use of public goods and services that is detrimental to society overall.

1.1.2 Second myth: user fees always increase

According to the second myth, the public often has the impression that fees are constantly rising.

In actual fact, a comparison of changes in fees and the consumer price index reveals that over the past 10 years, most of the fees levied in Québec for public services have increased less rapidly than inflation.

- Between 1998 and 2007, electricity rates and university tuition fees rose by 13.5% and 3.0%, respectively, compared with a 19.8% increase in the consumer price index.
- A user fee such as the small game hunting licence did not change at all during that period.
- Only the rate charged for a single room in a residential and long-term care centre increased more or less at the same pace as inflation.

A complete survey of changes in the user fees levied in Québec would confirm this situation: despite certain Quebecers' perceptions, user fees are among the prices that increase the least rapidly.

There are several explanations for this myth.

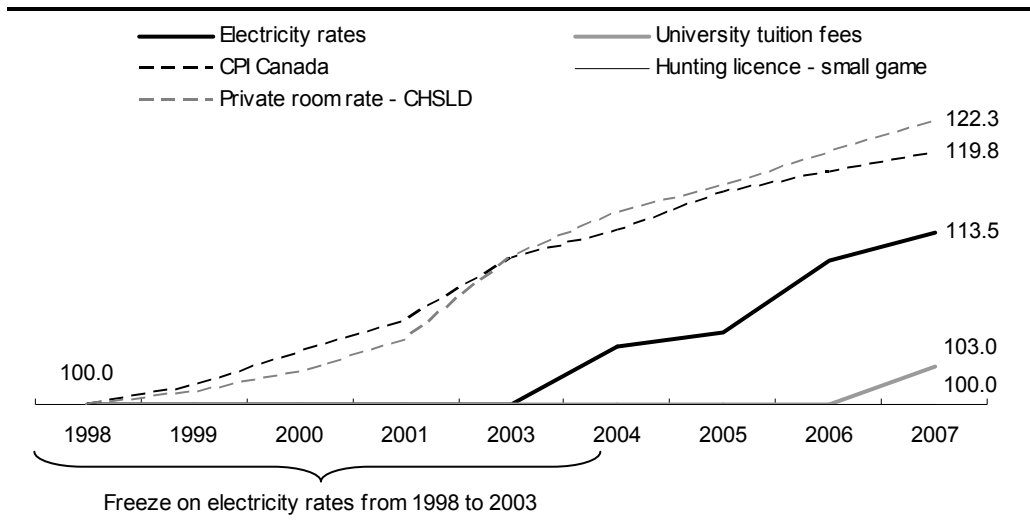
- A number of the services in question are public services. Consumers are directly affected by increases and are highly sensitive to any increase in their bills, which is obviously not true of non-essential goods and services.

¹⁴ Indeed, even air has a price. The maintenance of the quality of the air that we breathe in occupied areas involves costs that taxpayers usually assume.

- Moreover, it must be noted that increases in some of these fees are widely publicized by the media. Any request by Hydro-Québec for an increase in electricity rates receives extensive press coverage, as does the announcement of the Régie de l'énergie's decision. The resulting perception does not reflect reality but sustains the myth of constantly rising fees.

CHART 3

Changes in certain user fees and the consumer price index (CPI), 1998 to 2007
(cumulative index, 1998=100)



Source: Ministère des Finances du Québec.

1.1.3 Third myth: user fees are higher in Québec than elsewhere

The third myth that we often hear repeated is that the fees levied in Québec appear to be higher than elsewhere. The task force deemed it important to shed light on this question, all the more so as the mandate that the government gave it includes precisely a comparison of user fees in Québec with those in other jurisdictions, in particular the Canadian provinces.¹⁵

Comparisons of this kind are always awkward if we wish to proceed rigorously:

- the realm of user fees is indeed vast;
- occasionally striking conceptual differences arise concerning the user fees levied in different jurisdictions;
- the information necessary is not always available;

¹⁵ See page 1.

- the findings cannot take into account purchasing power in each jurisdiction given the difficulties inherent in the determination of purchasing-power parity in a comprehensive analytical framework of user fees.

Despite these difficulties and reservations, the task force conducted a sweeping comparison of user fees in Québec, the Canadian provinces and Canada as a whole.

Regardless of how we proceed, we always reach the same conclusion: user fee revenues are lower in Québec than elsewhere and Québec relies to a lesser extent on such revenues than the other provinces.

❑ User fee revenues are lower in Québec

The first comparison consisted in evaluating the user fee revenues collected in Québec and in the other provinces in order to qualify the extent of the amounts that the Québec government obtains.

As we noted earlier, in 2006-2007 the total user fee revenues of agencies that depend on the Québec government stood at \$22.2 billion, i.e. \$6.6 billion collected by government departments and agencies, special funds and networks, and \$15.5 billion from electricity rates, childcare services and insurance.¹⁶

- We calculated the per capita user fees collected by government departments, agencies and networks.
 - We note that for this category of user fees, Québec collects \$824 per capita, compared with \$1 041 in Ontario, \$1 042 in British Columbia, and \$1 205 in Alberta. In the case of Alberta, we observe that the high revenues the province collects because of its oil wealth have not at all reduce recourse to user fees to fund services.
 - If we apply these ratios to Québec, we obtain an initial measurement of the discrepancy in user fees.

Our findings mean that in 2006-2007, the user fee revenues of Québec government departments, agencies and networks were \$1.5 billion less than what they would have been if such rates had been equivalent to the Canadian average.

The discrepancy reaches \$1.7 billion with British Columbia and Ontario and exceeds \$2.9 billion with Alberta.

¹⁶ See pages 3, 4 and 5.

TABLE 2

Per capita user fee revenues of government departments, agencies and networks, 2006-2007

(principal provinces and Canadian average)

	Per capita user fees (\$)	Discrepancy in user fees with Québec (\$000 000)
British Columbia	1 042	1 669
Alberta	1 205	2 913
Ontario	1 041	1 665
Québec	824	—
Canadian average	1 021	1 512

Note: (—): not available or not applicable.

Sources: Data from Statistics Canada's Financial Management System (FMS) and calculations of the ministère des Finances du Québec.

— In the case of electricity rates and childcare services, we calculated the amounts that Quebecers would have paid had they paid the average rates in Canada.

In 2006-2007, the discrepancy in favour of Québec consumers stood at \$3.5 billion, i.e. \$2.3 billion in respect of electricity and \$1.2 billion as regards childcare services.

This calculation does not even taken into account differences in the realm of insurance, where Québec offers much broader public coverage than elsewhere but in fields where comparisons between jurisdictions run into methodological difficulties.

All told, excluding insurance from the comparison, Quebecers would have paid an additional \$5 billion had the rules governing user fees in Canada as a whole been applied to them.

The discrepancy stands at \$651 per capita for the overall user fee revenues considered in this evaluation.

TABLE 3

**User fee revenues of agencies that depend on the Québec government –
Discrepancy in relation to the Canadian average, 2006-2007**

(in millions of dollars)

	Revenues	Discrepancy in relation to the Canadian average	
		(\$000 000)	(\$/per capita)
Government departments, agencies and networks			
Departments, agencies and special funds	3 522	163	21
Health network	1 439	433	57
Education network ¹	1 681	916	120
Subtotal – departments, agencies and networks	6 642	1 512	198
Other sources of user fees			
Electricity rates (Hydro-Québec)	9 402	2 326	304
\$7-a-day childcare services ²	518	1 145	149
Insurance:			
– Occupational health and safety insurance (CSST)	2 262	—	—
– Parental insurance	1 184	—	—
– Drug insurance	1 302	—	—
– Automobile insurance	698	—	—
– Other insurance			
– Farm income stabilization insurance	134	—	—
– Crop insurance	25	—	—
Subtotal – Other sources of user fees	15 525	3 471	453
TOTAL	22 167	4 983	651

Note: (—): not available or not applicable.

1 Higher education and school boards.

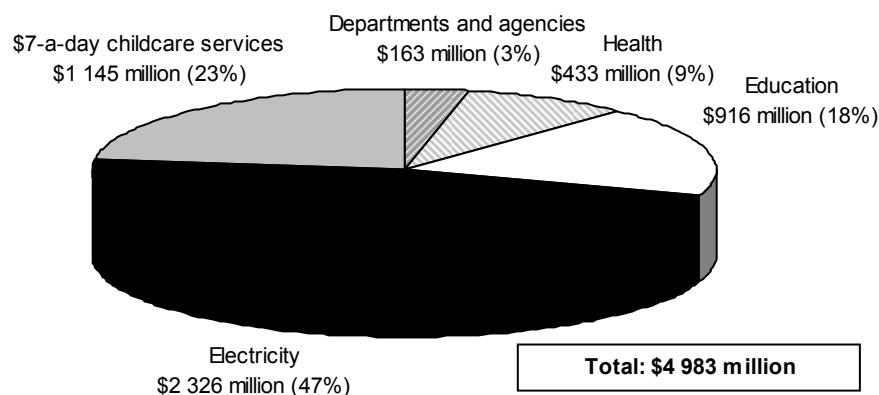
2 Childcare centres, home childcare services and school childcare services.

Sources: Ministère des Finances du Québec. The discrepancies in relation to the Canadian average for government departments, agencies and networks are calculated using data from Statistics Canada's Financial Management System (FMS).

CHART 4

Distribution of the discrepancy in user fee revenues in Québec in relation to the Canadian average, 2006-2007

(in millions of dollars and as a percentage)

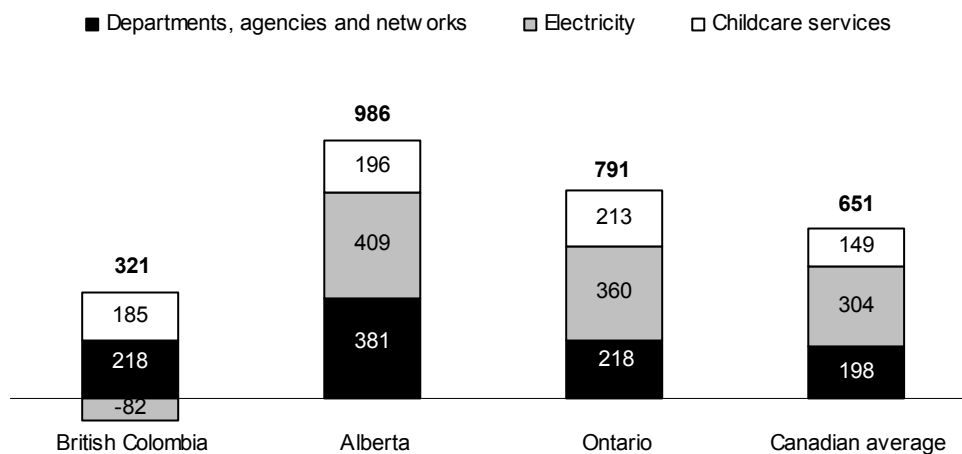


Sources: FMS data and calculations of the ministère des Finances du Québec.

CHART 5

Discrepancy in user fee revenues - Québec compared with certain provinces and the Canadian average, 2006-2007

(in dollars per capita)



Sources: FMS data and calculations of the ministère des Finances du Québec.

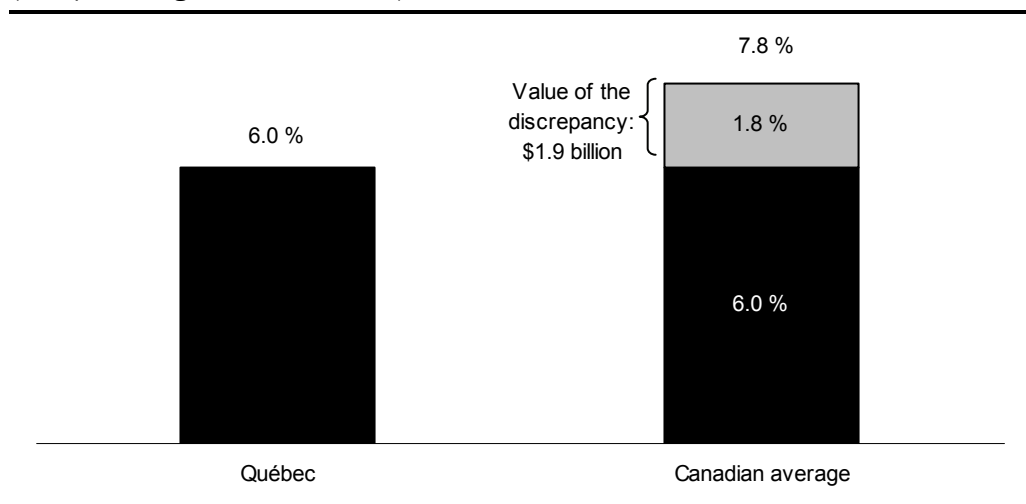
❑ Québec relies less extensively on user fees

Another way of comparing user fees in Québec and in the rest of Canada consists in comparing the share of user fee revenues collected by government departments, agencies and networks in relation to the overall revenues of these entities.

- We note that in 2006-2007, user fee revenues accounted for 6.0% of total revenues in the case of Québec, compared with 7.8% in Canada as a whole.¹⁷
- If Québec relied on user fees in the same proportions as Canada as a whole, the resulting revenues would be \$1.9 billion higher.
- Calculated in the same manner, the discrepancy stands at \$1.3 billion with Alberta, \$2.5 billion with British Columbia, and \$3.1 billion with Ontario.

CHART 6

User fee revenues of government departments, agencies and networks – Québec and Canada as a whole, 2006-2007
(as a percentage of total revenues)



Sources: FMS data and calculations of the ministère des Finances du Québec.

¹⁷ Compared with the ratio of 10.2% indicated in the introduction, the ratios used in this section cover a broader field and integrate, in particular, the revenues of the health and education networks. Moreover, we have used data from Statistics Canada's FMS in respect of interprovincial comparisons.

TABLE 4

Discrepancy in recourse to user fees in relation to the principal Canadian provinces, 2006-2007

(in millions of dollars)

	Departments and agencies	Networks ¹	Total
British Columbia	376	1 834	2 505
Alberta	151	1 107	1 335
Ontario	422	1 781	3 101
Canadian average	423	1 107	1 913

1 The calculation is based on user fees levied in the networks as a percentage of total revenues.

Sources: FMS data and calculations of the ministère des Finances du Québec.

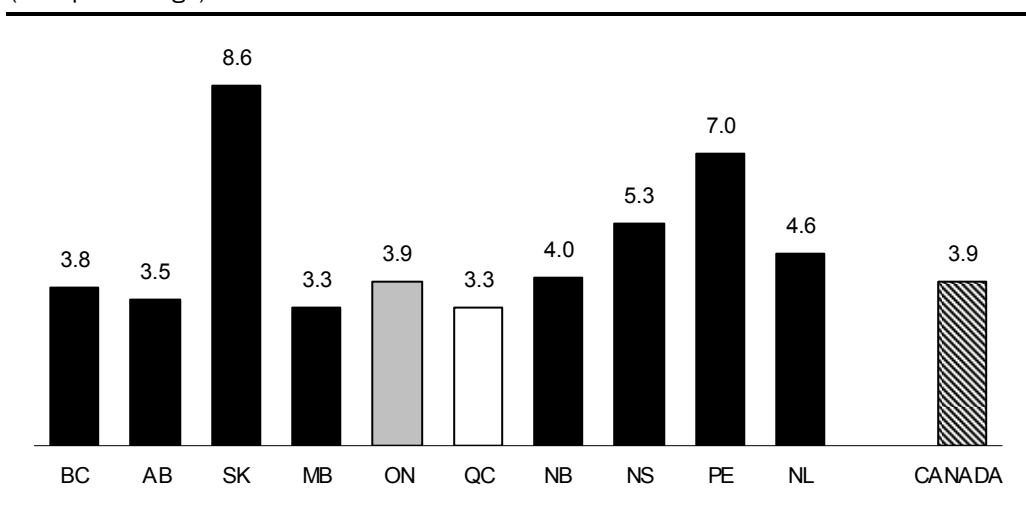
We obtain similar results if we confine ourselves to comparing the share of user fee revenues in the revenues of government departments and agencies alone.

- The lowest share of user fee revenues observed is in Québec and Manitoba, i.e. 3.3% of total revenues. It is higher in all of the other provinces.
- In Canada as a whole, this share stands at 3.9%.

CHART 7

User fee revenues of government departments and agencies in relation to total revenues, 2006-2007

(as a percentage)



Sources: FMS data and calculations of the ministère des Finances du Québec.

□ Occasionally striking disparities in user fees themselves

To round out this comparison of Québec and the other Canadian jurisdictions, we selected three examples that present a fairly diversified range of situations, i.e. university tuition fees, sportfishing licences, and driver's licences.

- In the first case, the discrepancies between Québec and the other provinces are considerable. In 2006-2007, the tuition fees levied in Québec averaged \$2 519 per student, compared with \$5 000 in Canada as a whole, \$6 213 in Ontario, \$5 455 in Alberta and \$5 405 in British Columbia.

All told, university tuition fees would have generated an additional \$415 million in Québec if the average Canadian tuition fees had applied.

TABLE 5

University tuition fees, 2006-2007¹

(principal provinces and Canadian average)

	Tuition fees per student (\$)	Additional revenue if applied in Québec (\$000 000)
British Columbia	5 405	475
Alberta	5 455	489
Ontario	6 213	636
Québec	2 519	—
Canadian average	5 000	415

1 Canadian students registered in full-time undergraduate and graduate study.

Sources: FMS data and calculations of the ministère des Finances du Québec, including tuition fees and compulsory attendant fees (registration, transcripts, library services, student associations, and so on).

- In the case of sportfishing licences, such a licence in Québec costs less than two-thirds the Canadian average, i.e. \$14 compared with \$22. In 2006-2007, sportfishing licences would have generated an addition \$4 million in revenues if the average Canadian fee had applied.

TABLE 6

Sportfishing licences, 2007

(principal provinces and Canadian average)

	Sportfishing licence (\$)	Basic revenues – Québec¹ (\$000 000)	Additional revenue if applied in Québec (\$000 000)
British Columbia	21	12	4
Alberta	23	13	5
Ontario	22	12	4
Québec	14	8	—
Canadian average	22	12	4

1 Estimate based on the number of sportfishing licences in Québec.

Source: Ministère des Finances du Québec.

— As for driver's licences, the cost pass-through in Québec is roughly the same as the Canadian average.

TABLE 7

Driver's licences, June 2006

(principal provinces and Canadian average)

	Driver's licences¹ (\$)	Basic revenues – Québec² (\$000 000)	Additional revenue if applied in Québec (\$000 000)
British Columbia	11	53	– 34
Alberta	17	83	– 5
Ontario	15	73	– 15
Québec	18	87	—
Canadian average	17	83	– 4

1 Including a \$2 administration fee in Québec.

2 Estimate based on the number of driver's licences in Québec.

Source: Ministère des Finances du Québec.

The case of driver's licences does not alter the overall table drawn up by the task force: contrary to what a number of Quebecers believe, user fees in Québec are not higher than elsewhere.

They are usually lower. We have noted without question that the entities of the Québec government rely less extensively on user fees than other jurisdictions to obtain the revenues necessary to offer public services.

The myth that Québec user fees are higher than elsewhere is probably less widespread than the preceding ones. Quebecers are well aware that they pay less for electricity than in the other provinces and that tuition fees are considerably lower than in the rest of Canada. However, they are less aware of what these discrepancies mean in terms of uncollected overall revenues.

1.1.4 **Fourth myth: user fees are disguised taxes**

In the realm of user fees, a fourth myth prevails according to which user fees appear to be disguised taxes. In fact, the opposite is true in Québec, in that taxes are disguised user fees.

❑ A user fee is not a tax

We must first point out the difference between a user fee and a tax.

- A user fee is a price demanded of users in exchange for a good or a service offered by a government department or agency or an entity that depends on the State. A fee for this service or good that users receive directly is levied on the users. For example, parents are asked to pay fees for childcare services. Hydro-Québec invoices electricity and the customer must pay the bill.
- A tax is paid by a taxpayer on his income and his purchases of private goods or services in order to fund the State's missions, without it being necessary that this consumer directly consume them. It is possible that the taxpayer will ultimately use the goods and services funded by the tax but there is no guarantee that such will be the case.

For example, taxes fund health and education services. Two people paying the same taxes use such services to different degrees depending on their individual circumstances and needs, without affecting the amount of tax paid.

From the standpoint of economic behaviour, a user fee differs considerably from a tax.

- As the price linked to the consumption of a good or a service, the user fee is a signal for both the producer and the consumer.
- The tax, on the other hand, represents the citizen's contribution to the funding of the missions of the State. It reflects in practical terms our belonging to the community, whose rules are defined within the framework of our democratic system.

❑ Certain taxes are disguised user fees

User fees are thus not disguised taxes.

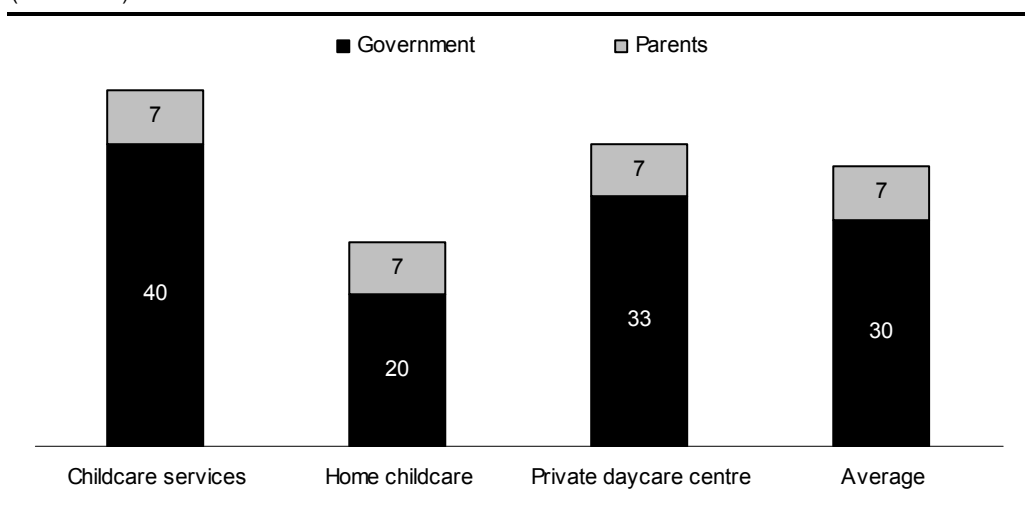
However, in the case of Québec, we might well invert the formulation and note that in many ways, taxes are disguised, denatured or hidden user fees. We wish to emphasize in this way that in many instances taxpayers and not users are mainly responsible for paying the prices of the goods and services offered by the State, which contributes directly to increasing Quebecers' tax burden in relation to the other provinces while reducing or eliminating the price signal that the user receives.

Childcare services clearly illustrate this situation. In 2006, the budget for educational childcare services reached \$2 billion.

Of the total, parents paid in the form of user fees only 16% of the total cost, i.e. just over \$300 million. On a daily basis, the Québec government, i.e. the taxpayer through taxes, pays between \$20 and \$40 depending on the type of childcare service (home childcare, private daycare centre or childcare centre), while the user pays \$7.

CHART 8

Financial contribution of the Québec government and of parents for one day of childcare services, 2006
(in dollars)



Source: Ministère de la Famille et des Aînés.

The replacement of user fees by taxes often occurs at the outset of a public program. Indeed, all too often, new public services are underfunded and the discrepancy is covered by taxes. Ultimately, this means that Québec offers its citizens a vast array of services in respect of which the inadequate user fees explain the heavy burden imposed on taxpayers. Conversely, user fees that are more closely aligned with costs should normally lighten the tax burden.

1.1.5 Fifth myth: user fees are unfair

The last of the five myths that the task force wished to dispel from the outset concerns the relationship between user fees and fairness. User fees are apparently unfair. The government explicitly mentioned this notion of equity in the task force's mandate among the factors to be considered in the elaboration of a user fee policy.¹⁸

Fairness is a complex notion that implies a measure of subjectivity. A given situation may be deemed fair by one person and unfair by another person.

The task force wished to clarify this question and to ascertain its implications with regard to setting user fees for public services.

□ The notion of fairness

The fee levied for a public service will be deemed to be fair if it is perceived as being fair, which then raises the question of what is fair and what is not.

In point of fact, the government's choices always seek to strike a compromise between efficiency and fairness.

- Efficiency refers to the ability to produce as much as possible of a good using the resources available, which are not unlimited.
- Fairness refers to the manner in which what is produced is shared and the financing of this product.

The two notions are inevitably linked inasmuch as the sharing among guests of a cake is theoretically less problematical if the cake is sufficiently big to satisfy everyone's needs, and vice versa.

To evaluate fairness in the realm of the funding and consumption of public services is complex because it demands that we consider many variables, such as the overall tax burden that each individual bears (user fees and taxes), the degree of use that each individual makes of public services, and the other transfers that individuals receive from governments.

¹⁸ See page 1.

We must also take into account that low-income households devote a larger share of their spending to purchases of essential goods. More privileged households can thus more readily curtail their spending since they spend more on non-essential goods.

■ Horizontal equity and vertical equity

From a fiscal standpoint, economists traditionally distinguish two types of fairness, i.e. horizontal equity and vertical equity.

- Horizontal equity assumes that two individuals in an identical situation must be treated identically from a fiscal standpoint.

However, this concept is limited. If person A earns \$60 000 a year by working 32 hours a week, the individual will have more leisure time (which is not taxed and contributes significantly to his well-being) than person B, who also earns \$60 000 a year but must work 40 hours a week to do so.

As a proportion of the effort expended, person A is less heavily taxed than person B. If we consider that individual well-being is confined to income and that leisure time, for example, has undeniable value, it is apparent that perfect horizontal equity is unattainable.

- Vertical equity is based on the notion that the wealthier an individual is, the less benefit he derives from an additional dollar. It is, therefore, legitimate to more heavily tax wealthier individuals in order to redistribute money to the less privileged. This is called a progressive taxation system.

The question that arises is to ascertain to what extent a taxation system must be progressive. The more heavily individuals are taxed, the more important their choices between work and leisure become. Beyond a certain theoretical taxation threshold, the individual may indeed deem it more advantageous in terms of his well-being to devote more time to leisure activities and less time to work, with the attendant negative consequences for overall economic efficiency.

■ A renewed conception of fairness

It is this realization that the treatment of individuals on a strictly equal footing could engender perverse effects—or, indeed, injustices—that revived discussion of the notion of fairness.

The contemporary conception of fairness thus makes a distinction between fairness and equality. It follows that it may be legitimate to give an advantage to certain individuals and to put others at a disadvantage in order to offset at the outset inequalities if doing so does not adversely affect society as a whole.

We must now turn to the full complexity of the shift from theory to practice.

The contemporary conception of fairness: the three first principles enunciated by John Rawls

The work of John Rawls now forms the foundation of the predominant contemporary conception of fairness.¹ It provides theoretical justification for interventionist and redistributive policies in developed Western societies.

Rawls maintains that fairness assumes respect for three interrelated first principles:

- A principle of liberties: each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others.
- A principle of equal opportunity: individuals with equal talents must theoretically have the possibility of attaining equivalent social positions, independently of their initial condition, which obviously does not mean that they will in fact succeed in doing so.
- A difference principle: the least privileged members of society may be treated differently if doing so benefits them and society as a whole.

¹ J. Rawls (1971). *A Theory of Justice*. Cambridge: Harvard University Press.

□ An inevitably imperfect compromise

If we take the example of a public service such as transportation, user fees based on the principle of the user-payer can take two forms:

- make the user pay the costs that he imposes on the rest of society, i.e. pollution, congestion and wear and tear on roads;
- make the user pay a supplement to obtain a good of higher quality, i.e. toll roads with limited traffic, or reliable, comfortable commuter trains.

■ Markedly different perceptions

The studies available reveal that individuals have markedly different perceptions of the fair or unfair (and, therefore, acceptable or unacceptable) nature of these two forms of user fees.

- For example, if the declared objective is to combat pollution, citizens will prefer that the government legislate in respect of automobile engine emissions standards or that heavy vehicle traffic be regulated instead of having levied a fee for the pollution they are told that they produce (“Me, a polluter, there are worse ones than me!”).¹⁹
- User fees levied to achieve the objective of reducing congestion appear to clash with a perception of unfairness, and thus to even stronger opposition. Indeed, even before they are made to pay, motorists believe that they are already the victims of congestion that they cannot avoid since they must go to work (“Why”, they ask themselves, “should I pay more when I’m already badly done by because of congestion that I have no choice but to endure?”).²⁰
- On the other hand, to make citizens pay for an additional service of superior quality in addition to existing public infrastructure that is free of charge and remains so is perceived much more favourably and does not raise any appreciable objections as regards fairness. This explains the success, for example, in many countries of tolls to fund separate expressways or higher user fees to fund high-speed trains.

■ The treatment of less privileged members of society

We must now examine the question from the point of view of the principle according to which it may be legitimate to treat differently the less privileged members of society if it is to their advantage to do so.

- The less privileged members of society obviously have less chance of owning an automobile than wealthy people do. If they own a vehicle, they will usually use it less.²¹

¹⁹ P. Rietveld and E.T. Verhoef (1998). “Social feasibility of policies to reduce externalities in transport,” in K.J. Button and E.T. Verhoef, *Road Pricing, Traffic Congestion and the Environment*, Edgar Elgar.

²⁰ C. Raux and S. Souche (2001). “L’acceptabilité des changements tarifaires dans le secteur des transports : comment concilier efficacité et équité?” in *Revue d’Économie Régionale et Urbaine*, (4), 539-558, December.

²¹ D. Banister (1994). “Problèmes d’équité et d’acceptabilité posés par l’internalisation des coûts des transports” in K. Button, E. Quinet, P. Kageson, A. Bleijenbergh, D. Banister, D. van Wreckem and A. Bonnafoos, “Internaliser les coûts sociaux des transports.” Paris: CEMT-OCDE, pages 169-194.

- From this perspective, a fuel tax will be a progressive tax (the more one drives, the more one pays) but a fixed urban toll to travel to the downtown area will be regressive because it will represent a more significant portion of the disposable income of a poor person than of a rich one.
- On the other hand, the wealthy travel more. However, they derive greater benefit from the time saved since their time enables them to earn more.

■ Nothing is simple

It is apparent that nothing is simple. The desire for efficiency can lead to our wanting to make people pay for something that they perceived until now as being free.

However, the different ways of doing so will not only have different concrete impact depending on their personal circumstances. They may also be perceived as more or less fair and will thus be more or less accepted or rejected.

In a word, user fee policies will always be an inevitably imperfect compromise between a concern for overall efficiency and various facets of fairness.

□ How can we help low-income households?

Conventional economic theory suggests setting a fee equivalent to the production cost of the last unit produced of a good. The fee then acts as a price on a competitive market by serving as a “signal” in respect of individuals’ willingness to pay or not to pay for the good and thus on the amount of goods to be produced to satisfy demand.

As a matter of fact, governments tend, for all sorts of reasons, to set user fees without any link to production costs, which usually fall well below such costs.

- User fees are then used to generate revenues for governments but lose all meaning as a signal of the value of the good and the appropriate use of it. The encouragement to waste inevitably increases.
- Worse, by offering at a discount a public service, we create a situation in which wealthy individuals can readily pay for large quantities of such services while less privileged individuals will have a terrible time obtaining them, even when they are very cheap. The less privileged members of society will once again have to devote a larger portion of their income to obtaining the services than wealthier people do.

- In other words, a user fee set at a threshold far below the cost of production is equivalent to a subsidy granted to those who make the most use of the subsidized service and who are often the more privileged members of society. To varying degrees we find this case in several public services, such as university tuition fees, fees in subsidized daycare centres, hydroelectricity rates, and so on.

But, it will be said, if the fees demanded were more closely in line with production costs, would there not be a risk that the less privileged members of society would experience even greater difficulty obtaining them, even more so in the case of basic needs such as heating? This is absolutely true.

That is why it is both more efficient and fairer to directly, specifically subsidize low-income households rather than set an artificially low comprehensive user fee for everyone.

- It is more efficient because we thus maintain the “signal” function of the user fee in relation to the value of the good offered and the judicious use that it is advisable to make of it.
- It is fairer because assistance is focused on those who genuinely need it the most and the subsidy is eliminated that benefits more privileged members of society. In this way, we simultaneously enhance equality of opportunity and overall efficiency.

1.2 Virtues to be recalled

We have just analysed a number of myths surrounding the perception of user fees and the setting of such fees in modern societies, especially in Québec.

This reflection would be incomplete if we failed to examine in a symmetrical manner at least three virtues that must be associated with well-defined user fees and which Quebecers should perceive as such.

1.2.1 User fees and quality of service

The first of these virtues concerns the link between properly defined user fees and the quality of the service to which the fees apply, a connection of which Quebecers appear to be well aware.

Recent surveys concerning, in particular, the hypothesis of toll roads, prove that Quebecers accept an increase in user fees if such an increase affords them new services or enhances the quality of existing services.²² However, they must have the assurance that the additional revenues engendered by the user fee increase are indeed allocated to the enhancement of fee-based services.

²² See section 3.2.3, page 115.

**When user fees go hand in hand with enhanced quality and increased clientele:
the case of SÉPAQ**

The Société des établissements de plein air du Québec (SÉPAQ) is a government agency that has a mandate to administer and develop public lands and tourism facilities. To this end, it operates 48 establishments divided into three networks (provincial parks, wildlife sanctuaries and tourism resorts). SÉPAQ's user fee revenues are derived essentially from access fees in respect of hunting, fishing and provincial parks, lodging fees (cottages and campgrounds), equipment rentals (canoes and rowboats), and catering services and products sold in shops and convenience stores. User fees for access to provincial parks have been in force since April 2001.

Between 2001-2002 and 2006-2007, SÉPAQ adjusted its sources of user fees, except for access fees, which are subject to government regulation. Its revenues thus increased, on average, by 7.7% a year, from \$55 million to \$80 million.

This increase in user fees was accompanied by the enhancement of the quality of the product offered, of which the number of visits to facilities is the best measure. Between 2001 and 2006, visits to provincial parks rose 6.7% a year, from 2.6 million visitors to 3.6 million visitors.

Surveys conducted since 2001 confirm that the satisfaction rate in respect of visits to and stays in SÉPAQ establishments exceeds 90%.

1.2.2 User fees and efficiency

The second virtue of user fees stems from their efficiency in the economic sense. The link between user fees and efficiency is fundamental and we have emphasized it on several occasions.

- One of the key advantages of the user-payer rule is to allow the individual who uses the good or the service to properly evaluate the value of the good or the service that he receives.
- When this rule is only partly respected, the value of the good or the service can no longer be properly assessed. This often leads to overconsumption of the good or the service, indeed, in some instances, to veritable waste of the resource concerned. The case of water is exemplary in this respect. In Québec, water is rarely subject to user fees based on use and it is hardly surprising that Quebecers have one of the highest per capita water consumption rates.

Fair user fees avoid waste and excess consumption.

They can also positively affect behaviour and thus contribute to better use of infrastructure. Road tolls and urban tolls help to manage demand by reducing congestion and pollution.

Optimum user fees in economic theory

User fees are a price linked to the consumption of a good or a service. Like all other prices in the economy, such fees reflect supply and demand.

- For the private sector of the economy, the situation is very clear: the optimum user fee is what the market will bear.
- Under competitive conditions, the optimum user fee is equivalent to the marginal production cost, i.e. the cost of producing an additional unit.
- This user fee or price acts as a signal for producers, who will determine in light of its level the quantity to produce. It also serves as a signal for consumers, who will determine the quantity to be consumed in light of the price.
- According to economic theory, the system is efficient insofar as the good or the service is acquired by the person who wants it the most at the price that the producer agrees to sell it.

When it is extended to the public sector, the notion of the user fee centres on the principle of the user-payer.

- If the public sector produces a good or a service similar to a private good, economic theory teaches us that a fair market price is appropriate.
- This fair market price will allow for optimum allocation of resources and society as a whole has everything to gain if the proper user fees are levied on the services offered by the government.

Some encouraging experience and some horror stories

A successful reform of user fees at the CSST

The Commission de la santé et de la sécurité du travail (CSST) offers employers no-fault liability insurance that compensates workers who sustain employment injuries. It is funded through employer contributions according to fees based on total payroll.

In the mid-1980s, the capitalization rate of this insurance plan, i.e. the ratio of compensation fund reserves and obligations to compensated parties, stood at only 50%. The accident rate was one of the highest in Canada and the plan was costly.

Starting in 1990, the CSST introduced a major reform of its pricing system aimed at fully capitalizing the insurance plan, encouraging businesses to invest in measures that promote occupational safety, and reducing the number and seriousness of employment injuries.

- Employer contribution rates were personalized to take into account the number of accidents that occurred in a business and no longer the number of accidents inventoried in the industry.
- New rules made it possible to link the definition of fees to the company's occupational health and safety initiatives.
- At the same time, the CSST improved its expenditure controls.

The results obtained are spectacular.

- In 2000, the capitalization rate of the insurance plan reached 100%.
- Between 1989 and 2006, the number of injuries declined by nearly 48%, while the number of workers covered increased 25%.

Mistakes to be avoided

The history of Québec toll roads offers a number of anecdotes that can only disconcert so well do they illustrate the absence of economic calculation in the definition of user fees.

- In November 1960, two years after the inauguration of the first toll booth on the autoroute Montréal-Laurentides, the toll for automobiles and trucks weighing up to three-quarters of a tonne were reduced from 25 cents to 10 cents Monday through Friday on business days only from 6:30 a.m. to 8:30 a.m. and from 4:30 p.m. to 6:30 p.m.
- In August 1965, when the autoroute des Cantons de l'Est and the autoroute de la Rive-Nord were opened to traffic, regulation No. 9 confirmed this differential user fee structure and introduced in addition a simplification and reduction of tolls for vehicles with three or more axles.

Thus was defined a user fee structure that encouraged congestion and promoted pollution and was perfectly unfair from the standpoint of the relationship between the fee charged and the cost of use. This horror story indeed illustrates the case where the political dimension of decisions takes precedence over economic calculations, to the detriment of the collective interest.

1.2.3 User fees and funding

User fees have a third virtue: they compel us to ask the right questions about funding for a public service and thus encourage us to define the most appropriate responses, given the nature of the service offered.

- A new user fee or an increase in an existing fee can thus halt the underfunding of a public service in the event that such a service was underfunded.
- It would also be logical for a new user fee or an increase in an existing fee to lead to an equivalent reduction in taxes if the public service was until then sufficiently funded, in particular by means of taxes.

1.3 The diversity and mixed nature of funding methods

In this first chapter, the task force wished to play an educational role by combating certain preconceived notions and initiating the broad outlines of a user fee policy that reflects all Quebecers' interests.

We have emphasized the myths surrounding user fees and the setting of such fees and the advantages that a society can derive from goods and services on which are set user fees according to their true worth.

User fees are also an ideal instrument to allow for the efficient collective use of certain goods and services offered by the State. However, this does not mean that all public funding must rely on user fees.

As a matter of fact, a diversity of funding methods is necessary to reflect the very nature of the goods and services that the government offers.

- In some instances, taxes should be preferred over user fees.
- In other situations, it would be more appropriate to focus on a mixture of taxes and user fees.

Economists describe this reality by making a distinction between “pure public goods,” funded through taxes, “private goods” offered by the State, funded in principle through user fees, and “collectively funded private goods,” paid for with a combination of taxes and user fees.

Indeed, this is the crucial question that we must ask ourselves in respect of user fees: to what extent must private goods collectively funded by the State be funded by means of taxes?

We will examine this question in the chapter that presents what could be a new user fee policy.²³

FIGURE 1

Diversity of funding methods by type of public goods or services publics

	Public	Mixed	Private
Type of public goods and services	Justice Security Environmental protection	Health Education Mass transit	Automobile insurance Electricity Ferry service
Source of funding	0% -	User fees	100% +
	100% +	Taxes	0% -

²³ See pages 84 and 85.

Definitions

Economists distinguish three types of goods or services offered by the State.

- “Pure public goods” are goods, services or resources that benefit everyone. They are characterized by:
 - “non-rivalry,” which means that consumption of the good by one individual does not prevent its consumption by another individual;
 - “non-exclusion,” i.e. the fact that no-one may be excluded from the consumption of this good.

Such goods are funded through taxes (income tax, corporation tax or consumption taxes). No distinction is made between users and non-users.

Among pure public goods, mention can be made of national defence, public security, the quality of the air and the environment, or the control of epidemics.

- “Private goods” are goods, services or resources produced by the State for historic reasons or because the private sector is not interested in them.
 - As is true of a private good offered by the private sector, the user must in principle pay the price of the good in the form of a user fee.
 - Some examples of this type of goods are ferries, convention centres or certain types of insurance.
- “Collectively funded private goods,” also called “merit goods” or “mixed public goods and services.”

The traits of such goods place them between the two preceding categories.

- The consumption of these goods cannot be shared.
- On the other hand, their use engenders broader positive or negative impact than goods from which the user alone benefits (we speak of positive or negative externalities).

These goods include health, education, mass transit, childcare services, sports facilities or cultural activities.

CHAPTER 2 – THE CURRENT METHOD OF SETTING USER FEES AND ITS SHORTCOMINGS

The legal basis for user fees simply can be summarized as: the power to set a user fee is delegated to government departments and agencies, and to enterprises through legislative channels.

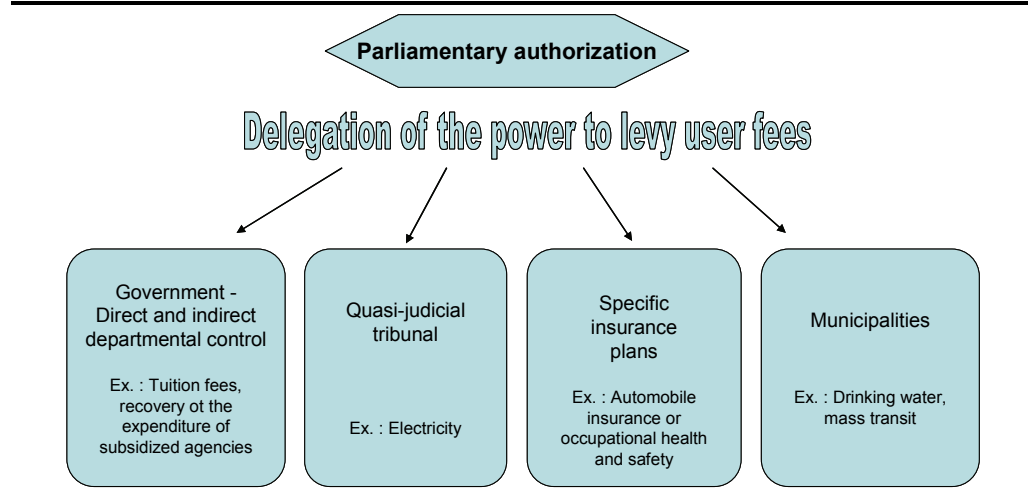
We can immediately point out that no statute governs the choice of funding for an established or a recently introduced public service. The government is thus at liberty to decide whether the public service will be funded by users through a user fee or if the taxpayer will partially or wholly assume the cost, through taxes.

❑ Four categories

In point of fact, we note that different agencies adopt a wide range of rules to set user fees on the services offered. However, we can divide these agencies into four relatively homogeneous categories precisely in light of the nature of the delegation from which they benefit in order to define the user fees that concern them. The categories adopted are direct and indirect departmental control, the quasi-judicial tribunal, specific insurance plans, and municipalities.

FIGURE 2

Delegation of the power to levy user fees in Québec



The first two categories alone account for 85% of the Québec government's total user fee revenues.

- The first category, direct or indirect departmental control, groups together government departments and certain government agencies or agencies regulated by the government. In all instances, user fees are defined under the more or less direct control of the government.

This category includes user fees defined by government departments, e.g. fishing licences, but also fees in respect of largely subsidized services, the amount of which is governed by a public policy, e.g. tuition fees or childcare service fees.

In 2006-2007, user fee revenues generated in this first category stood at \$9.7 billion, nearly 44% of all user fee revenues of agencies that depend on the Québec government.

- The second category is the quasi-judicial tribunal. The Régie de l'énergie is the only example in Québec of this method of setting user fees.

In 2006-2007, user fee revenues generated in this category, i.e. the revenues that Hydro-Québec collected in respect of electricity sales, totalled \$9.4 billion, nearly 42% of all user fee revenues of agencies that depend on the Québec government.

- The third category covers certain trustee plans, the biggest of which are the Société de l'assurance automobile du Québec (SAAQ) and the Commission de la santé et de la sécurité du travail (CSST). We have also included in this category two other trustee plans, the Fonds d'assurance-stabilisation des revenus agricoles and the Fonds d'assurance-récolte.²⁴

In 2006-2007, user fee revenues generated by the four plans stood at \$3.1 billion, nearly 14% of all user fee revenues of agencies that depend on the Québec government.

²⁴ See page 157 concerning the Régie des rentes du Québec.

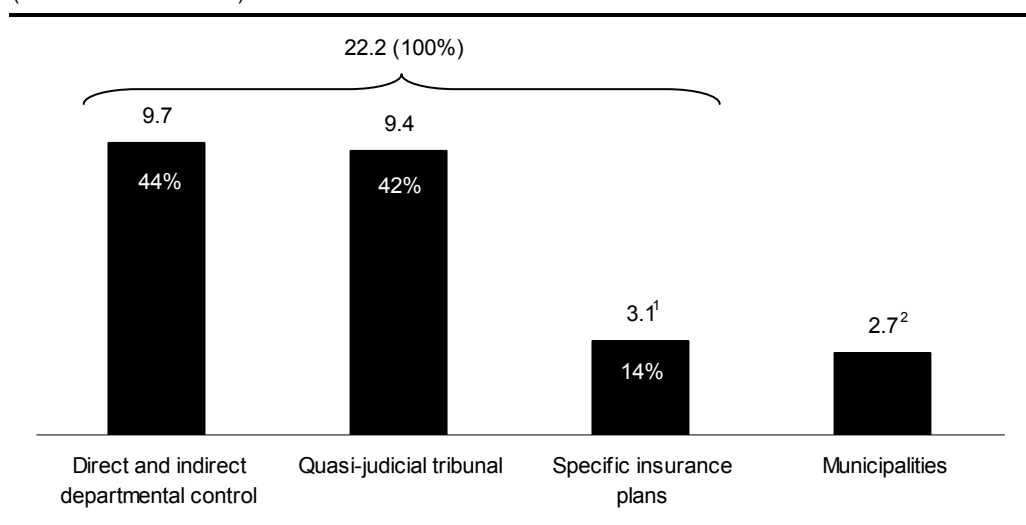
- A fourth category covers the municipalities, whose power to set user fees has been delegated to them by the government.

The user fee revenues generated in this category reached \$2.7 billion in 2005. They are not included in the Québec government's user fee revenues but it is important to examine them since the fee-setting rules applied to them ultimately depend on government policy directions.

CHART 9

User fee revenues by type of delegation, 2006-2007

(in billions of dollars)



1 The specific insurance plans include the following premiums: the CSST, automobile insurance, farm income stabilization insurance and crop insurance.

2 Revenues in 2005.

Source: Ministère des Finances du Québec.

It is important to examine in turn each of these four categories in order to analyse the methods adopted to set user fees, evaluate the results obtained, and pinpoint the causes of the problems identified.

2.1 Departmental control

The first category covers user fees that are subject to direct or indirect departmental control. As we have just noted, user fee revenues stemming from this form of control stood at \$9.7 billion in 2006-2007.

- In some instances, departmental control is direct and immediate.

The government, through its departments, directly administers the public service in the department concerned, including the setting of user fees, which are usually determined by regulation or by order. This is true, for example, of fishing licences, in respect of which the Minister of Natural Resources and Wildlife directly sets the price, or fees collected from would-be immigrants, which are set by regulation following the submission of a brief to Cabinet.

- This category also includes services offered by heavily subsidized non-profit agencies whose power to set user fees is closely governed by a public policy. This is true of childcare services or postsecondary tuition fees.
- We can also include in this category services offered by non-profit agencies that enjoy greater leeway with respect to user fees but that are nonetheless subject to departmental control, which is only exercised where warranted. The government intervenes above all indirectly by means of the subsidies paid.

This category includes, for example, the services offered and the fees applied by ferries belonging to the Société des traversiers du Québec, museums, the Palais des congrès de Montréal or the Centre de recherche industrielle du Québec.

- Two insurance plans under the direct responsibility of the government must also be included in this category, i.e. parental insurance and drug insurance. The two plans are intended to ensure that Quebecers receive uniform services under the plans. In both instances, inclusion in this category stems from the government's power to ultimately decide on the setting of user fees.

2.1.1 General conditions

Since 1999, these government departments and agencies have been subject to a frame of reference that defines a number of principles in the determination of user fees.

- Essentially, the user fee must be equivalent to the cost, although government departments and agencies must arbitrate between this principle and the principle aimed at guaranteeing that everyone has access to the services offered.
- The frame of reference also suggests taking into account competition between the public and private sectors.

The administration of user fees has been decentralized to the government departments and agencies, each of which determines the level of fees.

Frame of reference of government departments and agencies¹
In 1999, in the wake of the recommendations of the Québec Auditor General, the ministère des Finances produced and disseminated in government departments and agencies a user fee framework based, in particular, on the best practices proposed by the OECD. This frame of reference, which spells out the user fee policy for all government departments and agencies under direct or indirect departmental control, is still in force. It encourages government departments and agencies to levy user fees for services whose users are clearly identifiable inasmuch as doing so does not infringe more basic policy directions. The frame of reference suggests that they account each year for their practices pertaining to user fees. The application of user fees is decentralized. Each government department and agency determines the extent to which it relies on such fees. Principles underlying the setting of user fees The frame of reference proposes principles to guide the establishment of the right level of user fee. The fee must be equivalent to cost except if: – a resource in the public domain is being used; – marginal costs are significantly different from average costs; or – externalities exist. However, the frame of reference stipulates that government departments and agencies must arbitrate between the desirable level of a user fee, usually based on cost, and more general accessibility objectives that guarantee the maintenance of harmonious relations with the clientele. The frame of reference also suggests taking into account competition between the public and private sectors. The determination of cost must take into consideration conditions in the private sector: – if the price is too low, there will be unfair competition from the public sector; – if the price is too high, it will suggest that the user fee is excessive.

¹ Ministère des Finances du Québec (1999). *Cadre de référence en matière de tarification au gouvernement du Québec*.

In the case of the public insurance plans included in this first category, i.e. parental insurance and drug insurance, the government has not delegated the approval of user fees, despite their nature. The criteria governing the setting of user fees are based on actuarial valuations that determine the risks inherent in contributors, which are then corrected in light of political considerations. Concerns pertaining to access to services are essential in this regard.

2.1.2 Problems

To evaluate user fees set according to direct or indirect departmental control, the task force sought to compare the user fee revenues obtained with the cost that such fees are supposed to fund.

It was possible to effect such a comparison in respect of just over 60% of the user fee revenues concerned, i.e. the revenues collected by the education and health networks, the parental insurance plan, the drug insurance plan, childcare services (childcare centres and home childcare services), and by a number of agencies.

TABLE 8

Public user fees under direct and indirect departmental control, 2006-2007

(in millions of dollars)

	Revenues in 2006-2007	Percentage of the subtotal
Direct and indirect departmental control		
Health network	1 439	15%
Drug insurance	1 302	13%
Parental insurance	1 184	12%
Education network (Cegeps and universities)	1 109	11%
Childcare services (childcare centres and home childcare services)	316	4%
Agencies		
– Transportation	206	2%
– Economy and finance ¹	364	4%
– Culture	56	1%
Subtotal	5 976	62%
Information unavailable	3 670	38%
TOTAL	9 646	100%

¹ Includes, in particular, the Société immobilière du Québec, the Société des établissements de plein air du Québec and the Autorité des marchés financiers.

Source: Ministère des Finances du Québec.

❑ A key observation: user fees do not reflect costs

The comparison of user fee revenues and the cost of programs reveals that in the case of direct and indirect departmental control (excluding the health network) user fee revenues account for only 36% of the cost of the programs concerned. This proportion falls to 17% when the health network is included.

In absolute value, this means that in 2006-2007, in the sectors that we were able to evaluate, \$6.0 billion in user fee revenues were collected to fund programs whose overall cost exceeded \$35.3 billion. The gap between fees and costs is thus considerable.

This discrepancy is especially high in the health network, childcare services and the education network. Conversely, the user fees collected almost completely cover the costs of parental insurance.

TABLE 9

Public user fees of certain sectors under direct and indirect departmental control, 2006-2007

(in millions of dollars)

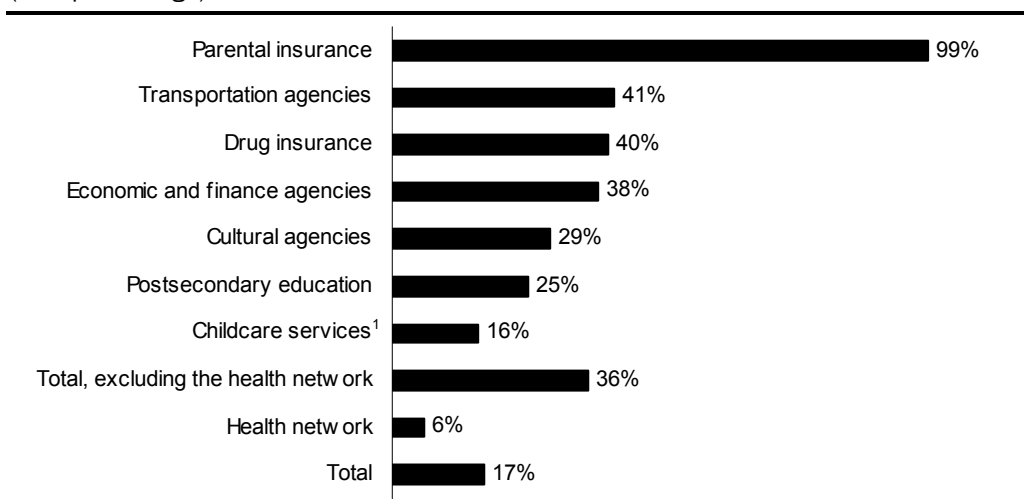
	Revenues in 2006-2007	Total cost of the programs	Percentage of total user fees
Direct and indirect departmental control			
Drug insurance	1 302	3 247	40%
Parental insurance	1 184	1 199	99%
Education network (Cegeps and universities)	1 109	4 410	25%
Childcare services (childcare centres and home childcare services)	316	1 930	16%
Agencies			
– Transportation	206	506	41%
– Economy and finance ¹	364	950	38%
– Culture	56	192	29%
Subtotal	4 537	12 434	36%
Health network	1 439	22 895	6%
TOTAL	5 976	35 329	17%

¹ Includes, in particular, the Société immobilière du Québec, the Société des établissements de plein air du Québec and the Autorité des marchés financiers.

Source: Ministère des Finances du Québec.

CHART 10

Importance of user fees in funding public services under direct and indirect departmental control
(as a percentage)



1 Childcare centres and home childcare services.
Source: Ministère des Finances du Québec.

This is a significant observation: with the exception of the Régime d'assurance parentale,²⁵ under direct or indirect departmental control, user fees do not reflect costs. The government departments and agencies concerned are unable to ask users for a fee that reflects the real cost of the services offered or have no intention of doing so because of public policy. We have also noted that this situation also applies to drug insurance.

In some instances, this distortion between user fees and costs is known. It has been subject to public debate and stems from a clearly identified government policy. This is true, for example, of the health network, childcare services, and postsecondary education.

— However, it is not certain that Quebecers are aware of the extent of the discrepancy and that they fully realize that the shortfall is funded through taxes. The situation is general in the health and education networks: users are unaware or scarcely aware of the proportion of the total cost funded by user fees and the portion funded by taxes.

²⁵ In the case of the Régime d'assurance parentale, the task force wonders, instead, about the contributors who are asked to participate in funding the plan given that some of them are contributing to the plan without having any chance of benefitting from it one day.

- Another problem stems from the government's failure to evaluate the cost and the outcomes of public policies that have led to a gap between user fees and costs. This is true of childcare services, a question to which we will explicitly return later.²⁶

In other instances, the situation is worse: the distortion between user fees and real costs does not centre on an explicit policy and users are often unaware of it.

Two examples illustrate this situation.

- The user fees collected account for only 39% of the costs of the services offered by the Société du Palais des congrès de Montréal.
- In the case of the Société des traversiers du Québec, the revenues collected cover only 22% of the costs of the service.

This situation is probably more widespread than the survey conducted at the request of the task force suggests. Indeed, it was impossible to assess the relationship between the revenues collected and the costs assumed in respect of over one-third of the user fee revenues determined by direct or indirect departmental control. This absence of information very likely corresponds to a striking discrepancy between the user fee revenues collected and the cost of the services offered.

❑ The procedures stipulated in the user fee frame of reference are not respected

Independently of this basic problem, we must point out that the procedures stipulated in the frame of reference of government departments and agencies are not respected.

- The frame of reference strongly urges government departments and agencies to conduct an annual or periodic review of user fees. However, the frame of reference does not contain any formal obligation to do so, nor to increase user fees in light of costs, almost without exception.

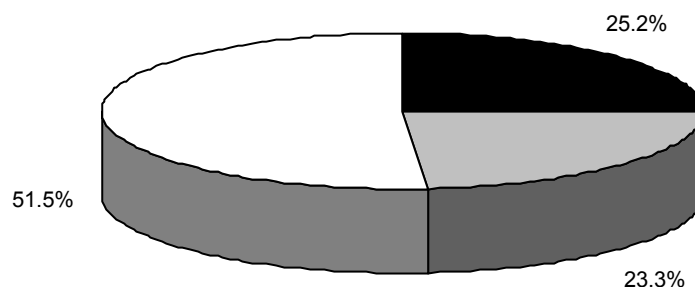
According to the survey conducted at the request of the task force, 52% of the total user fee revenues of government departments and agencies overall correspond to fees that are not indexed. For example, licence fees and driver's licence fees were set at \$104 and \$16, respectively, in 1997, and have not changed since then.

²⁶ See page 119.

CHART 11

Breakdown of the user fee revenues of government departments and agencies according to the method of reviewing fees, 2006-2007
(as a percentage of total user fee revenues)

■ Indexed fees □ Fees that reflect costs □ Fees that have not changed for more than one year



Source: Ministère des Finances du Québec.

- The frame of reference indicates that government departments and agencies must present an accounting report, which, it suggests, be integrated into the annual report of the government department or agency. However, such reporting is voluntary.

The frame of reference goes further since it calls for the ministère des Finances to publish each year a progress report on government user fees.

The task force has noted that, in reality, there is no systematic, generalized reporting on the user fees defined and applied by the government departments and agencies. Moreover, the managers of the departments and agencies are not accountable for the absence of reporting on the user fees applied.

However, the ministère des Finances did produce and distribute annual reports on the user fees levied by government departments and agencies from 1999-2000 to 2003-2004. The reports were produced and distributed among officials responsible for user fees in public departments and agencies outside the health and education network. However, they are neither accessible on the ministère des Finances Website nor available in libraries.

- The frame of reference fosters the direct allocation of user fee revenues to the maintenance and enhancement of fee-based services. We have observed this direct allocation in the case of government agencies and the two insurance plans. However, the user fee revenues of government departments are paid into the Consolidated Revenue Fund.

❑ **One consequence: the need for abrupt adjustments**

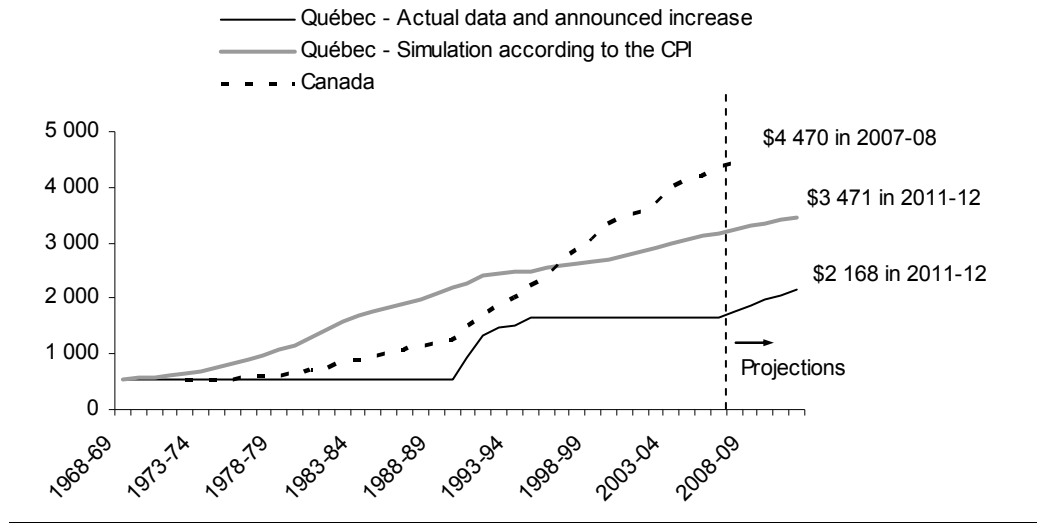
The absence of systematic revision of user fees makes necessary sometimes abrupt adjustments, as the case of university tuition fees illustrates.

- University tuition fees were set at \$547 in 1968-1969 and remained unchanged until 1990-1991.
- In 1990-1991, the government decided to adjust the fees and the adjustment was abrupt, given the long period of frozen tuition fees that preceded it. Between 1990-1991 and 1994-1995, tuition fees increased 205%, compared with only a 15% rise in the consumer price index. During this period, the increase in tuition fees was nearly fifteen times higher than the increase in inflation.
- Between 1995-1996 and 2006-2007, the government once again froze university tuition fees by suspending each year the application of the indexation clause.
- The freeze ended in 2007-2008. For the period 2007-2012, and according to the commitments announced, tuition fees should increase each year by 6%, three times the anticipated rise in the consumer price index. However, it should be noted that, despite this new adjustment, in 2011-2012, tuition fees will be markedly below the Canadian average.

Over the past 40 years, we have thus witnessed in respect of university tuition fees a succession of freezes and adjustments, sometimes abrupt, in keeping with the accumulated shortfall in relation to actual costs and the fees levied in Canadian universities.

CHART 12

Average annual university tuition fees paid by full-time undergraduate students
(in dollars)



Source: Ministère des Finances du Québec.

2.1.3 Explanations of the problems encountered

Various reasons explain the problems that we have just noted.

The first reason is, above all, political: governments have great difficulty transmitting the real cost of services to users who are also voters, even bearing in mind the adjustments defined in public policies. It is thus the taxpayer who assumes the discrepancy between this cost and the user fee levied and the gap directly increases fiscal pressure.

This vulnerability to political pressure reduces leeway in respect of user fees and is observable regardless of the government in power. It affects the setting of user fees for both new public services and established ones. Moreover, it explains the situation noted with regard to the drug insurance plan, one of the three public insurance plans included in this first category.

We must emphasize two other explanations more specific to the problems encountered.

- The frame of reference intended for government departments and agencies is subordinate to existing legislation and regulations but does not itself have force of law. Several statutes make provision for the regular revision of user fees and accountability in respect of specific fees but the existing legislative framework does not impose any general obligation in this respect. Managers are not usually accountable either for the practices governing user fees applied or the yield obtained from fees.
- Another explanation for the problems encountered stems from the absence in the frame of reference of guidelines concerning the allocation of user fee revenues.

In the case of government departments, a significant portion of user fee revenues is paid into the Consolidated Revenue Fund without any systematic reconciliation with the expenditures that the revenues fund. Moreover, the accounting information available to managers in government departments is often hard to obtain in order to establish operating costs.

2.2 The quasi-judicial tribunal

The second category of method of defining user fees is the quasi-judicial tribunal. The only example in Québec of this practice is the Régie de l'énergie, which sets electricity and natural gas rates and also monitors and regulates petroleum products.

Only the Régie de l'énergie's jurisdiction in the electricity sector interests us here since it applies to the rates applied by Hydro-Québec, a government-owned corporation.

2.2.1 General conditions

The notion of having a quasi-judicial tribunal set electricity rates is typically North American. The principle is simple: the rules of a tribunal, and its powers, are applied to the definition of the rates of a distribution monopoly.

- The decision on rates is reached in the wake of procedures that resemble a trial, where proof is submitted and lawyers for the interested parties question and cross-examine witnesses.
- This decision is usually final and without appeal. The government is not empowered to either review or amend it and even less, to cancel it.

□ General principles

The government established the Régie de l'énergie to reconcile the public interest, consumer protection and fair treatment of the electricity transmission and distribution utility.

- The Régie has exclusive jurisdiction to set, in the wake of public hearings, electricity rates and the conditions under which electricity transmission and distribution take place.
- The Régie is funded according to the “user-payer” principle, which ensures its financial autonomy in relation to the government.
- The Régie de l'énergie is a link in the process of setting electricity rates. Under its mandate, it gives an opinion of requests submitted by Hydro-Québec, which is responsible for requesting systematic reviews of electricity rates.

Roles and powers of the Régie de l'énergie in respect of electricity
The Régie sets or modifies conditions and rates pertaining to electricity transmission and distribution bearing in mind the economic, social and environmental concerns that the government may indicate by order. Moreover, under its mandate, the Régie: – rules on the rate increases or decreases submitted by Hydro-Québec or any person interested in and having justification for doing so; – examines complaints from consumers who are dissatisfied with a rate or a service condition. The Régie's decisions may be influenced before they are handed down but are final and without appeal. With the government's approval, the Minister of Natural Resources and Wildlife may issue to the Régie directives on the policy directions and general objectives to be pursued.

❑ A concrete example: the costs considered when Hydro-Québec's electricity rates are set

The latest rate case handled by the Régie de l'énergie provides a good example of the method by which costs are considered when Hydro-Québec's electricity rates are set. The Régie establishes rates based on four types of costs, i.e. the cost of providing service, transmission costs, distribution costs and return on the distributor's assets.

Costs and expenses that the Régie de l'énergie considers to set electricity rates

Pursuant to the legislative provisions that govern its operations, the Régie de l'énergie sets the rates that Hydro-Québec Distribution charges consumers. The rates are based on:

- the cost of the electricity that Hydro-Québec Distribution purchases from Hydro-Québec Production or other suppliers, also called the cost of providing service;
- the electricity transmission costs that Hydro-Québec Distribution must pay Hydro-Québec TransÉnergie;
- the cost of distributing electricity to consumers;
- fair remuneration on the assets of Hydro-Québec Distribution, i.e. on the capital invested by the State in its capacity as shareholder.

Cost of providing service

The cost of providing service comprises two separate components.

- The cost of providing heritage pool electricity has been defined by the Act, i.e. a volume of 165 TWh provided by Hydro-Québec Production at a cost of 2.79 cents/kWh.
- The cost of providing post-heritage pool electricity is the cost of the electricity that Hydro-Québec Distribution must acquire in addition to heritage pool electricity to satisfy market requirements. Hydro-Québec Distribution launches invitations to tender. The outcome of the tendering process defines the quantity and price of the electricity purchases and thus the cost to be recovered through electricity rates.

Transmission costs

In its capacity as a user of Hydro-Québec TransÉnergie's transmission service, Hydro-Québec Distribution must pay an amount established bearing in mind the cost of service delivery and fair remuneration of the assets used.

Distribution costs

The distribution costs that the Régie de l'énergie takes into account include the overall expenses assumed by Hydro-Québec Distribution to distribute electricity to consumers. Such expenses include, in particular, payroll expenses, amortization on facilities and taxes paid.

Return on assets

Distribution costs also include a return on the assets of Hydro-Québec Distribution. The Régie de l'énergie establishes the fair value of assets acquired in a prudent, useful manner to operate the distribution network. The Régie then defines a return that is deemed to be reasonable (interest rate on the debt and rate of return on bank equity). Based on the assumed capitalization rate, determined by the Régie de l'énergie, it is possible to ascertain the cost of borrowed capital and the cost of equity capital.

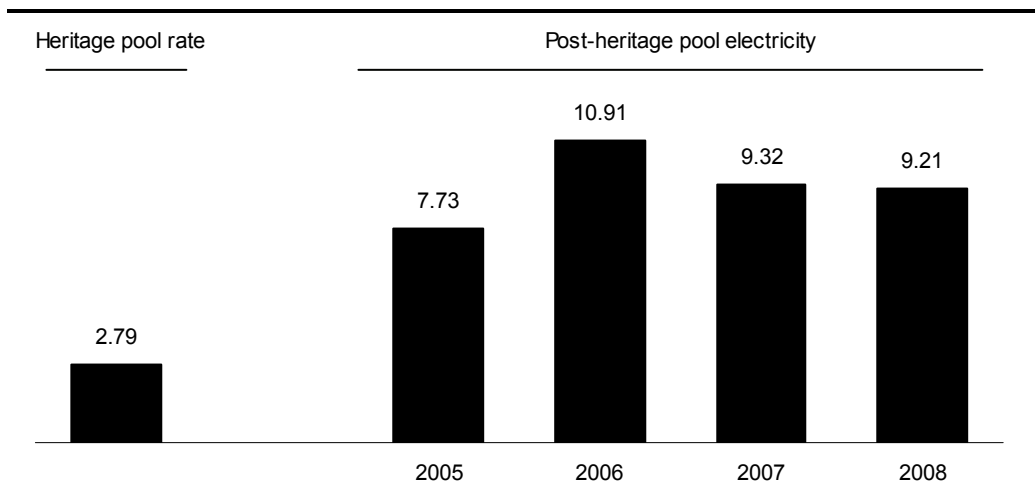
■ Level of the rate increase

The Régie de l'énergie considered the following cost and expenditure components for 2008.

- The overall cost of heritage pool electricity is \$4.6 billion.
- The cost of post-heritage pool electricity stood at \$431 million (9.21 cents/kWh). Unlike heritage pool electricity, the cost of providing post-heritage pool electricity varies significantly from year to year, depending on the outcome of the invitations to tender. They reached \$242 million in 2005 (7.73 cents/kWh), \$707 million in 2006 (10.91 cents/kWh), and \$290 million in 2007 (9.32 cents/kWh).

CHART 13

Acquisition cost of heritage pool electricity and change in the acquisition cost of post-heritage pool electricity for the purpose of setting rates, 2005-2008
(in cents/kWh)



Source: Ministère des Ressources naturelles et de la Faune.

- The transmission costs considered for the purpose of setting electricity rates were established at \$2.7 billion.
- Distribution costs are estimated at \$2.8 billion.

These cost components enabled the Régie de l'énergie to determine the amount that must be recovered through user fees. In 2008, the total amount has been set at \$10.5 billion.

Revenues before the rate increase were estimated at \$10.2 billion, bearing in mind sales forecasts and the rates then in force. Hydro-Québec was thus authorized to increase its rates by \$0.3 billion, which required a rate increase of 2.9%.

TABLE 10

Setting the rate increase required for Hydro-Québec in 2008

(in billions of dollars)

All revenues required in 2008	
– Cost of providing heritage pool electricity	4.6
– Cost of providing post-heritage pool electricity	0.4
– Transmission costs	2.7
– Distribution costs	2.8
Subtotal	10.5
2008 sales revenues before the rate increase	10.2
Shortfall	0.3
Rate increase required (%)	2.9%

Source: Ministère des Ressources naturelles et de la Faune.

■ Rate schedule

The breakdown of the 2.9% increase must respect a number of conditions, compliance with which the Régie de l'énergie monitors. Thus, the Régie de l'énergie takes into account the quality of service delivery, the territorial uniformity of rates and, possibly, the economic, social and environmental concerns that the government formulates by order.

As for the apportionment among categories of consumers of the rate increase, the Régie de l'énergie must also take into account service costs and, since December 2007, the clause prohibiting the attenuation of cross-subsidization.

2.2.2 Positive results

Our assessment of the operation of the Régie de l'énergie and the methods used to set electricity rates is extremely positive.

— As we have just seen, the electricity rates that the Régie de l'énergie authorizes reflect actual costs or at least the costs taken in account in light of the legislative framework that defines the Régie's method of operation.

- The process is partly depoliticized when we compare the current situation to what preceded it. Before the Régie de l'énergie was established, Cabinet determined electricity rates following an ad hoc parliamentary commission. It is hard to imagine a process more sensitive to political pressure than the one that existed at that time.
- The current process is fully transparent and stems from the quasi-judicial nature of the debate surrounding the rate application submitted by a distributor. As for the Régie's operation, it is also very transparent.
- The process can undoubtedly be deemed to be fair. The Régie de l'énergie is a credible agency through which all of the parties can present their opinions. We have also noted fairer apportionment of rate increases, subject to the impact that the order adopted in December 2007 by the government might have on cross-subsidization.
- The State in its capacity as shareholder receives a return on investment like any shareholder, which was not the case before the Régie was established.
- The Régie hands down its decision based on the arguments presented to it. The agency's accountability is adequate and transparent.

2.2.3 Even so, there are problems

Despite this very positive result, we must note that a number of problems persist, which are essentially three in number.

- First, the existing legislative framework prevents the Régie from taking into account the real cost of electricity when rates are set. Pursuant to its enabling legislation, the Régie may not set rates in light of opportunity costs, i.e. the price that Hydro-Québec can obtain on external markets for the electricity that it does not sell on the domestic market. We will return to this question in Chapter 3.²⁷

Furthermore, the legislative provision concerning heritage pool electricity prevents the Régie from examining part of the cost of the electricity generated in Québec. The government has set through legislation the selling price of heritage pool electricity at 2.79 cents/kWh. This provision makes one basic component of the price fixed and arbitrary. It is not based on factors that change over time.

²⁷ See page 97.

- Second, the government can influence the agency before it hands down a decision in such a way as to dictate to it certain parameters of its decisions. The Act empowers the government to intervene by means of directives. The directive that the government addressed to the Régie in December 2007 marks a disturbing development in direct government involvement.²⁸
- Third, political pressure is still present in the method of defining electricity rates. Direct government intervention stems from pressure from consumers, who are also voters. The media widely disseminate any application by Hydro-Québec for a rate increase. The same is true of the Régie's decisions: rate increases will give rise to stormy debate in the National Assembly as the Minister of Natural Resources and Wildlife is considered to be responsible and accountable for the increase that the Régie has adopted.

²⁸ Décret 1164-2007, *Gazette officielle du Québec* (2008), page 347.

An example of government intervention in the process of setting electricity rates

In December 2007, the Régie de l'énergie asked Hydro-Québec to break down the rate increase demanded for 2008 in light of what it costs the utility to serve each category of customer, i.e. small and big power users.

- The Régie's objective was to match costs and rates and enhance the price signal to encourage energy efficiency initiatives.
- This objective was in keeping with the government's official concerns. In its 2006 energy strategy, the government indeed sought to enhance the electricity price signal.

In its rate application, Hydro-Québec requested an average increase of 2.9%, i.e. 4.4% for small electricity consumers, who cost more to serve, and 1.4% for big power users.

On December 19, 2007, the government adopted an order that asks the Régie when it "sets electricity rates to apportion rate adjustments between the categories of consumers in such a way as to ensure stability in rate changes between the categories of consumers." [TRANSLATION] This order, issued pursuant to the power that the government possesses to indicate to the Régie "economic, social and environmental concerns" in practice very narrowly controls the agency from the standpoint of the breakdown of rate increases between categories of consumers according to costs.

The order was issued the day after the Régie de l'énergie had finished hearing Hydro-Québec's rate request and constitutes direct government intervention in the process of setting rate increases.

The Régie made public its decision on February 28, 2008 and indicated that it is authorizing a uniform rate increase of 2.9% this year.

2.3 Specific insurance plans

The third category comprises four trustee plans. The two biggest plans are the Société de l'assurance automobile du Québec (SAAQ) and the Commission de la santé et de la sécurité du travail (CSST), whose mandate is to self-finance the coverage of services offered through members' contributions. The other two plans are the Fonds d'assurance-stabilisation des revenus agricoles and the Fonds d'assurance-récolte.

2.3.1 General conditions

In 2006-2007, these plans collect \$3.1 billion in user fees.²⁹ Service delivery costs and the attendant user fees are based wholly or partially on actuarial valuations.

□ The rule: the board of directors makes the final decision

The CSST and the SAAQ, the two biggest plans, enjoy significant autonomy to set premiums, in particular pursuant to their status as trustee plans. However, they have enjoyed such status only since 2003 in the case of the CSST and 2006 in the case of the SAAQ.

The agencies' actuaries first conduct rate reviews at the CSST and the SAAQ.

- The SAAQ also relies on a panel of independent experts, who examine the actuaries' proposals. The panel submits an advisory opinion to the board of directors.
- The CSST and SAAQ boards of directors make final rate decisions. The rule is clear: the decisions are enforceable and the government may not intervene in the review process.

The two other plans in this category follow analogous procedures.

- It must first be noted that the Fonds d'assurance-stabilisation des revenus agricoles and the Fonds d'assurance-récolte concern farmers.
 - The Fonds d'assurance-stabilisation des revenus agricoles is intended to guarantee an annual income to farmers despite fluctuations in market prices.

²⁹ See Appendix 2, page 156.

- The Fonds d'assurance-récolte protects farmers when certain harvests of certain crops are affected by unforeseeable weather conditions or uncontrollable natural phenomena.
- In both instances, the premium paid by the insured parties is set by the board of directors of La Financière agricole du Québec.

□ The SAAQ embodies the practical application of these rules

In its funding and capitalization policy, the SAAQ has adopted a number of principles that refer to the contributors' interests and fairness between generations. More specifically, the SAAQ's rate policy seeks to:

- achieve as quickly as possible the self-financing of the costs of accidents in a given year;
- cover the full capitalization of the insurance plan so that it has available the funds necessary to pay the current and future compensation to which beneficiaries are entitled;
- maintain fairness between all of the categories of insured parties.

These principles indeed correspond to user fees that reflect the insurance plan's costs. In 2006, the SAAQ's rate policy, combined with sound returns with assets invested with the Caisse de dépôt et placement du Québec, contributed to a \$333-million surplus of revenues over expenditures, which enabled the agency to reduce by three-quarters its accumulated deficit. By late 2006, the plan was fully capitalized.

The task force has also noted that despite the rules in force, the process of setting rates was subject in 2006 to major interference from political decision-makers.

- In 2006, in the wake of the announcement of the outcome of consultations and the recommendations of the panel of experts, the government summoned the President and CEO of the SAAQ to appear before a parliamentary committee. In response to the negative reactions communicated by MNAs, the SAAQ had to lower the proposed rates.
- For example, the annual insurance contribution on a Class 5 passenger vehicle driver's licence without demerit points had been \$23 for many years. The SAAQ recommended that the rate be raised to \$51 in 2007, and to \$63.50 in 2008. Instead, it was set at \$35 in 2008, \$47 in 2009, and \$60 in 2010.

TABLE 11

**Fonds d'assurance automobile du Québec –
Operating results, 2005 and 2006**
(in millions of dollars)

	2006	2005
Revenues	1 744	1 798
Expenditures	– 1 432	– 1 558
Other items	21	– 21
SURPLUS OF REVENUES OVER EXPENDITURES	333	219
Accumulated deficit at the beginning of period	– 398	– 617
Accumulated deficit at the end of period	– 65	– 398

Source: SAAQ annual reports.

□ The CSST

The CSST seeks to strike a balance between the assets and liabilities of the Fonds de la santé et de la sécurité du travail. Once it has achieved such balance, the agency endeavours to keep revenues and operating expenditures in balance while respecting the principles of fairness, stability and prevention.

The most recent results are as follows:

- as of December 31, 2006, the plan funding level stood at 102%, compared with 92.1% in 2005;
- in 2006, the agency ended its fiscal year with a surplus of just over \$1 billion, which enabled it to fully cover its accumulated deficit.

TABLE 12

**Fonds de la santé et de la sécurité du travail –
Operating results, 2005 and 2006**
(in millions of dollars)

	2006	2005
Revenues	3 741	3 540
Expenditures	– 2 700	– 2 650
SURPLUS OF REVENUES OVER EXPENDITURES	1 041	890
Accumulated deficit at the beginning of period	– 787	– 1 677
Surplus or deficit at the end of period	254	– 787

Source: CSST annual reports.

❑ The Fonds d'assurance-stabilisation and the Fonds d'assurance-récolte

The situation is different for the other two funds. In the case of farm income stabilization insurance and crop insurance, the premiums paid by insured parties represent only a fraction of the plans' costs.

■ The Fonds d'assurance-stabilisation des revenus agricoles

Insurance members of the Fonds d'assurance-stabilisation des revenus agricoles contribute only one-third of the plan's funding. The government, through funds paid to La Financière agricole du Québec, covers the remaining two-thirds. The plan was in the red during the last two fiscal years.

Indeed, in fiscal 2006-2007, the Fonds d'assurance-stabilisation des revenus agricoles' expenditures totalled \$628 million and member contributions stood at \$134 million, equivalent to just over 21% of the plan's costs.

TABLE 13

Fonds d'assurance-stabilisation des revenus agricoles, 2005-2006 and 2006-2007 (in millions of dollars)

	2006-2007	2005-2006
Revenues		
Member contributions	134	130
Contributions from La Financière agricole du Québec	269	262
	403	392
Expenditures		
Compensation	601	436
Other items	27	14
	628	450
DEFICIT OF REVENUES OVER EXPENDITURES	- 225	- 58
Accumulated deficit at the beginning of period	- 372	- 314
Accumulated deficit at the end of period	- 597	- 372

Source: Annual report of La Financière agricole du Québec.

■ The Fonds d'assurance-récolte

In the case of the Fonds d'assurance-récolte, expenditures and revenues are balanced, but here again member contributions cover only a fraction of the plan's costs. In 2006-2007, this contribution stood at \$25 million on total revenues of \$73 million, equivalent to just over 34% of total costs.

Top-up funding (roughly 52% in 2006-2007) is provided by the Québec and federal governments through allotments paid to La Financière agricole du Québec and is also derived from additional revenues.

TABLE 14

Fonds d'assurance-récolte, 2005-2006 and 2006-2007

(in millions of dollars)

	2006-2007	2005-2006
Revenues		
Member contributions	25	20
Contributions from La Financière agricole du Québec	38	30
Other items	10	10
	73	60
Expenditures		
Compensation	73	59
SURPLUS OF REVENUES OVER EXPENDITURES	0	1
Accumulated surplus at the beginning of period	76	75
Accumulated surplus at the end of period	75	76

Source: Annual report of La Financière agricole du Québec.

2.3.2 Variable outcomes depending on the plan

The outcome of this cursory analysis of the four specific insurance plans varies considerably depending on the plans considered.

- We have noted that rates are adjusted to costs in the case of the CSST and the SAAQ. While congratulations are in order, we suggest that this progress stems, above all (and paradoxically) from the government's inability to cover deficits resulting from user fees that fail to cover costs.

Another positive aspect in both instances is that the Quebecers concerned are now able to perceive the results of the sound management of user fees. They can thus establish the link between fees geared to actual costs and the positive impact that sound management has on the user fees that they pay.

- The two funds in the agricultural sector are in an entirely different position. In conjunction with policies to support farmers, the premiums collected from insured parties only cover a relatively small portion of the true cost of the insurance. In addition, the Fonds d'assurance-stabilisation des revenus agricoles is in the red, which means that the portion of the plan's expenditures covered by members' premiums is even smaller.

2.3.3 Problems

In the case of trustee plans, we must note that the approach that the government adopted several years ago in respect of the two biggest plans is a step in the right direction. Greater distance has been achieved between the government and the officials responsible for the trustee plans.

- At the same time, we must emphasize that in the case of the SAAQ, the agency's autonomous status and the accountability of its directors have not prevented the government undergoing public pressure from clientele following insurance premium increases.
- In the case of the CSST, the government has not intervened since the agency's status changed and it is no longer incumbent upon the government to approve the CSST's rates.

As for the two funds devoted to the agricultural sector, the report just published by the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois emphasizes several difficulties concerning the operating method of insurance plans without, however, calling into question the existing funding method.³⁰

However, we must point out that the very principle according to which the plans are funded should be evaluated by:

- explicitly estimating the cost of the policy in light of which this funding method was adopted;
- analysing the amounts paid by taxpayers in light of the results obtained.

2.4 Delegation to the municipalities

The fourth category covers the municipalities.

2.4.1 General conditions

To ensure the efficient, optimum use of the resources made available to the municipalities, the government delegates to them the power to levy user fees on the goods and services that they provide.

The *Acting respecting municipal taxation* governs the fields of application of user fees.

The municipalities are thus able to diversify their power to levy taxes and ensure service delivery according to the obligations attributed to them.

Indeed, in return for user fee revenues, the municipalities are obliged to maintain sound management of their public finances and are accountable to their residents.

2.4.2 Problems

As is true of the user fees under direct government control, it must be noted that the user fees defined by the municipalities do not reflect costs.

We obtain a very clear indication of this situation when we compare the user fee revenues of Québec municipalities with such revenues collected by municipalities in the other provinces.

- In 2006, Québec municipalities would have collected additional user fee revenues on the order of \$576 million if they had collected in the form of user fees the same proportion of their revenues as the average for Canadian municipalities.

³⁰ Report of the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois (2008). *Agriculture et agroalimentaire : assurer et bâtir l'avenir*.

- User fee revenues account for 21.6% of the revenues of municipal governments in Ontario, 27.0% in Alberta and 22.4% in Canada as a whole, compared with only 17.6% in Québec.

TABLE 15

User fee revenues of municipal governments in Canada, 2006
(principal provinces and Canadian average)

	Percentage of user fee revenues	Additional revenue if applied in Québec
	(%)	(\$000 000)
British Columbia	23.3	685
Alberta	27.0	1 130
Ontario	21.6	480
Québec	17.6	—
Canadian average	22.4	576

Sources: FMS data excluding the contributions of mass transit users and ministère des Finances du Québec.

Indeed, we note situations analogous to those emphasized in respect of user fees under direct or indirect government control, and for identical reasons.

- The users of municipal services are scarcely informed or completely uninformed about the cost of the services they receive. Such costs are usually integrated into the taxes levied each year and there is no direct link between the cost paid and actual use of the service.

The case of water is exemplary in this respect. Municipal taxpayers pay a water charge but the charge is not linked to the volume of water actually consumed.

- The process itself is subject to considerable political pressure, which explains the reluctance of municipal authorities to invoice the actual cost of the service provided.

The setting of user fees in the municipalities raises two other questions, to which it is not easy to provide clear, definitive answers.

- First, we must ask ourselves whether we should not, in some instances, call into question the highly decentralized nature of the user fees levied by the municipalities. The delegation of power by the government is in itself a good thing as it ensures that decisions pertaining to user fees are made as close as possible to the user. It thus promotes accountability.

However, this decentralization also has drawbacks: it leads to a very great disparity in the rules governing user fees that are actually adopted. Above all, it is hard to reconcile with a user fee framework that imposes, for example, on all municipalities clear rules respecting transparency, fairness and accountability.

- Second, the task force wonders about the method of applying at the municipal level an overall user fee policy concerning a sector of activity that directly involves the municipalities. We are referring here to water management, whose overall management is the responsibility of the government but whose use is under municipal authority. The task force will focus later on its reflection on this question and present the attendant recommendations.³¹

³¹ See page 111.

2.5 Overall problems

The foregoing analysis of the method of setting user fees and its shortcomings can be summarized in the following table.

TABLE 16

Key characteristics of the fee-setting processes in force in Québec, 2006-2007

	Direct and indirect departmental control	Quasi-judicial tribunal	Specific insurance plans	Municipalities
Cost recovery	Poor	Limited to the costs allowed	Yes, except in the agricultural insurance plans	To be evaluated
Overall assessment of the fee- setting process	Not uniform Not compulsory Lack of information on user fees, and so on	Transparent Value of heritage pool electricity challenged Restrictive statute	Transparent for the SAAQ and the CSST	Not uniform as it is highly regionalized Strong political influence
Total revenues	\$9.7 billion	\$9.4 billion	\$3.1 billion	\$2.7 billion
Delegation	Limited	Average	Average	Extensive
Political pressure	Strong	Average	Average	Strong
Allocation of revenues to the fee- based service	Variable	Extensive	Extensive	To be evaluated
Process				
- Rigour	Poor	High	High	Variable
- Transparency	Poor	High	High	Variable
- Accountability	Poor	High	High	Variable
- Expertise, knowledge and professional staff	Variable	Strong	Strong	Variable

Source: Ministère des Finances du Québec.

As for cost recovery, it is limited in respect of direct and indirect departmental control. We have noted a similar situation in the municipalities, although, in this instance, it is hard to obtain a more precise assessment of the situation.

On the other hand, the Régie de l'énergie does achieve cost recovery. However, the government defines restrictively the costs in question. The specific insurance plans also recover their costs, except for the two plans in the agricultural sector.

The task force has pinpointed other problems that are widespread but to differing degrees.

- The fee-setting processes in force in Québec are highly diversified but political pressure is always present.
 - The situations differ markedly from the standpoint of the distance between the government and decision-making in respect of user fees. This distance is non-existent when government departments set user fees and it is considerable in the case of a quasi-judicial system or insurance plans.
 - However, in all cases political authority is subject to significant pressure to intervene to halt or limit a fee increase that is otherwise warranted by rising costs.
- We must note and deplore a lack of rigour in a good part of the government in the administration of user fees. In the case of government departments and agencies, the difficulty encountered in obtaining accurate information on the user fees levied and the costs to be assumed illustrates this problem. The Régie de l'énergie and the insurance plans are an exception in this regard.
- With few exceptions, the processes by which user fees are set are characterized by their considerable opaqueness. The transparency of the process followed by the Régie de l'énergie is exemplary in this respect.
- Except in the case of the Régie de l'énergie and the insurance plans, there is no veritable obligation to account for the decision to apply or not to apply user fees.
- With the exception once again of the Régie de l'énergie and the insurance plans, the task force often observed a lack of knowledge and professional staff in most of the agencies responsible for setting user fees stemming probably from an absence of clear guidelines and explicit objectives in respect of user fees.
- We have observed all manner of situations concerning the reinvestment of user fee revenues in fee-based services. Such reinvestment is the rule in the case of the Régie de l'énergie and the insurance plans but also as regards agencies, even if they are subject to direct or indirect departmental control. This reinvestment is the exception in the case of government departments and varies considerably in respect of user fees under the authority of the municipalities.

CHAPTER 3 – A NEW USER FEE POLICY

Our reflection in the preceding sections and our observations logically lead us to propose to the government what might be a new user fee policy that is more efficient and better geared to all Quebecers' interests, with a view, as the task force hopes, to levying the right fees to live better together.

- The task force first devoted itself to clarifying the overall characteristics of this policy by reflecting, in particular, on the principles underlying it and the procedure that it would implement.
- The task force has gone even further by making a number of recommendations concerning university tuition fees, electricity and water rates, and the fees levied in respect of transportation and childcare services. In all instances, the user fees are of strategic importance and are closely linked to major government policies.

3.1 Principles and a procedure

First, it is important that the government's new user fee policy be based on a clear objective.

□ A clear objective

Recommendations

The task force proposes that the objective of the new user fee policy be to define fees that are at once efficient and fair:

- The user fees must be efficient in order to send the right signals to users, properly manage our resources and public services, limit fiscal pressure and, when all is said and done, enhance our well-being and the livability of society.
- User fees must also be fair, since it is essential to take into account the consumer's ability to pay and the precarious situation of the least privileged members of society.

□ The challenge

We have emphasized the importance of political pressure surrounding all decisions pertaining to user fees and the resulting slip-ups in relation to what reflects the collective interest.

The task force is convinced that this is the very challenge we are facing: we must ensure that decisions concerning user fees are no longer the focus of partisan political debate, without for all that excluding the government's responsibility in a field as crucial as user fees.

We can do so by refocusing the government's role to what falls exclusively under its jurisdiction, i.e. the elaboration of comprehensive policy directions and the establishment of rules. In exchange, we must absolutely exclude the government from day-to-day decision-making on user fees and delegate such decisions to the bodies empowered to make them in light of clear rules that are known to everyone.

- The government should, therefore, be responsible above all for ensuring that the user fees established are efficient and fair by defining the appropriate rules and ensuring compliance with them. The attainment of this objective would become a political issue as such, for which elected representatives would be accountable.
- The bodies empowered to set user fees would, in practice, enjoy the necessary leeway to make the right decisions in the collective interest because of their removal from day-to-day political debate.

Indeed, this breakdown of roles already exists with respect to the setting of electricity and automobile insurance rates: the government has delegated to the Régie de l'énergie and to the SAAQ the power to set user fees in conjunction with rules that it has defined through legislation. The distance thus established between political decision-makers and the actual setting of user fees has actually made it possible to set more efficient, fairer fees than under the system in which the government exercises direct control.

□ A broader, well-defined framework

The new user fee policy must unambiguously identify the nature of the public goods and services concerned. As we noted earlier, the user fee framework elaborated in 1999 is too restricted in its application since it only applies to government departments and agencies.

In this report, we have examined a broader field, including insurance plans, electricity rates and user fees set by the municipalities.

This is a vast framework, although the corollary is that the new user fee policy must be confined to overall obligations to avoid excessive centralization.

❑ Principles

Recommendation

The task force has pinpointed six principles on which the government should base the new user fee policy:

- the coverage of costs;
- transparency;
- solidarity towards the least privileged members of society;
- the allocation to fee-based services of user fee revenues;
- accountability;
- the evaluation of public policies that include a user fee component.

- The first principle is that of the coverage of costs: almost without exception, the fees that users pay for a public good or service should cover the costs of this good or service. This is a clear principle that all Quebecers can easily understand and embrace, which sets the standard in respect of user fees.

The exception is collectively funded private goods, i.e. goods and services offered by the State and funded both through user fees and taxes, such as health or education.³² In this case, the breakdown of funding between user fees and taxes must be subject to clear, precise rules that Quebecers understand and accept.

- The second principle is that of transparency: it is essential that the new user fee policy enable Quebecers to be fully informed of the user fees applied, their relationship to costs, and the issues in question. Quebecers must know at all times why and how much they are paying in relation to the total cost of the service.
- The third principle is that the new user fee policy must reflect our solidarity with the least privileged members of society. The poorest individuals may be directly affected by a user fee policy that applies to essential goods. The policy must provide the appropriate solutions to avoid any risk in this regard.

³² See page 37.

However, we must avoid certain pitfalls.

- We must take into account the nature of the goods and services in question and only intervene as regards goods and services that are actually essential to the least privileged members of society.
- We must avoid altering the user fee itself. It would be counterproductive to elaborate measures in respect of a given user fee since they would have a perverse impact on the consumption of the good or service concerned.
- Instead of responding in a piecemeal manner, we must mitigate or eliminate the impact on the least privileged members of society of user fee increases by adjusting for this purpose social aid and other government transfer mechanisms. Numerous compensatory measures have already been elaborated for low-income households.³³ These measures should be enhanced to take into account changes in user fees and the government should account each year for the decisions made in this respect. The changes made to social aid should, of course, take into account possible impact on implicit marginal taxation, i.e. the incentive to work.
- The fourth principle is that of the allocation of user fee revenues. Quebecers will accept all the more readily user fee adjustments if user fee revenues are actually earmarked for the enhancement of the fee-based good or service. In the case of government departments and agencies, the ideal course would be dedicated funds or the establishment of a clear link between user fee revenues and their allocation.
- The fifth principle is that the user fee policy must include a systematic, regular accountability process.
 - Accountability should seek to assess the outcomes obtained in relation to the objectives sought by user fees.
 - It could also include systematic comparisons with other jurisdictions in order to better judge the initiatives taken and the results obtained.

³³ Appendix 3 indicates the transfer mechanisms implemented by the Québec government to take into account the situation of the low-income households.

TABLE 17

Summary table of compensatory measures intended for low-income households

	Type of income	Compensatory measures
Health network	Social aid	– Special allowances
	Low income	– Refundable tax credit for medical expenses
Education network	Social aid	– Loans and Bursaries Program
	Low income	– Loans and Bursaries Program
		– Tax credit for interest paid on student loans
Electricity rates	Social aid and low income	– Rent subsidy – Rental of low-cost housing – Housing allowance program
\$7-a-day childcare services	Social aid	– No contribution
	Low income	– No specific measure
Mass transit	Social aid	– No specific measure
	Low income	– Reduced fares for seniors and students
Drug insurance	Social aid	– Free prescription drugs
	Low income	– Premium set according to family income – Claim booklet for workers who have received social aid – Free of charge for seniors receiving at least 94% of the guaranteed income supplement
Fiscal measures applicable to all		– Work Premium – Child assistance – Home care – Indexation of the taxation system – Sales tax credit – Property tax refund
Other measures		– Raising of the minimum wage – Enhancement of last-resort assistance – Free legal aid

- The sixth and last principle proposed is that of the evaluation of public policies that include a user fee component.
 - It is important that we regularly assess the cost of public policies whose implementation involves the assumption by the State of a portion of the price of the good or the service offered. For example, the government should regularly evaluate the cost of having society assume a portion of childcare services.
 - The government must also evaluate the results obtained in conjunction with these policies so that Quebecers can judge the relevance of the costs that they must assume as taxpayers. To return to the example of childcare services, the government should also evaluate the results obtained in terms of school success, participation by mothers in the labour market or support for families, since these are the three objectives for which the childcare service policy was implemented.
 - These evaluations should normally be tabled and discussed in the National Assembly so that Quebecers can judge knowingly the relevance of public policies that include a user fee component.

□ Scope: a framework law

The experience of the frame of reference introduced in 1999 for government departments and agencies demonstrates the need to enshrine the new user fee policy in legislation. Most of the indications in the frame of reference have remained vain wishes.

However, from the standpoint of user fees, a simple statute is not sufficient. We must go further and support the new user fee policy with a framework law that imposes new ways of doing business on the Québec government overall.

The task force deems the adoption of a framework law to be the best way to make the elaboration of efficient, fair user fees a policy matter in itself, thus overcoming the barrier that governments come up against when they wish to adjust user fees.

Political pressure curtails the leeway of any government facing the users of services who are also voters. The response proposed consists in having the National Assembly adopt a comprehensive framework law that places sound user fees on the same footing as the fight against the deficit, or infrastructure renewal.

In our parliamentary system, there is probably no other way to give the user fee policy the scope and authority that it must have. The notion of a framework law would be all the more logical since the definition of user fees for public services affects all activities of the State and a wide range of agencies and is directly linked to several public policies that underpin our lives in society.

To respond to the challenge posed by the political pressure that accompanies any decision pertaining to user fees, the task force commissioned a study of practices observed in a number of industrialized nations, in particular jurisdictions with a parliamentary political system. In several jurisdictions, user fee policies have indeed been enshrined in general statutes that apply to the entire government.³⁴

Recommendation

The task force recommends that the government define in a framework law the objective, principles and main terms and conditions of a new user fee policy in respect of public services.

³⁴ See Appendix 5.

User fee principles applied in certain countries

The École nationale d'administration publique and the ministère des Finances du Québec conducted a comprehensive study of mechanisms governing the adoption of user fees in many countries all over the world (Appendix 5 provides full details of the study).¹

Below are the highlights of the study concerning the overall management of user fees.

- A number of countries have adopted a comprehensive legal, political or regulatory framework to manage the process of setting and reviewing user fees for services (Australia, Finland, New Zealand, the United Kingdom and the United States).
- Services are divided into two categories pursuant to such legislation and regulations:
 - statutory or compulsory services, provided exclusively by government departments, agencies and entities engaged in non-competitive activities, i.e. that exercise a monopoly;
 - commercial services, provided by government departments, agencies and entities engaged in activities of a commercial nature or activities in a competitive market, i.e. that are subject to open competition.
- The setting of user fees for statutory services must generally seek the recovery of the full cost of production, i.e. the fees collected must be equivalent to the full cost of delivering the service.
 - In some instances, the recovery of the costs of products and services may be partial or null if the government's objectives, for example with regard to accessibility or fairness, make a good case for this type of recovery.
 - Indeed, the benefits that society in general derives from the consumption of certain public goods and services may warrant subsidizing their consumption by means of financing them by income tax revenues. However, in such cases, the objectives must be clearly stated and regularly validated
- The setting of user fees for commercial services must respect the principle of competitive neutrality stipulated in general legislation on competition such that fees are set at the market value of the goods and services and free competition on open markets determines the price.
- In this case, the setting of user fees at market value may generate fees that exceed the recovery of service costs and thus lead to a surplus or to profitability.
- Generally speaking, the accountability process, an important condition as regards for the setting of user fees for public services, is solidly established. The recovery of costs must, in general, be reassessed periodically.
 - In Nova Scotia, for example, the Department of Finance makes public at the end of each fiscal year a report in which it exhaustively inventories user fees for public services and indicates the adjustments made to them (the increases are linked to the consumer price index).
 - Control and follow-up in respect of the setting of user fees for services, especially in the electricity and transportation sectors, can be carried out through regulatory bodies.

¹ The full study is available online (www.gttsp.gouv.qc.ca).

□ General conditions

The task force believes that the new user fee policy and the attendant framework law must not, above all, be perceived as a new tool that will centralize and encumber the process of setting user fees in the government.

To the contrary, the new policy and the framework law should emphasize four essential components.

- First, the new user fee policy must be implemented quickly, efficiently and flexibly. The framework law should also be limited to a few simple provisions; what is important is to encourage all of the agencies involved to shift to new ways of doing business.
- Second, the new policy must seek concretely to increase the distance between politicians and the authority responsible for defining user fees. As we emphasized earlier, this distance will make it possible to refocus the government's role on key policy directions and the definition of rules and leave to the bodies empowered to do so the task of setting user fees.

This approach is not new and has been successfully applied with respect to the Régie de l'énergie and the SAAQ.

The new user fee policy should extend across the board the accountability of agencies in the realm of user fees and this broader accountability should also cover the results obtained.

To indicate its determination in this respect, the government should, in the short term, confirm its overall responsibility for the definition of the Régime d'assurance parentale and the Régime d'assurance médicaments but transfer the direct control that it exercises over the definition of user fees to the two bodies responsible for administering the plans.

- Fourth, in the case of user fee reviews that require adjustments, the pace of adjustment should take into account the nature of the fee-based good or service. In some instances, users make long-term plans as regards these goods or services. This is true, for example of tuition fees.

It is important for the body responsible for user fees to take into account this situation by defining a deadline and an adjustment schedule that allows users to adapt their planning accordingly.

- Fourth, the new user fee policy should encourage the bodies to systematically take into account existing competition between the public and private sectors.

The definition of a user fee should always be accompanied by an analysis of the impact of the fee adopted on the supplying by the private sector of analogous goods and services. All too often, in the past, excessively low user fees resulted in the elimination of competition from the private sector, to the detriment of users.

Recommendations

The task force recommends that in the new user fee policy and the framework law the government:

- confine itself to a few simple provisions that emphasize rapidity, efficiency and flexibility;
- seek to increase the distance between politicians and the authority responsible for defining user fees and promptly act upon this objective by transferring to the two bodies responsible for administering the plans the definition of the fees levied pursuant to the Régime d'assurance parentale and the Régime d'assurance médicaments;
- in the event of reviews of user fees that require adjustments ensure that the pace of adjustment is established according to the nature of the fee-based good or service;
- encourage the bodies responsible for setting user fees to systematically take into account existing competition between the public and private sectors.

□ Contents of the framework law

The task force believes that the framework law should confine itself to stating the objectives that the government is pursuing and the principles to be respected as regards user fees.

The law should contain three specific provisions:

- the rule whereby any new public policy must make provision for the recovery of the costs of the services offered, almost without exception unless explicitly warranted and subject to an annual evaluation;
- the establishment of certain dedicated funds and the relaxation of a number of budgetary rules to allow for broader allocation of user fee revenues to the maintenance and quality of fee-based services;
- the obligation for the government to account each year for the level of user fees levied to cover the cost of public goods and services.

❑ The process

The task force has attempted to specify the outline of the process that should be adopted to ensure the implementation of the new user fee policy.

■ Direct and indirect departmental control

Recommendation

In the case of user fees under direct or indirect departmental control, the task force recommends that the ministère des Finances be responsible for the administration of the framework law and the new policy in light of its responsibility for revenues and fiscal and budgetary policy.

Recommendations

The task force recommends that the ministère des Finances be given mandates to:

- monitor the provisions in the law;
- set up a panel of experts on user fees responsible for helping government departments and agencies to comply with the new user fee policy;
- prepare the evaluations and reports stipulated by the law.

The establishment of a panel of experts on user fees appears to be necessary given the shortcomings observed in the government concerning both knowledge of the cost of the services offered and the definition of approaches to charge users for the cost of such services.

The expert panel on user fees would make its know-how available to government departments and agencies by:

- drafting and publishing user fee reference guides;
- collaborating in the field on specific projects;
- mobilizing available collaborators outside the public service.

Recommendations

The task force recommends that in the case of government departments and agencies the process of implementing the new user fee policy include:

- the establishment of an exhaustive inventory of the services offered and the fees levied on users;
- systematic evaluation of the costs of the services in order to compare such costs and the fees levied;
- an analysis of the discrepancy observed and the reasons that justify it;
- the definition of the review of user fees;
- determination of the time frame for and pace of the adjustment to be made;
- identification of the measures adopted to take into account the situation of the least privileged members of society;
- determination, once the proper level has been established, of an indexation mechanism linked to cost or an indicator that reflects cost increases;
- the implementation of measures to allocate user fee revenues to the fee-based service (establishment of a dedicated fund or relaxation of budgetary rules);
- the initiation of the evaluation of the program or the public policy that justifies funding by means of taxes part of the cost of the service.

The government should transmit clear instructions to each government department and agency to initiate these steps and to make the managers concerned accountable for them. The ministère des Finances could ensure compliance with the process adopted.

■ User fees defined by the municipalities

We cannot adopt such a precise, centralized approach in the case of the municipalities.

However, the municipalities must implement a user fee policy that complies with the principles that the government spells out and concretely take action on it by defining the processes best adapted to their situation.

The task force is of the opinion that the framework law should also include a section devoted specifically to the municipalities so that user fee policies are established at the municipal level that ensure the definition of efficient, fair user fees for the services offered.

Recommendations

The task force recommends that, in accordance with the new user fee policy and the framework law, the municipalities:

- define and apply efficient, fair user fees for the public goods and services offered;
- aim for this objective by respecting the principles of coverage of costs, transparency and solidarity with the least privileged members of society, the allocation to fee-based services of user fee revenues, accountability, and the evaluation of municipal policies that include a user fee component;
- define for this purpose the procedures best adapted to their situation.

■ The quasi-judicial tribunal and the specific insurance plans

In the case of the quasi-judicial tribunal and the specific insurance plans, user fees already reflect costs in most of the situations observed.

However, the government could report annually on compliance with the existing rules. The ministère des Finances would be responsible for drafting the annual report on the situation observed at the Régie de l'énergie and in the specific insurance plans in order to charge users for the cost of the service offered.

□ The new way of defining user fees

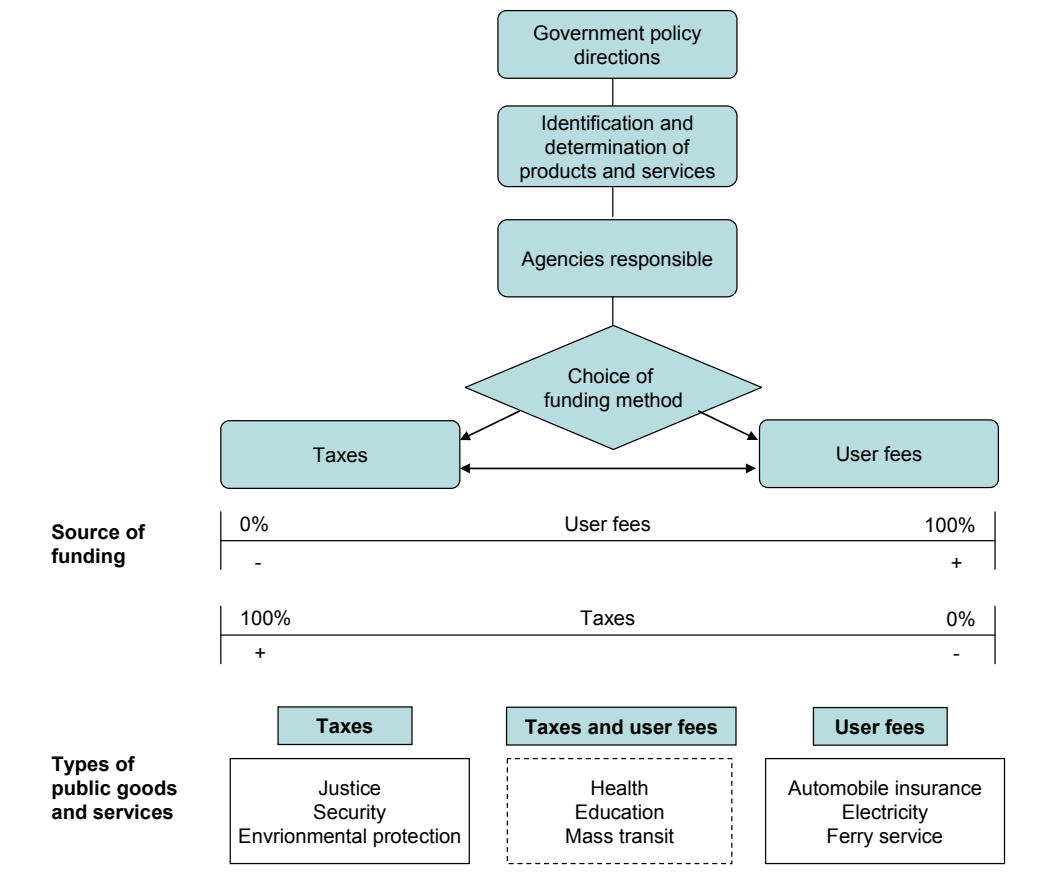
The task force has just provided an overview of the new user fee policy whose adoption it is recommending to the government.

This user fee policy should guide all government initiatives pertaining to public products and services. In light of the policy directions adopted in respect of public policies, the government should systematically:

- pinpoint the products and services introduced pursuant to these policies;
- determine the agencies responsible for delivering these products and services;
- clearly, explicitly choose the funding method adopted and define the relative share of taxes and user fees.

FIGURE 3

Establishment of the method of funding public goods and services

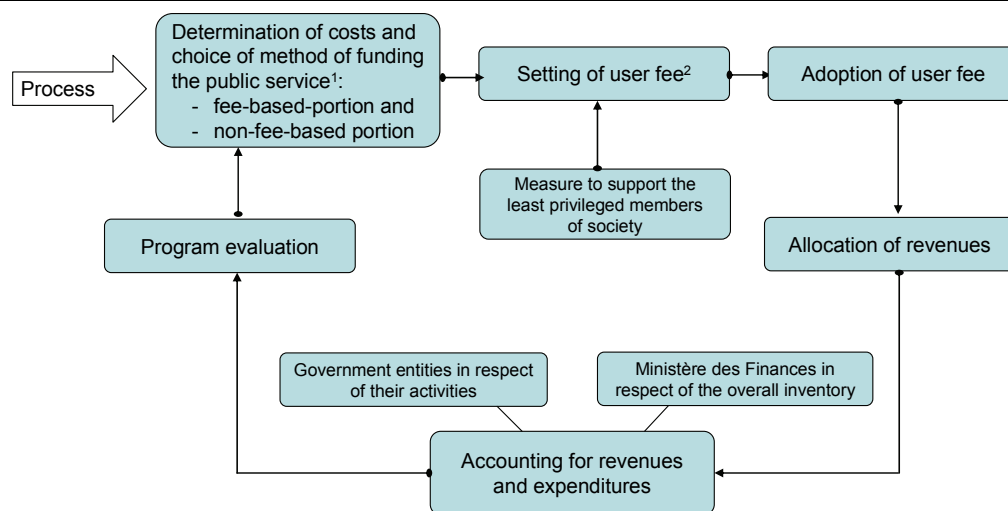


In the case of government departments and agencies, where the current system's weaknesses are the most obvious, the task force recommends the adoption of a process that strikes a balance between the accountability of the managers responsible and systematic, rigorous management by the ministère des Finances.

This process would begin once the method of funding the public service or good has been chosen. It would conclude with the periodic evaluation of the policy under which the service or good is offered.

FIGURE 4

Process of determining and evaluating user fees in government departments and agencies under the new user fee policy



1 Based on the criteria of fairness and efficiency, bearing in mind government policy directions.

2 Options to be considered: cost price, marginal cost, presence or absence of economic rent, interprovincial comparison, environmental impact, and so on.

3.2 Concrete suggestions

In order to further pursue the elaboration and implementation of a new user fee policy, the task force wished to present a number of concrete suggestions concerning user fees that affect certain key facets of our lives in society.

The task force thus reflected on user fees levied in five fields, i.e. university education, electricity consumption, water use, road and urban tolls, and childcare services.

The policies followed in these fields reflect the Québec government's priorities. The task force is convinced that it is possible to confirm these priorities while adopting a more efficient, fairer user fee policy.

3.2.1 Better manage a precious asset: university tuition fees

The freeze on university tuition fees over most of the past four decades clearly illustrates a policy that for a long time was intended to be both efficient and fair. In fact, it is neither.

☐ The freeze on university tuition fees: inefficiency and unfairness combined

In a world where knowledge will increasingly be the key engine of economic and social development, a society as small as Québec does not have the means to allow financial obstacles to prevent young people who are intellectually able and want to do so from attending university. It was thus inferred that very low tuition fees were the best means of fostering access to university and that an increase in such fees would adversely affect access. Is this really the case?

In 1968-1969, university tuition fees stood at \$547 per year and remained at that level until the increase adopted in 1990-1991. Starting in 1994-1995, they remained frozen at \$1 668 a year until the \$50 increase per session over five years announced recently.

We must first note that the tuition freeze has reduced the real cost of the fees paid by students.

- In 1968-1969 constant dollars, the \$1 668 fee that students had to pay in 2005-2006 was barely worth \$296.³⁵
- If tuition fees had simply been indexed according to the consumer price index since 1968-1969, the \$547 a year from that time would have been equivalent to \$3 087 a year in 2005-2006. In comparison, the Canadian average was \$4 643 that year.³⁶

³⁵ Lacroix and Trahan (2007). *Le Québec et les droits de scolarité universitaire*, Centre interuniversitaire de recherche en analyse des organisations (CIRANO), page 13.

³⁶ Lacroix and Trahan (2007). *Le Québec... op. cit.* By comparison, the Canadian average (see Table 5, page 23) has been estimated at \$5 000 in 2006-2007 and take into account related fees.

□ The impact of a tuition increase on university attendance

What do we really know about the impact of a tuition increase on university attendance?

- In Québec, between 1989-1990 and 1993-1994, a period during which was spread the only substantial increase, tuition fees tripled. During this period, university attendance increased, from 156 686 full-time equivalent students to 171 408 full-time equivalent students.³⁷
- In 1997-1998, university attendance briefly declined to 159 850 full-time equivalent students, then rose again.
- The same situation was noted in Ontario:³⁸ the tuition increase did not prevent a steady increase in full-time university attendance.
- Statistics Canada also observed that university attendance among young people from less privileged families (\$25 000 or under) has remained stable overall in Canada in recent years, despite tuition increases. Other studies maintain that it even increased despite tuition increases everywhere in Canada, except in Québec.³⁹

A recent study conducted on behalf of the ministère de l'Éducation, du Loisir et du Sport⁴⁰ sought to estimate the impact on university attendance of seven scenarios, ranging from the abolition of tuition fees to an increase that would bring such fees up to the Canadian average.

³⁷ V. Vierstraete (2007). *Les frais de scolarité, l'aide financière aux études et la fréquentation des établissements d'enseignement postsecondaire : comparaison à l'échelle internationale et étude de scénarios pour le Québec*. Étude à l'intention du ministère de l'Éducation, du Loisir et du Sport, page 61.

³⁸ C. Michael (1999). *Rising Tuition Fees: Measuring the Impact Upon Undergraduate Enrolment in Ontario, 1977/78-1996/97*. Presentation to the Canadian Institutional Research and Planning Association, October 24-26, Québec City, Québec.

³⁹ M. Corak, G. Lipps, and J. Zhao (2003). *Family Income and Participation in Post-secondary Education*, Statistics Canada.

⁴⁰ V. Vierstraete (2007), *op. cit.*

In the two scenarios with the highest tuition increases, the study concludes that, if attendance declined:

- the decrease would be on the same order of magnitude as the temporary downturn noted in the early 1990s;
- it would not affect attendance by current recipients of financial assistance;
- the leeway stemming from reduced government spending would also allow for the enhancement of student aid.

What is certain is that when we shift from estimates to facts, it is clear that if we judge the efficiency of the tuition freeze by its capacity to increase university attendance, especially among young people from low-income families at levels that exceed those observed where tuition is higher, we must conclude that it is inefficient.

□ The real motivation for attending university

The explanation for this phenomenon is well known. Numerous studies⁴¹ reveal the much greater importance of factors other than the level of tuition fees to explain university attendance. Among such factors, the parents' socioeconomic status and expectations, the quality of the schools attended or previous academic achievement are paramount.

⁴¹ S. Junor and A. Usher (2004). *The Price of Knowledge 2004: Access and Student Finance in Canada*. Canada Millennium Scholarship Foundation, Millennium Research Series.

R. Finnie, É. Lascelles, and A. Sweetman (2005). *Who Goes? The Direct and Indirect Effects of Family Background on Access to Post-secondary Education*, Statistics Canada.

M. Frenette (2005). *The Impact of Tuition Fees on University Access: Evidence from a Large-scale Price Deregulation in Professional Programs*, Statistics Canada.

M. Frenette (2007). *Why Are Youth from Lower-income Families Less Likely to Attend University? Evidence from Academic Abilities, Parental Influences and Financial Constraints*, Statistics Canada.

A study published in 2007 explains 84% of the university attendance gap between young people from the upper income quartile and those from the lower quartile through the factors mentioned earlier.⁴² Financial constraints appear to explain only 12% of the attendance gap. Other experts have even established that the university attendance rate of young people from the wealthiest families was twice that of young people from the poorest families.⁴³

A study published in February 2004 produced similar findings: despite the low tuition fees levied in Québec, university attendance figures there are among the lowest in Canada. Indeed, young people from underprivileged, less educated backgrounds are less inclined to pursue higher education for other reasons.⁴⁴

If tuition increases have not significantly affected the drop in university attendance it is simply because a large proportion of young people from underprivileged backgrounds do not even enter university. Obviously, those among them who might enter university or wish to continue studies already undertaken might indeed be affected by a substantial, abrupt tuition increase. For this reason, it would be logical to concentrate financial assistance on them.

To explain the discrepancy in university attendance, several studies also reveal that rich and poor families assess very differently the intrinsic value of education, the profitability of university education from the standpoint of subsequent income, and the level of tuition fees demanded.

- Low-income households tend to strongly underestimate the opportunities that education provides and the financial benefits stemming from a university education and to highly overestimate the cost of obtaining such an education.
- More privileged households have a more realistic perception of the benefits of an education, which explains parents' more or less firm insistence that their children continue their studies and their more or less marked propensity to go into debt to pay for education.⁴⁵

⁴² M. Frenette (2007), *op. cit.*

⁴³ K. Moussaly-Sergie and F. Vaillancourt (2006). "Le financement des institutions d'enseignement postsecondaire au Québec, 1961-2005," in *McGill Journal of Education*, Vol. 42, No. 3, Fall 2007.

⁴⁴ N. Kozhaya (2004). "La hausse des droits de scolarité réduirait-elle l'accessibilité aux études universitaires ?" *Les Notes économiques*, Institut Économique de Montréal.

⁴⁵ Canada Millennium Scholarship Foundation (2005), Compas Inc.

This also explains why the social sciences have always regarded private expenditures on education as an investment that the individual makes in and for himself. He is willing to relinquish an income for a given period to increase his own human capital and thus obtain jobs that provide income to which he would not otherwise have had access.

It is noteworthy in this respect that only 40% of undergraduate students take advantage of a student loan through the Loans and Bursaries Program. Furthermore, the average indebtedness upon completion of an undergraduate degree of Québec students who contracted loans stood at \$11 688 in 2006-2007, compared with nearly twice that amount in the Canada as a whole.⁴⁶

□ The rate of return on a private investment in education

The rate of return has been calculated on a private investment in education by university discipline in Québec.⁴⁷

The rate of return is calculated by first estimating the cost of studying and the income that the individual will subsequently earn during his working life, then by determining a discount rate that takes into account the current value of costs and income.

We have noted that the rates of return vary markedly from one discipline to the next but that they are positive in all cases.

⁴⁶ Canada Millennium Scholarship Foundation (2006). *The Price of Knowledge* 2006, Chapter 5.

⁴⁷ F. Vaillancourt (2004). *Le financement des universités québécoises : un enjeu déterminant pour l'avenir du Québec*. Brief presented to the Commission parlementaire de l'éducation sur la qualité, l'accessibilité et le financement des universités, Conférence des recteurs et des principaux des universités du Québec (CREPUQ), page 22.

TABLE 18

Rate of return and difference in income for different undergraduate and doctoral programs

	Private rate of return ¹ (%)	Difference in after-tax income ² (\$)
Pharmacology	26.7	952 465
Engineering	24.2	957 217
Mathematics	24.1	704 393
Medicine	21.4	2 360 077
Law	18.9	1 090 383
Dentistry	17.8	1 672 497
Commerce, management and business administration	17.0	754 100
Health, excluding pharmacy and medicine	14.6	305 857
Medicine and veterinary science	12.7	496 188
Agronomy and biology, nutrition	10.2	265 904
Social sciences, excluding law	9.4	327 990
Humanities and human sciences, excluding religious studies	8.1	205 758
Education, recreation and guidance	6.9	158 295

1 The rate equivalent to the present value resulting from the student's investment in education at the costs incurred (including employment income relinquished during studies). By analogy, it is equivalent to the internal rate of return of investment projects calculated by investors.

2 Present value at the inflation rate of additional income that the investment in education engenders in relation to the present value of anticipated income if the student had not attended university.

Source: F. Vaillancourt, *op. cit.*, page 22.

What is certain is that, inasmuch as students who have the intellectual capacity and the desire to study have access to a university education, the private return on this education is such that it is hard to see how we can justify the individual's failure to contribute seriously to funding his own education.

This allows us, in passing, to dispel a specious argument that is heard frequently.

- It is often stated that the high incomes of university graduates are subject to taxation levels that largely exceed the State's and thus other taxpayers' contribution to the cost of their training.
- The catch, obviously, is that the graduate monopolizes virtually all of the return engendered by his education.

Insofar as this investment in human capital can be compared with any other investment from which we expect a return, what would we think of someone who, instead of investing \$200 000 in a university education invests the same amount in an income property, collects the rents generated for years but asks the government to pay him the \$200 000 purchase price on the grounds that future income tax exceeds the initial investment?⁴⁸

□ A question of fairness

We must now examine the question from the standpoint of fairness.

Since taxes in Canada are, by and large, proportional to income and university attendance rises with income, very low tuition fees come down to a question of the subsidization of the university educations of students from, as we have seen, mainly wealthy families by less privileged families whose children have proportionally less chance of entering university.

Logically, the lower tuition fees are and the higher the government's contribution to funding each student's education is, the more pronounced this redistribution from bottom to top will be (as is the case in Québec).⁴⁹ Obviously, this is a very strange conception of fairness.

There is more. In addition to being very low, tuition fees in Québec are the same in all disciplines. This uniformity is unique in Canada and is very rare in the world.

The costs of training vary appreciably from one discipline to the next, from nearly \$30 000 a year in veterinary medicine to as little as \$4 000 a year for a student in the humanities or the human and social sciences.

We note huge disparities when we examine the costs of one year of undergraduate training in Québec in several sectors and the percentage of the cost of training that the student assumes through tuition fees.⁵⁰

We can thus see that to levy the same tuition fees in all disciplines, independently of the enormous differences in the cost of the training, amounts implicitly to more heavily subsidizing students in certain disciplines.

⁴⁸ Lacroix and Trahan (2007), *op. cit.*

⁴⁹ K. Moussaly-Sergieh and F. Vaillancourt (2006), *op. cit.*

⁵⁰ Lacroix and Trahan (2007), *op. cit.*

TABLE 19

Observed costs of instruction per student by discipline, 2002-2003

Undergraduate level	Observed costs (\$)	Tuition fees (as a % of costs)
Veterinary medicine	29 783	6
Dentistry	24 554	7
Nursing science	7 896	21
Medicine	11 567	14
Law	5 210	32
Humanities	4 011	42
Human and social sciences	4 213	40
Pure sciences	7 279	23
Engineering	7 335	23
Education	5 824	29

Source: Lacroix and Trahan (2007), *op. cit.*

What is worse, we know that the private return on education, which is positive in all sectors, is much higher in medicine, dentistry, law or pharmacology.

We have compared in several disciplines the cost of training for one year, the student's contribution as a percentage of such costs, and additional after-tax income earned by the graduate throughout his career compared with the after-tax income of an individual who enters the labour market after Cegep.⁵¹

TABLE 20

Costs and income by discipline, 2002-2003

	Cost (\$)	Tuition fees (as a % of costs)	After-tax income difference
Humanities	4 011	42	205 758
Human and social sciences	4 213	40	327 990
Engineering	7 335	23	957 217
Dentistry	24 554	7	1 672 497
Medicine	11 567	14	2 360 077

Source: Lacroix and Trahan (2007), *op. cit.*

⁵¹ Lacroix and Trahan (2007), *op. cit.*

We must draw three conclusions here.

- The first two are plain for all to see.
 - First, a university education is so profitable for the individual that we cannot justify his not contributing seriously to funding it.
 - Second, the discrepancies in private return are such from one discipline to another that nothing justifies levying uniform tuition fees for all disciplines.
- However, the most striking aspect from the standpoint of fairness is that the most profitable disciplines are those in which admissions are most heavily subject to quotas. The most decisive admission criterion in these disciplines is the applicant's academic record. We know that academic achievement is closely linked to the parents' income or level of education or, for example, attendance at a private school.

❑ **An inefficient, unfair approach**

When all is said and done, we thus see that very low, uniform tuition fees that were frozen for a long time are both inefficient and unfair.

- They are inefficient because they:
 - have no noticeable impact on access by young people from modest backgrounds to university studies;
 - deprive the universities of funds that they could allocate to genuinely broadening access and enhancing the quality of training;
 - do not send the individual the right signal about the value of this investment in his own human capital.
- They are unfair because they are tantamount, as things now stand, to a subsidy from less privileged individuals for the benefit of more privileged ones, especially those who are already in the most profitable disciplines.

Purely by way of indication, if Québec tuition fees reached the Canadian average, Québec universities would have available over \$415 million⁵² a year more. Of this amount, \$300 million would make it possible to eliminate the funding gap between Québec universities and those in the rest of Canada and \$115 million would remain for scholarships aimed at genuinely helping young people from less privileged backgrounds to enter university.

Furthermore, since the government would no longer have to fund the adjustment caused by years of underfunding the universities from public funds, the resulting leeway could, for example, be used to counter dropping out in secondary schools and other factors that mean for so many young people the die is cast long before they reach university age.

⁵² See table 5 on page 23.

❑ Recommendations

In light of the foregoing sections, we can see that an efficient, fair user fee policy in respect of a university education, a valuable asset, implies at a minimum the application of the following recommendations.

Recommendations

The task force recommends with respect to university tuition fees:

- an increase in the ceiling the government has applied to university tuition fees to gradually (without abrupt adjustments) bring them into line with the Canadian average to better reflect the economic profitability of a university education;
- a corresponding adjustment in the loans and bursaries offered to students;
- the differentiation of tuition fees according to the level of study and discipline to better reflect differences in the cost of training and subsequent returns;
- the annual indexation, once the adjustment has been made, of the government subsidy to the universities and of tuition fees to take into account changing costs in order to stabilize the government's contribution;
- regular follow-up in respect of the relative position of Québec universities in relation to the position of universities in the rest of Canada;
- the obligation for the universities to earmark a predetermined percentage of the additional revenues stemming from the tuition increase for bursaries for students from underprivileged backgrounds that would take into account differences in the tuition fees levied in different disciplines and would complement the existing student assistance program, based on the Ontario and British Columbia models;
- serious examination of the implementation of a student loan repayment system proportional to income, based on the existing model in Australia or the model already proposed in Québec,¹ through which a former student once he is on the labour market and based on a certain income threshold repays this student loans by paying an amount calculated using a repayment rate applied to the difference between gross earned income and the income threshold chosen.

¹ C. Montmarquette (2006). *Le remboursement proportionnel au revenu (RPR) : un système pour les prêts d'étude alliant efficacité et accessibilité*, CIRANO.

3.2.2 Better manage our resources and ensure the survival of our heritage: electricity and water

❑ Electricity: a resource that is not sold at its true price

As we saw earlier, electricity rates in Québec are defined through a process that can, in many respects, be regarded as exemplary. The existence of a quasi-judicial tribunal offers guarantees of transparency, fairness and efficiency not found in other methods of defining user fees. The Régie de l'énergie thus authorizes Hydro-Québec to apply rates that truly correspond to electricity generation, transmission and distribution costs.

However, such costs stem in part from certain legislative provisions (we are referring to heritage pool electricity). Moreover, in its evaluations, the Régie de l'énergie can only take into account the actual cost of the electricity generated, which must be questioned.

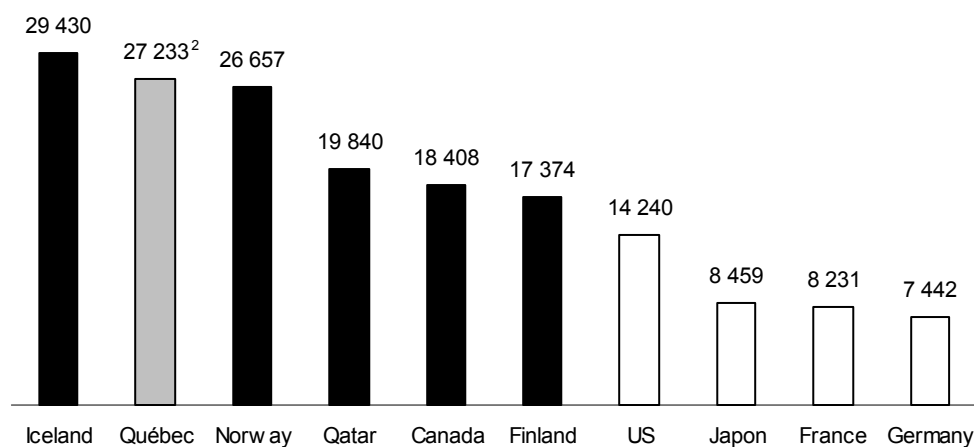
As a matter of fact, the electricity distributed in Québec is not sold at its true price when account is taken of the marginal cost of generation of new projects and the value of this electricity on export markets.

■ Consumption that is among the highest in the world

In 2004, per capita electricity consumption in Québec was among the highest in the world and was virtually 50% higher than the Canadian figure.

CHART 14

Per capita electricity consumption in the world¹ – Québec and selected countries, 2004 (in kWh)



1 We obtained electricity consumption by adding gross electricity generation and net imports.

2 Estimate.

Sources: Ministère des Ressources naturelles et de la Faune and UN *Energy Statistics Yearbook*.

■ Some of the lowest prices

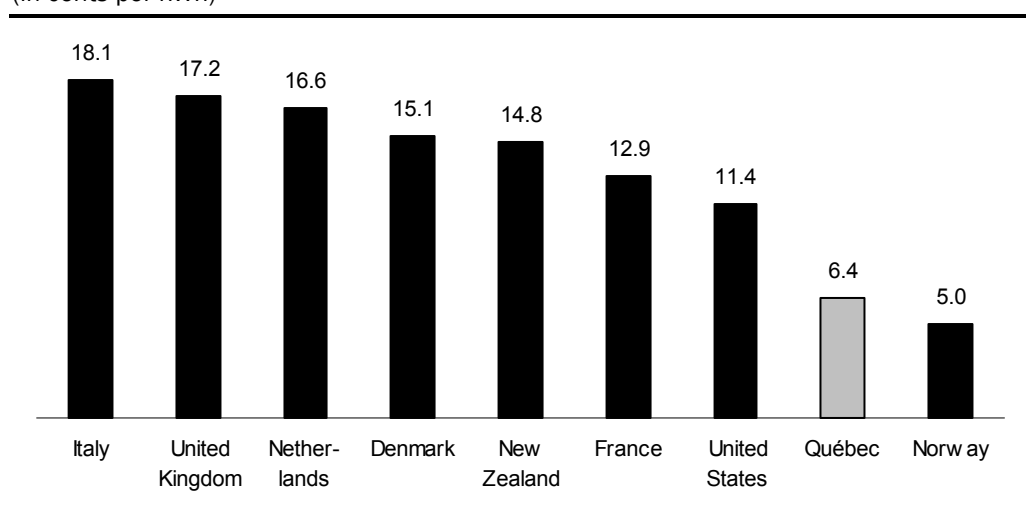
This situation is not surprising as Québec's electricity rates are among the lowest in the world.

- In 2005, the price of electricity in the residential sector stood at 6.4 cents/kWh in Québec, compared with 11.4 cents in the United States and 18.1 cents in Italy.

CHART 15

Electricity prices in the world– Residential sector – Québec and selected industrialized countries, 2005

(in cents per kWh)

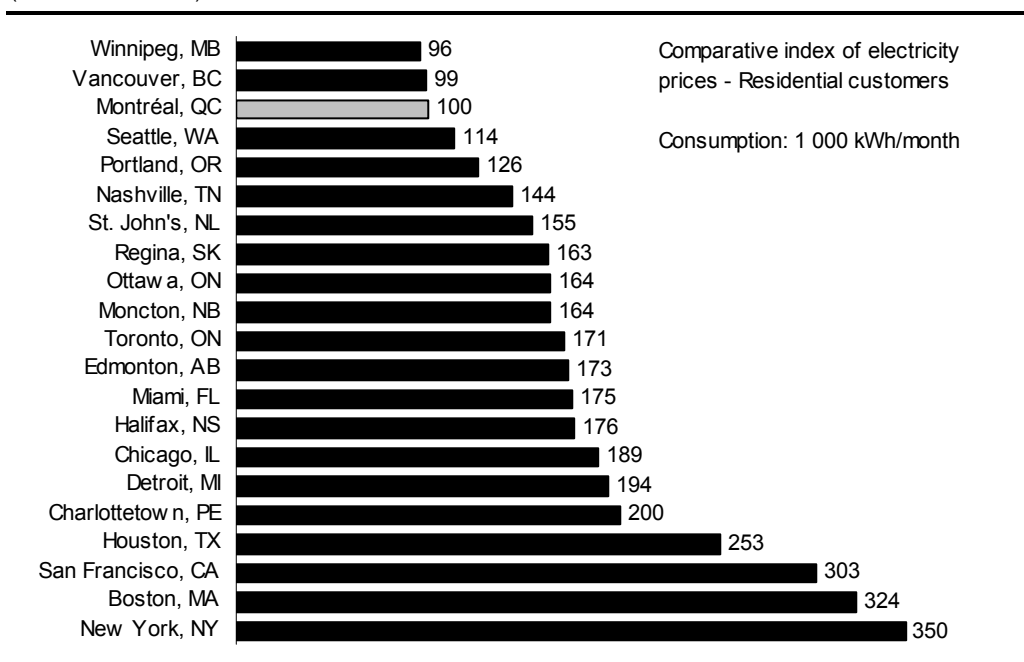


Note: This price corresponds to the average unit revenue from electricity sales and does not include sales tax.
Sources: Ministère des Ressources naturelles et de la Faune, Hydro-Québec and International Energy Agency.

- Electricity prices in the residential sector in Montréal as of April 1, 2007 were slightly higher than in Winnipeg and Vancouver, but less than half those in Detroit and one-third those in San Francisco.

CHART 16

Comparison of North American electricity prices as of April 1, 2007 (Montréal = 100)



Note: Monthly invoices (excluding taxes). Rates in effect as of April 1, 2007.

Source: Hydro-Québec (2007). *Comparaison des prix de l'électricité dans les grandes villes nord-américaines*.

■ Electricity rates offered to big power users

We must at least mention at this point the question of the electricity rate paid by big industrial power users such as aluminum smelters. The rate policy applied by the Québec government has aroused and continues to arouse lively debate.⁵³ The question that arises is whether low industrial electricity rates serve the Québec economy overall in the long term or, if not, what new rate solution would be a better choice.

The task force has not examined this question, which long-term electricity supply contracts render largely theoretical. However, this remains an important topic of discussion, at least in the event that the existing contracts are extended or new contracts are signed.

⁵³ G. Bélanger and J.-T. Bernard (2007). "Les subventions aux alumineries : des bénéfices qui ne sont pas à la hauteur," *Les Notes économiques*, Institut économique de Montréal.

■ A poor price signal

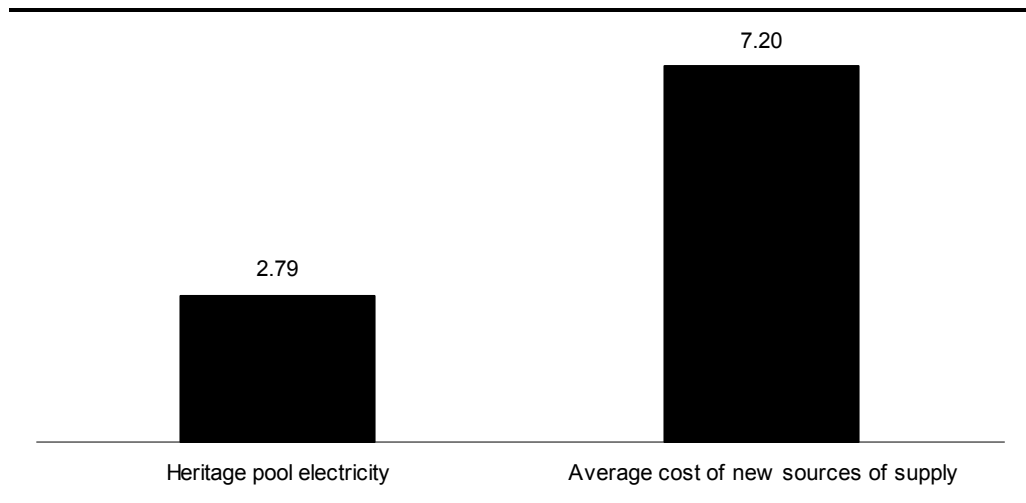
The electricity rates applied in Québec send a poor price signal, for two reasons.

- First, since rates are not defined in light of the marginal cost, they do not sufficiently take into account the rising cost of generating hydroelectric power.

The most accessible sites have already been developed and future development costs will rise. While the cost of generating heritage pool electricity is less than 3 cents/kWh, the average cost of electricity from recent projects or those under way is 7.2 cents/kWh. Future costs are estimated at roughly 10 cents/kWh.

CHART 17

Price charged to heritage pool electricity and average generation cost of recent Hydro-Québec hydroelectric power plants
(in cents per kWh)



Source: Hydro-Québec.

- Second, the price of the electricity sold in Québec does not take into account its opportunity cost, i.e. the price at which the electricity could be sold on external markets.

■ **The economic rent benefits the consumer, to the detriment of the taxpayer-shareholder**

Quebecers, in their capacity as consumers, thus benefit from an economic rent to the detriment of Quebecers who are Hydro-Québec shareholders. The comparison with the manner in which Alberta sets fees on its oil resources is striking in this respect.

- In Alberta, the pre-tax price of gasoline sold in the province is slightly higher than the average Canadian price. Indeed, there is a 2.9% discrepancy between the price that Alberta consumers pay for gasoline and the average price of gasoline in Canada, before taxes.
- In Québec, the situation is entirely different. There is a 34% discrepancy between the average price of electricity that Québec consumers pay and the average Canadian price, again before taxes.

This means that, contrary to Québec, Alberta does not transmit to Alberta consumers the economic rent that it possesses on oil resources. The government itself collects the entire rent, which is paid back to Alberta residents in the form of reduced taxes.

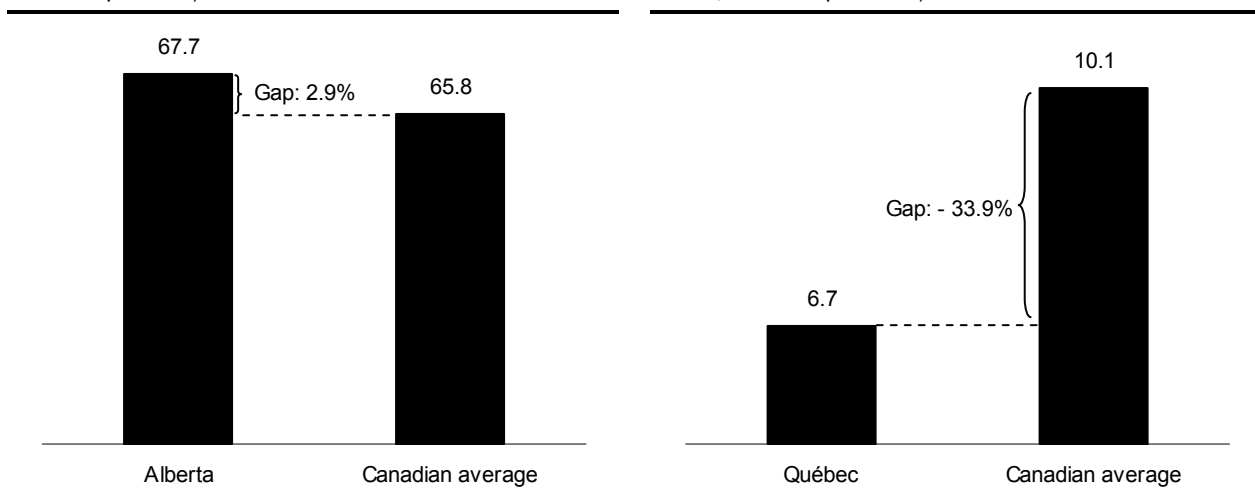
In Alberta, unlike what happens in Québec, consumers receive a good price signal when they purchase gasoline and they adjust their behaviour accordingly.

CHART 18

Comparison of the gasoline and electricity price gap in Alberta and Québec with the Canadian average

(Gasoline – Average price in 2006-2007, in cents per litre)

(Electricity – Average residential price as of April 1, 2007, in cents per kWh)



Sources: M.J. Ervin & Associates Inc. and Hydro-Québec (2007). *Comparaison des prix de l'électricité dans les grandes villes nord-américaines.*

■ The economic rent is of greater benefit to those who consume more

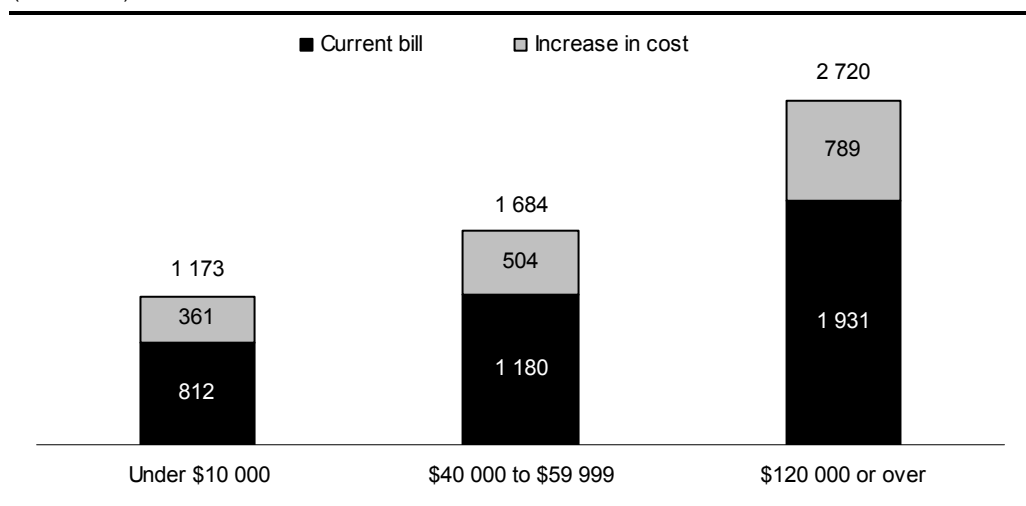
This economic rent is of greater benefit to households that consume more electricity and there is a direct correlation between consumption and income level.

We selected several typical cases and calculated for each example chosen what the increase of the residential electricity rate would represent if raised to the level of the average rate in the Canadian provinces. We have noted that the implicit economic rent that the government relinquishes is higher in respect of high incomes than in respect of low incomes.

- This rent can be estimated at \$361 a year for customers whose average annual income is below \$10 000.
- The rent increases to \$504 a year for customers whose average annual income falls between \$40 000 and \$59 999.
- It reaches \$789 a year for customers whose average annual income exceeds \$120 000.

CHART 19

Impact of a residential electricity rate increase to the level of the Canadian average according to average annual household income
(in dollars)



Sources: Hydro-Québec, ministère des Ressources naturelles et de la Faune and calculations of the ministère des Finances du Québec.

■ A costly, inefficient allocation of the rent

From an economic standpoint, it would be much more efficient to sell electricity on the Québec market at rates comparable to those prevailing in neighbouring jurisdictions, just as Alberta sells its petroleum products at the same price inside and outside the province.

The task force has calculated the financial impact of such a scenario. Using conservative hypotheses concerning price elasticity, i.e. the reaction of electricity consumers to a rate increase, and while limiting the simulation solely to the residential and commercial sectors,⁵⁴ the task force obtained the following results:

- Setting electricity rates at the average Canadian price would increase by just over \$2 billion Hydro-Québec's revenues on the Québec market.
- The higher rates would lead to an estimated 3.6-TWh reduction in electricity consumption.
- The electricity thus saved could be sold on export markets, where it would generate an estimated \$300 million in revenues.
- All told, setting electricity rates at a price corresponding to the opportunity cost would increase by \$2.3 billion Hydro-Québec's revenues from electricity sales. The rent paid until now to consumers would be transferred to the shareholder, i.e. the taxpayer.

Such a strategy would have several advantages:

- It would encourage Québec consumers to conserve electricity.
- The shareholder and, ultimately, the taxpayer, would receive remuneration on the capital invested corresponding to the true value of the electricity generated.

The new method of setting electricity rates should be accompanied by aggressive campaigns to promote energy conservation coordinated by the Agence de l'efficacité énergétique. It is certain that electricity rate increases combined with such campaigns would do more to promote energy conservation than all of the promotional initiatives undertaken to date.

⁵⁴ The task force excluded from this calculation industrial rates given that long-term supply contracts have been concluded between Hydro-Québec and big industrial purchasers.

The task force wishes to emphasize that the problem pinpointed with regard to electricity extends across the board to all of the natural resources developed in Québec. The development of mineral or forestry resources generates an economic rent from which the user of these resources benefits to a large extent, to the detriment of the owner, i.e. the taxpayer.

Existing regulatory differences prevent the market from coming fully into play and transmitting to the user the right price signal. The task force wished to confine its analysis to the electricity sector but the question must be raised in fields of activity in which there is an economic rent.

TABLE 21

Additionnal revenues deriving from an electricity rate increase to the Canadian average

	Residential	Commercial	TOTAL
Average rates (cents per kWh)			
Canadian average ¹	10.10	8.30	
Québec ¹	6.68	6.91	
Growth (%)	51.2	20.1	
Residential consumption			
Price elasticity	– 0.10	– 0.10	
Initial volume consumed ² (TWh)	56.7	32.4	89.1
Initial sales revenue (\$000 000)	3 789.0	2 241.6	6 060.6
Volume after price increase (TWh)	53.8	31.8	85.6
New sales revenue (\$000 000)	5 436.4	2 637.9	8 074.3
Discrepancy in sales revenue (\$000 000)	1 647.4	396.3	2 043.7
Exports			
Discrepancy in volume consumed (TWh)	2.9	0.7	3.6
Average export price ² (cents per kWh)	7.95	7.95	
Sales revenues, exports (\$000 000)	231.0	51.8	282.8
Total additional sales revenues (\$000 000)	1 878.4	448.1	2 326.5

1 Hydro-Québec (2007). *Comparaison des prix de l'électricité dans les grandes villes nord-américaines*.

2 Hydro-Québec. *Rapport annuel 2006*.

Sources: Hydro-Québec and calculations of the ministère des Finances du Québec.

■ Recommendations

For these reasons, the task force has formulated the following recommendations.

Recommendations

The task force recommends that the government review the legislative framework governing electricity costs so that electricity rates:

- take into account the opportunity cost of electricity generated in Québec;
- send a price signal corresponding to the rising cost of electric power generation.

To this end, the best approach would be to amend the *Act respecting the Régie de l'énergie* by:

- stipulating that the Régie de l'énergie must take into account the opportunity cost and the marginal cost when electricity rates are set;
- eliminating, in exchange, the notion of heritage pool electricity, so that the Régie can evaluate all generation costs when it examines electricity rates.

Failing such an approach, the government should:

- itself ensure that the opportunity cost and the marginal cost of generating electricity are taken into account when it raises the price of heritage pool electricity.

The revision of the legislative framework governing electricity costs should be accompanied by sweeping energy conservation programs coordinated by the Agence de l'efficacité énergétique.

In any event, it is important that the increase in electricity rates not affect the least privileged members of society. The task force recommends that the government adjust accordingly social aid or one of the tax credits granted low-income earners and avoid altering the rates themselves.

Moreover, the government should ask Hydro-Québec to accelerate the implementation of rates that are adjusted according to the time of consumption, as already announced in the *Québec Energy Strategy 2006-20015*.

The additional revenues that the government would collect in its capacity as the shareholder should be paid, as a priority, into a new dedicated fund, which could be called the Fonds de pérennité du patrimoine, from which the revenues could be earmarked for the development of new energy sources.

□ Water: halt waste

As early as 2002, the United Nations acknowledged that “[t]he human right to water is indispensable for leading a life in human dignity. It is a prerequisite for the realization of other human rights.”⁵⁵

- In 2000, only three-fifths of the earth’s inhabitants had access to water.⁵⁶
- The United States now relies on groundwater, partly non-renewable, for 50% of its water supplies, and Europe, for 75%.

In 2002, Québec adopted a *Politique nationale de l’eau*⁵⁷ that spelled out a number of basic principles, including access by all Quebecers to water, sustainable, integrated water management, and the polluter-payer principle. One of the specific recommendations in the 2002 policy is to develop “a mechanism for determining the cost of water services.” To date, it must be acknowledged that several important recommendations in this policy have gone unheeded.

■ Disturbing data

Known data on water consumption in Québec and Canada are hardly reassuring, to the contrary.

- The most recent OECD study on the topic reveals that of 29 member countries in which drinking water consumption is measured, Canada is the second biggest water user,⁵⁸ after the United States.
- To quickly give an idea of overconsumption of water in Canada, it is sufficient to note that Canada’s annual per capita water consumption of 1 600 m³ is twice the figure in France, three times the figure in Germany, and eight times the figure in Denmark.
- Canadian consumption is 65% higher than the OECD average and overconsumption, far from diminishing, is rising instead.

⁵⁵ General Comment 15 (2002). United Nations Committee on Economic, Social and Cultural Rights.

⁵⁶ World Health Organization (2000). *Global Water Supply and Sanitation Assessment 2000*, Geneva.

⁵⁷ Ministère de l’Environnement du Québec (2002). *Politique nationale de l’eau : L’eau, La vie, L’avenir*.

⁵⁸ D.R. Boyd (2001). *Canada vs. the OECD: An Environmental Comparison*.

The comparison with cities across Canada is hardly brighter.

The situation is especially worrisome in Montréal, since an estimated 35% to 40% of drinking water is lost even before it reaches consumers because of the water distribution system's obsolescence.

TABLE 22

Water use in selected Canadian cities, 2004

(litres per person per day)

	Montréal	Toronto	Vancouver	Winnipeg
Residential consumption	504	219	358	187
Total output	1 259	413	542	346

Source: Environnement Canada.

■ **Current water rates**

Only a few cities and population centres make residential water metres compulsory, while a number of them demand that water use by business and industrial customers be metered.

Where residential user fees prevail, they are often levied in the form of a water tax, a monthly or annual lump sum that is not linked to actual consumption.

This is precisely where it is essential to act if we are to encourage individuals and businesses to conserve drinking water. It has been shown that in municipalities where user fees are linked to the volume of water consumed, daily consumption stands at 272 litres per day, while consumption in municipalities where users pay a lump sum is as much as 74% higher.

Moreover, with few exceptions, including the Ville de Laval, lump-sum fees do not cover the future cost of repairing and upgrading water supply systems.

Québec obviously does not have the means to waste water, as it now does. Groundwater is a partly non-renewable resource. Surface water is not indefinitely renewable.

A water shortage, or even the perception of a possible water shortage, would also hamper the establishment of industries in Québec. A number of companies rely strategically on water in their manufacturing processes.

■ Obstacles to be surmounted

Despite all of these observations that are alarming to say the least, the obstacles to a responsible water use policy and, thus, to responsible water pricing, are many:

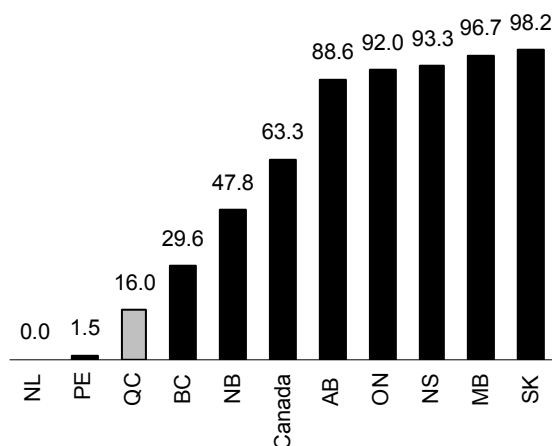
- A majority of Québec homes are not equipped with water meters. No measurement means no control. In this regard, Québec falls well below the Canadian average.
- Water meters are expensive to install and their installation is not covered by regulations in the *Building Code*.
- If water pricing were to lead to an increase in the cost of water, we would have to ensure that it is available to everyone by simultaneously adopting compensatory measures for low-income users.
- Water distribution is the responsibility of the municipalities, which, until now and with few exceptions, have done nothing to measure water consumption or encourage responsible consumption.

These obstacles are indeed real, but it is essential to overcome them since immobilism will be much costlier in the long run.

CHART 20

Percentage of homes equipped with water meters in municipalities in Canada, 2004

(as a percentage)

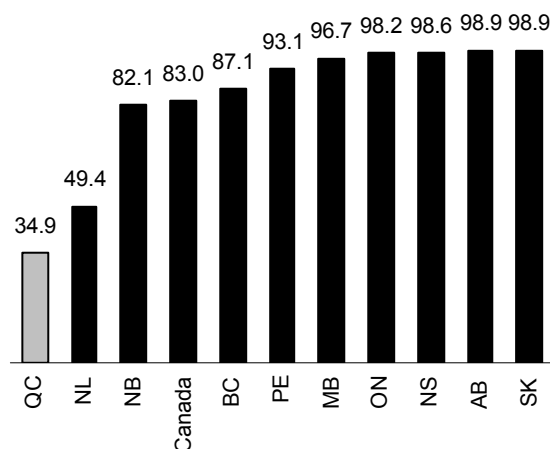


Source: Environment Canada, 2007 report on municipal water use in Canada.

CHART 21

Percentage of commercial customers equipped with water meters in municipalities in Canada, 2004

(as a percentage)



Source: Environment Canada, 2007 report on municipal water use in Canada.

■ A daunting challenge

Any efficient solution for Québec depends on the adoption of a responsible, coherent sustainable development policy covering water resources overall.

Québec now faces a daunting challenge stemming from overconsumption of water without adequate user fees and assumption by the municipalities of responsibility for water distribution.

However, the conclusions of studies devoted to water pricing are very clear.

- All of the studies reveal that consumption rates are much higher when users pay a lump sum rather than a fee based on volume consumed, both in Canada as a whole and in each of the provinces.
- Universal water metering reduces from 15% to 30% total residential, commercial and industrial water consumption.
- As is true of electricity, it is big water consumers that benefit most from shortcomings in water pricing.

As for current management of water distribution and treatment by the municipalities, it is a double-edged sword. There is no doubt that were Québec to one day face a water shortage or a serious quality problem in respect of drinking water such as the one that Walkerton, Ontario experienced, Quebecers would turn to the Québec government for solutions. The longer this initiative is delayed, the costlier it is likely to be in environmental and financial terms.

■ A Régie de l'eau

The task force is proposing for discussion the hypothesis of setting water rates by means of a process analogous to the process in the electricity sector.

We have emphasized the transparency and efficiency of a quasi-judicial tribunal to set electricity rates. Electricity and water distribution are highly similar. The task force believes that this proposal warrants at least a thorough analysis and assessment. The study conducted on the task force's initiative marks a first step in this respect. Furthermore, it would be important, as is true of electricity, to accompany more rigorous water pricing with measures aimed at better water use.

■ Recommendations

The task force has thus formulated the following recommendations.

Recommendations

The task force recommends that Québec adopt umbrella legislation governing water that establishes a coherent legislative framework that allows for the implementation of the measures necessary to ensure sustainable water management.

In the medium term, over a period of 10 years, for example, it would be advisable to introduce a water meter incentive program. Water meters would ultimately be compulsory for all homes, businesses and industries. This program, for which subsidies would gradually diminish, would seek to more quickly satisfy the requirement stipulated in the legislation.

The government should establish water pricing that comes into force once the water meters are installed. The task force is proposing that the government analyse the method of administering such pricing.

- The pricing would be based on actual production costs combined with a share that reflects the future cost of replacing obsolescent production, distribution and water purification equipment in order to update infrastructure.
- The regulation of pricing would be assigned to a quasi-judicial tribunal, either a Régie de l'eau or the Régie de l'énergie, which would have a broad mandate as is already the case elsewhere in Canada.
- As is the case in the electricity sector, it would be judicious to elaborate usage-sensitive pricing that is differentiated according to the time of day. This would both reduce peak demand and offer consumers the possibility of saving water based on deliberate environmental choices.
- The new water pricing scheme should be accompanied by water conservation programs.

In the immediate future, any support that Québec offers in respect of production, distribution and water purification infrastructure should be contingent on the installation of water meters.

As is true of electricity, revenues derived from water pricing should be used, first and foremost, to cover distribution and purification costs.

3.2.3 To enhance services and protect the environment: road tolls and urban tolls

In the mandate that it gave the task force, the government asked it to “propose new possible fields for setting user fees and their application, e.g. tolls on provincial autoroutes.”⁵⁹

The task force felt that it could obviously not broach this question in isolation. Below is an overview of its reflection on possible road tolls and urban tolls. However, the question of mass transit was excluded from the analysis since it largely exceeded the mandate defined by the government.

❑ Revenues and expenditures related to the road network

The first question that we must ask ourselves concerns current funding of expenditures related to the road network.

Québec now levies a tax and two fees on motorists, i.e. the specific fuel tax, which generated nearly \$1.7 billion in 2006-2007, and vehicle registration and driver's licence fees, which generated \$800 million in government revenues the same year.⁶⁰

Vehicle-related taxes and fees thus accounted for \$2.5 billion but are not used directly to fund spending on the road network.

In 2006-2007, such expenditures reached nearly \$1.5 billion, which includes:

- investments of nearly \$880 million, calculated on amortization and debt service;
- the maintenance at a cost of \$380 million of transportation infrastructure;
- three other expenditure items totalling nearly \$220 million pertaining mainly to roadside inspection and assistance in respect of local road networks.

We thus note that such expenditures are funded entirely through the Consolidated Revenue Fund.

⁵⁹ See page 1.

⁶⁰ The government also collects from motorists contributions that are allocated to mass transit.

TABLE 23

Québec government expenditures and revenues in the transportation sector, 2006-2007

(in millions of dollars)

	2006-2007
Revenues paid into the Consolidated Revenue Fund	2 464
Taxes	
– Specific taxes on fuel ¹	1 664
Fees	
– Vehicle registration and driver's licence fees ²	800
Expenditures	1 474
Investments in the road network ³	877
Transportation infrastructure maintenance	379
Local road network – assistance programs	152
Roadside inspection (Québec's contribution to the SAAQ) ⁴	54
Commission des transports du Québec	12
BALANCE	990

1 Excluding the tax on kerosene, aviation gasoline and locomotive diesel.

2 Includes the fees levied to fund the Commission des transports du Québec and roadside inspection.

3 Calculated on the basis of amortization and debt service.

4 Calendar year.

Sources: Ministère des Transports du Québec and ministère des Finances du Québec.

❑ No price signal linked to road use

As a matter of fact, there is no direct link between the revenues that the government collects from motorists and road use. Road network users do not perceive any price signal in this respect.

- The specific fuel tax is a consumption tax the revenue from which is paid into the Consolidated Revenue Fund. There is only an indirect link between fuel consumption and road use. If we want to remedy this situation and allocate the tax revenue to the maintenance and development of the road network, the government would face a significant shortfall to fund its other missions.
- Underfunding of several of these missions stemming from poor pricing has thus been partly offset by the diversion of the specific tax on fuel. However, we must acknowledge that this tax also reflects environmental damage linked to the use of fuel.

- Vehicle registration and driver's licence fees are also paid into the Consolidated Revenue Fund. Vehicle registration fees are calculated according to the type of vehicle, which means that it is possible to take into consideration, up to a point, the wear and tear that each type of vehicle causes on roads.

However, in the case of both vehicle registrations and driver's licences, the fees are not linked to the distance travelled and do not create a direct link with the use of road infrastructure.

We therefore note that the tax and fees levied on motorists do not send a veritable signal in relation to use of the road network.

❑ Significant future needs

This picture would be incomplete if it did not take into account the road network's future investment needs.

The Québec road network, for which the government is responsible, was mainly built between 1950 and 1970. It encompasses 29 500 km of roads and over 9 000 structures.

Technical data on the network's characteristics reveal that the quality of infrastructure is markedly below that of infrastructure in the United States. Québec road infrastructure is ageing and requires substantial upgrading to bring it up to North American standards.

In October 2007, the Québec government committed itself in conjunction with the *Québec Infrastructures Plan* to invest nearly \$12 billion over the next four years. These investments also include municipal infrastructure.

❑ Quebecers are aware of current problems

Quebecers are very much aware of the ageing of the road network and the need to find new funding sources to restore it.

- A survey conducted in September 2007 revealed that:
 - 78% of respondents are in favour of electronic tolls;⁶¹
 - 67% of respondents believe that the main autoroutes are the best place to levy tolls;⁶²
 - 64% and 58% of respondents are of the opinion that bridges and tunnels, and all Québec autoroutes, respectively, are the best place to do so.
- In December 2007, a survey conducted by the Fédération des chambres de commerce du Québec produced similar findings.⁶³
 - Some 58% of respondents believe that to fund the road network, electronic tolls on bridges and autoroutes are preferable, compared with 10% who favour higher vehicle registration fees, and 8%, higher driver's licence fees.
 - Some 17% of respondents reject any form of increase.

We have noted that Quebecers are far from hostile to user fees directly linked to road use and that they are all the more willing to accept them if the fees are allocated solely to the repair and enhancement of the road network.

⁶¹ Léger Marketing conducted the survey in September 2007 on behalf of the Institut Économique de Montréal. Respondents were asked: "Would you accept the installation on Québec autoroutes of electronic toll collection systems if the funds collected were used to repair roads where the toll was collected?" [TRANSLATION]

⁶² Respondents were asked: "The installation of tolls is one way of making road users contribute to funding the road network. Are you strongly in favour, in favour, against or strongly against the installation of tolls on the following types of roads?" [TRANSLATION]

⁶³ Respondents were asked: "The maintenance of roads, underpasses and bridges has been widely discussed in recent months. There are possible ways to fund adequate road and bridge maintenance. Which of the following three means do you personally favour? The three choices are: tolls, vehicle registration fees and driver's licences." [TRANSLATION]

❑ **A specific problem: congestion in Montréal**

One problem remains that warrants mention, i.e. the congestion that specifically affects the road network in the Montréal area.

- Road congestion is becoming increasingly problematical in the Greater Montréal area. Rush-hour delays are growing longer and longer.
- Montréal's insular nature exacerbates problems of access to the downtown area.
- We also know that road infrastructure is not the solution to the problem: we cannot envisage unlimited development of road networks leading to Montréal Island.

For all of these reasons, some observers advocate the hypothesis of urban tools aimed at controlling congestion, in keeping with the initiative successfully launched in London. The Ville de Montréal has already proposed the implementation of an urban toll in its transportation plan now subject to a public consultation. The city maintains that this measure could generate \$300 million a year in net revenue.

As we can see, we are evoking here the hypothesis of the use of fees not to cover certain costs but to ration a resource whose availability cannot be increased.

❑ **Areas of reflection for the future**

In light of these observations, the task force would like to suggest a number of areas of reflection for the future.

- In keeping with the principles of the new user fee policy presented earlier,⁶⁴ the fees now levied on driver's licences and vehicle registrations should be allocated to the maintenance and enhancement of the road network.

The government should go further and raise these fees to take into account future road infrastructure investment needs.

⁶⁴ See page 73.

- Québec lags considerably behind neighbouring jurisdictions from the standpoint of the implementation of fees directly related to use of the road network.

The new sections of autoroute 25 and autoroute 30 are expected to be toll roads.

Ideally, it should be possible to go just a bit further and decide that users are to be billed for any new road, bridge or addition to existing infrastructure through tolls, whether or not the project is carried out in partnership with the private sector and, of course, inasmuch as there is an alternative route.

- To send the right price signal to users of the road network, the government could adjust vehicle registration fees according to the annual kilometrage driven by a motorist based on a declaration made when the registration is renewed.
- Within 10 to 15 years, widespread user fees that rely on cutting-edge GPS-based vehicle spotting and monitoring technologies could be introduced throughout Québec and replace traditional road network funding sources.
 - The user fees that a motorist pays would depend on the distance travelled each year and the characteristics of the vehicle used.
 - The implementation of this form of pricing is an avenue that is seriously contemplated in studies devoted to long-term funding for road networks conducted recently in the United States and the United Kingdom.
 - A pilot project is under way in Oregon to establish such a system's technical and administrative feasibility.
- In the Montréal area, and to solve growing congestion problems, the government could establish a toll system that encircles Montréal Island or the Greater Montréal area. This urban toll would be intended to reduce rush-hour traffic.

The ministère des Transports could be given a mandate to conduct a feasibility study of the establishment of an urban toll system in the Montréal area.

It is clear that in such a traffic management policy, the establishment of an urban toll should be accompanied by substantial investments in mass transit to offer residents alternative means of reaching downtown Montréal.

The task force has formulated the following recommendations.

Recommendations

To make better use of user fees to enhance the road network, the task force recommends that:

- driver's licence and vehicle registration fees be paid into the Fonds de conservation et d'amélioration du réseau routier;
- the level of the fees be linked to future needs for investment in road infrastructure;
- ideally, that road users pay for new road infrastructure through tolls, whether or not the infrastructure is built in partnership with the private sector and insofar as there is, of course, an alternative route;
- the government consider the possibility of adjusting vehicle registration fees according to the annual kilometrage that motorists travel;
- the ministère des Transports du Québec immediately conduct complete, rigorous feasibility analyses to study the possibility of levying user fees on motorists according to their use of the road network and the characteristics of the vehicle driven;
- the ministère des Transports be mandated to thoroughly study the possibility of implementing urban tolls around Montréal Island or Greater Montréal in order to manage rush-hour congestion, accompanied by additional investment in mass transit in the Montréal area.

3.2.4 To ascertain coherence between user fees and the objectives pursued: childcare expenses in childcare centres and home childcare services

The task force has referred several times in this report to the policy that the Québec government adopted in respect of childcare expenses.

- We analysed the funding of childcare expenses and the Régime d'assurance parentale with public services in respect of which user fees are under the direct control of the government.⁶⁵

In the case of parental insurance, the insured parties pay almost all of the cost of the insurance.

As for childcare expenses, user fees account for only 16% of the cost of the service.

- We have also mentioned the funding of childcare expenses to illustrate the principle according to which the government should systematically evaluate the cost and outcome of public policies that include a user fee component.⁶⁶

The task force hopes to quickly return to the question of childcare expenses to emphasize the financial issues in question. These issues warrant an evaluation of the results obtained and estimates of future costs even though a clear consensus appears to have been established among Quebecers concerning the relevance of the initiatives that the government has implemented in this regard.

❑ Funding for childcare expenses: a policy whose objectives have progressed

The Québec government implemented the educational childcare services program in 1997. At the outset, the network comprised nearly 75 000 childcare spaces.

The network was intended to provide childcare spaces at an advantageous rate for the parents of children under 5 years of age explicitly to:

- facilitate the reconciliation of parental and occupational responsibilities;
- foster children's psycho-educational development and equal opportunities.

⁶⁵ See page 42.

⁶⁶ See page 73.

Since 1997, the number of spaces has risen steadily. As of March 31, 2007, the government was subsidizing nearly 200 000 reduced-contribution spaces, nearly 35 000 more than in 2003. With the increase in the number of births recorded since 2006 and to satisfy demand from parents, the government intends to create, by 2012, 20 000 new childcare spaces.

Since the network's inception, there has been only one increase in the childcare user fee, from \$5 to \$7 a day in January 2004.

TABLE 24

Number of reduced-contribution childcare spaces, 2001-2002 to 2007-2008

(in number of spaces as of March 31 of each year)

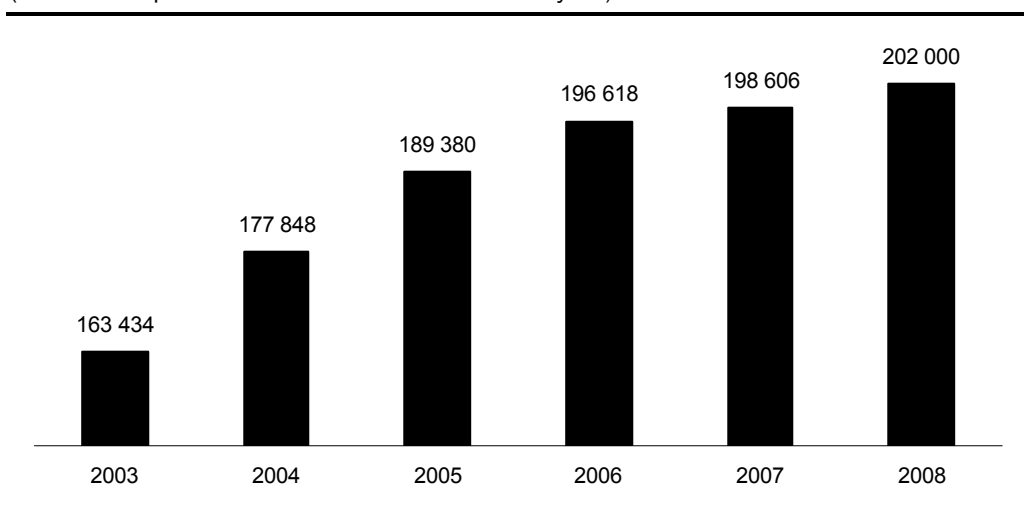
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Childcare centres	58 802	63 339	68 274	72 057	74 573	75 934	NA
Home childcare services	62 193	75 355	82 044	87 192	89 011	88 645	NA
Subsidized daycare centres	24 629	24 740	27 530	30 131	33 034	34 027	NA
Total	145 624	163 434	177 848	189 380	196 618	198 606	202 000

Source: Ministère de la Famille et des Aînés.

CHART 22

Change in the number of reduced-contribution childcare spaces, 2003-2008

(number of spaces available on March 31 of the year)



Source: Ministère de la Famille et des Aînés.

The government's objectives have progressed over time. Childcare services have gradually become a key component of the government's family policy, through child assistance and the Régime d'assurance parentale.⁶⁷

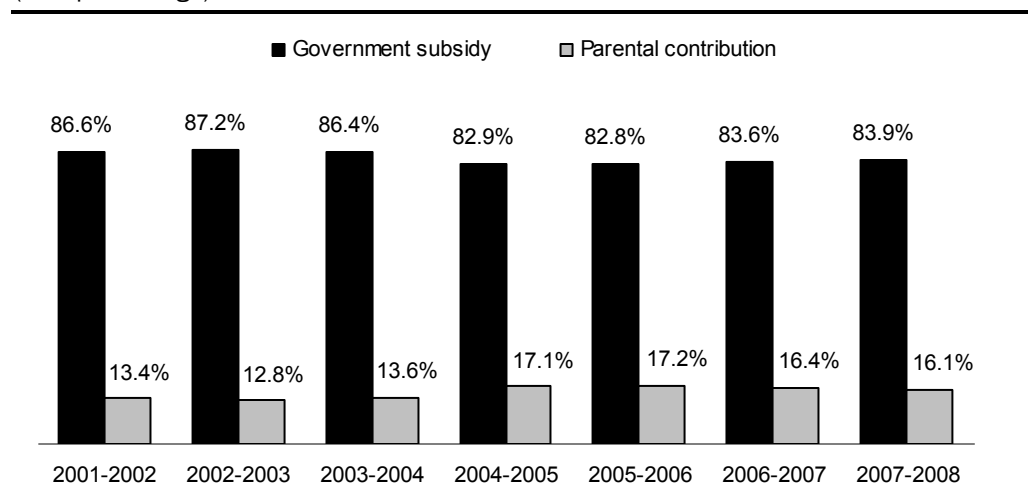
❑ A popular, costly policy

Support for childcare services is a popular policy. It is also a costly one. The adjustment of childcare expenses in 2004 only temporarily reduced the share of the program's costs covered by the Consolidated Revenue Fund.

- In 2001-2002, the Québec government funded nearly 87% of the total cost of reduced-contribution childcare services.
- The government's share fell to 83% in the wake of the increase from \$5 to \$7 in the fee in January 2004 for childcare centres and subsidized daycare centres.
- Since then, the upward trend has resumed. In 2007-2008, the government is assuming 84% of the cost of reduced-contribution childcare services and parents, 16% (without taking into account the federal government's share).

CHART 23

Breakdown of expenditures on reduced-contribution childcare spaces, 2001-2002 to 2007-2008¹
(as a percentage)



1. Excluding school childcare services.

Sources: Ministère de la Famille et des Aînés and ministère des Finances du Québec.

⁶⁷ Ministère de la Famille et des Aînés (2007), *Le Québec soutient ses familles : des politiques généreuses et innovatrices, des résultats significatifs*.

The budget earmarked in 2007-2008 for reduced-contribution childcare services totals \$1.7 billion, including the debt service of childcare centres and the childcare service employees' pension plan.

TABLE 25

Childcare service subsidies, 2001-2002 to 2007-2008¹

(in millions of dollars)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Government contribution							
Financial support for childcare services	1 013	1 165	1 302	1 353	1 431	1 546	1 610
Debt service	—	—	—	—	0	20	14
Pension plan	—	—	36	40	41	46	48
Subtotal	1 013	1 165	1 338	1 393	1 472	1 611	1 671
Parental contribution	157	171	210	288	305	316	322 ²
TOTAL	1 170	1 336	1 548	1 682	1 777	1 927	1 993

1 Excluding school childcare services.

2 Ministère des Finances du Québec estimate.

Sources: Public Accounts and Appropriations.

The average cost per space to the government is estimated at \$31 per day in 2007-2008, that is:

- \$42 in a childcare centre;
- \$20 in a home childcare service;
- \$35 in a private daycare centre.

TABLE 26

Change in the average government contribution per annualized space,

2001-2002 to 2007-2008

(in dollars per day of childcare service)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 ^P
Childcare centres	35.30	37.54	37.72	36.31	36.91	40.14	42.27
Home childcare services	20.79	21.83	21.54	21.06	20.60	19.67	19.99
Private subsidized daycare centres	25.90	28.64	30.79	29.75	31.44	33.17	34.87
WEIGHTED AVERAGE	27.47	29.21	29.20	28.27	28.52	29.74	31.06

P: Preliminary data.

Source: Ministère de la Famille et des Aînés.

According to ministère des Finances estimates, in 2007, assistance for childcare services for children under 5 years of age totalled \$1.7 billion, equivalent to \$6 591 per household.

- All told, 178 000 families benefit from reduced-contribution daycare services and, indirectly, from a \$9 351⁶⁸ government subsidy per household, regardless of income.
- Some 48 000 families use daycare services at the regular rate. These families benefit from \$64 million in tax assistance, equivalent to \$1 342 per household, through the tax credit for childcare expenses.
- It must be noted that 37 000 families rely on other means to obtain childcare services for their children under 5 years of age, e.g. by the spouse in the home, maternity and paternity leave, “under-the-table” childcare, and so on.

TABLE 27

Childcare assistance granted by Québec to parents with children under 5 years of age, 2007

	\$7-a-day daycare centres	Regular daycare centres	Other	All households
Number of families	178 361	47 693	37 065	263 119
Government assistance (\$000 000)				
Childcare subsidies ¹	1 656	0	0	1 656
Tax credit for childcare expenses ²	12	64	2	78
Total (\$000 000)	1 668	64	2	1 734
<i>In dollars per household</i>	<i>9 351</i>	<i>1 342</i>	<i>65</i>	<i>6 591</i>

1 Including financial support for home childcare coordinating offices starting in 2006-2007, debt service and the pension plan. The amount for 2007 has been estimated in light of the 2006-2007 and 2007-2008 appropriations.

2 Families that rely on reduced-contribution daycare centres may request the tax credit for childcare expenses above and beyond the reduced rate or for all eligible childcare expenses other than in respect of managed childcare services. We assumed that amounts claimed of \$1 000 or more for childcare expenses per child concern childcare at the regular rate.

Source: Ministère des Finances du Québec.

⁶⁸ This amount also takes into account \$12 million reimbursed pursuant to the tax credit for childcare expenses.

❑ A policy that raises a number of questions

The data that we have just presented confirm the questions regularly raised by the government policy respecting support for childcare services.

We must first recognize that this policy raises questions from the standpoint of fairness.

- Many parents do not have access to childcare services because the government finds it difficult to satisfy all needs.
- Certain parents choose not to rely on childcare services and prefer to look after their children themselves. The support they can receive for this purpose is in no way commensurate with the subsidy paid for childcare services.
- The childcare service program is applied independently of the parents' income. Parents with high incomes thus benefit from it who could thus pay a large share of user fees.

Over the years, the childcare service funding policy has simultaneously pursued several objectives. Specifically, it has focused on children's cognitive development, early detection of possible problems, the reconciliation of family and occupational obligations, or support for families in conjunction with other measures such as the Régime d'assurance parentale.

Several studies have been conducted to attempt to measure the policy's contribution to the attainment of these objectives. The findings are varied and partial.

- From the standpoint of the birth rate, we have indeed observed an increase in the number of births and the fertility rate in Québec. It is still too early to conclude that this baby boom is durable but the upturn in the number of births does indeed seem to suggest that childcare services and the Régime d'assurance parentale have had a positive impact.

However, we must agree that the decision to have or not to have children involves other factors, not all of which are quantifiable, and that we cannot readily isolate from each other.

- Certain studies have established a positive link between the childcare service funding policy and the return by mothers to the labour market, especially the least-educated mothers.⁶⁹
- The impact on children’s cognitive development of childcare services has been the subject of numerous studies whose findings vary widely, which have fuelled highly divergent opinions.

As a matter of fact, the childcare service support program is a worthwhile, relevant means of responding to current demographic trends and lifestyle habits.

However, this program has a very high cost. We must be fully aware of it so that society’s collective choice to implement it is fully, transparently assumed.

□ The task force’s recommendations

The task force regards reduced-contribution childcare services as the perfect example of a public policy whose cost was very poorly evaluated when it was implemented and whose pricing is directly subject to political pressure.

There is actually a consensus among Quebecers concerning the policy’s relevance and the importance of maintaining it, above all in light of the demographic challenge that Québec is facing.

However, an efficient, fair user fee policy assumes that Quebecers are well aware of the cost of this policy, since its funding exacerbates political pressure.

In the more or less long term, it seems obvious that the childcare service funding policy must be reviewed, especially because of its cost and the question of fairness mentioned earlier. A bigger financial contribution from those who benefit directly from the service could allow for the creation of additional spaces. The level of the basic contribution and the adjustment of parents’ contribution according to household income should also be examined.

⁶⁹ P. Lefebvre, P. Merrigan, and M. Verstraete (2007). *Dynamic Labour Supply Effects of Childcare Subsidies: Evidence from a Canadian Natural Experiment on Universal Child Care*, research report, UQAM.

In any event, indexing the amount now charged to at least stabilize the proportion of the government's contribution now seems unavoidable.

Recommendations

The task force recommends that the government:

- rigorously evaluate the current and projected costs of the policy respecting funding for childcare expenses;
- evaluate the impact of the childcare service funding policy on the objectives that it is pursuing;
- periodically adjust the contribution demanded of parents to stabilize the proportion of the government subsidy and thus reflect cost increases.

CONCLUSION

At the conclusion of its report, the task force hopes to send a clear message to the government and to all Quebecers: user fees, used efficiently and fairly, are a means of achieving collective enrichment and enhancing the well-being of everyone that it is in our best interest to use.

❑ The advantages of sound user fees

User fees are not a disguised tax.

To the contrary, they are an indispensable means of sending the right signal to the user. When user fees apply to our resources, they avoid overconsumption and waste and thus allow for responsible management of our heritage. In the realm of transportation, such fees can exert a positive influence on our behaviour, reduce congestion and generate the funding necessary to enhance the quality of the network. Overall, user fees enable us to better fund public services, while ultimately permitting a reduction in fiscal pressure.

An effective user fee policy is compatible with the necessary protection of the least privileged members of society. The government must simply avoid altering the fees themselves but intervene instead by transferring to low-income households the resources they need to acquire essential goods and services.

❑ A new user fee policy

To ensure that user fees are both efficient and fair, the task force is proposing that the government adopt a new user fee policy based on principles that all Quebecers should support. To this end, the fees must fund the production costs of the service provided, almost without exception unless explicitly warranted. Moreover, we must achieve transparency, take into account the impact of user fees on the least privileged members of society, transfer user fee revenues to dedicated funds, engage in accountability, and systematically, regularly evaluate public policies that include a user fee component.

This new policy must take concrete form in a framework law that indicates the path to follow to all agencies that depend on the State.

The government must present a comprehensive vision of its policy directions governing user fees, convince Quebecers that it is in their interest to adhere to it, and that it resort to it when the inevitable pressure arises in response to rate increases. The task force believes that we must absolutely ensure that partisan interests do not distort an efficient, fair policy governing the setting of user fees.

❑ A shift to be made

Bearing in mind the extent of the government's financial involvement in our economy, it is unthinkable that the criteria of efficiency and fairness do not prevail to set rates. It is unacceptable for Quebecers to be so ill-informed of the existing links between user fees and taxes, what they pay and how they pay it.

A shift needs to be made and a new culture needs to be established.

It is possible to levy the right fees to live better together and it is time to get on with it.

As the Chair has noted in his message that introduces this report,⁷⁰ the task force recognizes that the recommendations in this report will demand non-partisan discussions to ascertain the relevance and pragmatism of a new user fee policy. We will have to engage in an extensive public information campaign to enable Quebecers to grasp the facets and underlying factors. The problem is a complex one. We urgently need to act. Our approach upsets a historic way of doing things and it will take time to relinquish it.

The task force hopes that this report will be examined dispassionately and according to its merit and that each recommendation will be judged at its true worth before decisions are made.

⁷⁰ See page III.

APPENDIX 1
THE TASK FORCE ON FEES FOR PUBLIC SERVICES

❑ **Members of the Task Force on Fees for Public Services**

■ **Claude Montmarquette, Chair**

Claude Montmarquette obtained a PhD in economics from the University of Chicago. He is a full professor and holds the Bell - Caisse de dépôt et placement du Québec chair in experimental economics at the Université de Montréal. Since June 1999, Professor Montmarquette has served as Vice-President, Politiques publiques, at the Centre interuniversitaire de recherche en analyse des organisations (CIRANO). A guest lecturer at several foreign universities, he participates regularly in numerous conferences and seminars the world over. Professor Montmarquette has published, alone or in collaboration, eight books, nearly 100 articles and an equal number of a memoranda, studies and public documents covering a wide range of economic topics. He was elected to the Royal Society of Canada in 1998.

■ **Joseph Facal (member)**

Joseph Facal is an associate professor at the École des Hautes Études Commerciales de Montréal, where he teaches sociology and management. He obtained a doctorate in sociology from the Université de Paris-Sorbonne (Paris IV), a master's degree in political science from the Université de Montréal and a bachelor's degree in political science from the Université du Québec à Montréal. Professor Facal sat in the National Assembly from 1994 to 2003 and served successively as Minister for Canadian Intergovernmental Affairs, Minister of Relations with the Citizens and Immigration, Minister for Canadian Intergovernmental Affairs and Minister responsible for relations with Canadian Francophone and Acadian communities, Minister of State for Administration and the Public Service, Minister responsible for Administration and the Public Service, and Chair of the Conseil du trésor. He is the author of two books devoted to health insurance and Canadian federalism and has just published a third book in collaboration with André Pratte that presents an exchange of correspondence on Québec's future.

■ Lise Lachapelle (member)

Lise Lachapelle is a consultant specializing in strategic and economic questions and international trade. She obtained a bachelor's degree in business administration from the Université de Montréal (École des Hautes Études Commerciales) and has also studied at the University of Western Ontario and the Harvard Business School. She worked for nearly 20 years in the federal public service, in particular as trade commissioner at the Canadian Embassy in Paris and as assistant deputy minister at Industry Canada. Ms. Lachapelle sits on the boards of directors of several big companies, including AbitibiBowater, Industrial Alliance Insurance and Financial Services, Mirabaud Canada, Innergex Power Income Fund, BNP-Paribas (Canada) and Russel Metals. She also sits on the board of directors of Export Development Canada, a government corporation that facilitates export trade and foreign investment. From 1994 to 2002, Lise Lachapelle served as President of the Forest Products Association of Canada. From 1996 to 1999, she chaired, in Rome, the Advisory Committee on Pulp and Paper of the Food and Agriculture Organization of the United Nations (FAO).

□ Ministère des Finances

Luc Monty, Secretary and Assistant Deputy Minister, Budgetary and Economic Policy

Simon Bergeron, Director General, budgetary policy and expenditure and revenue analysis and forecast branch

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Alain Ratté, analyst, expenditure analysis and forecast branch

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Claire Fecteau, administration specialist, public policy and long-term forecasts branch, Secrétariat aux priorités et aux projets stratégiques

Julie Morissette, senior secretary, public policy and long-term forecasts branch, Secrétariat aux priorités et aux projets stratégiques

APPENDIX 2
USER FEE REVENUES COLLECTED BY THE QUÉBEC GOVERNMENT

A2.1 Introduction

The task force's mandate comprises six sections, the first of which is to present an inventory of the user fees levied by the Québec government.

This appendix presents overall user fee revenues in the following sections:

1. An overview of sources of user fee revenues by sector.
2. A more or less detailed analysis of each sector according to the nature of the operations.
3. The use of indexation and the method of reviewing user fees for each sector under direct or indirect government control.
4. The basis or method for setting user fees in the same sectors.
5. Detailed user fee revenues by government department and agency.

Note: Figures in the tables that follow have been rounded off and may not add up to the total indicated.

A2.2 Overview

The user fees covered by this report totalled \$22.2 billion in 2006-2007, including \$9.7 billion under direct or indirect government control, i.e. government departments and agencies and agencies and establishments in the education and health networks. Childcare centres and home childcare services, Hydro-Québec and insurance plans, including the Commission de la santé et de la sécurité du travail (CSST) and the Société de l'assurance automobile du Québec (SAAQ).⁷¹

Government departments and agencies levy permit and licence fees and fees on the sale of goods and services. The government records the resulting revenues in the public accounts.

The revenues collected in the education and health networks remain with the agencies and cover only a small portion of the expenditures to be covered.

As for childcare services, the \$7-a-day fee is paid directly to a childcare centre, a home childcare service or a school childcare service.

The most substantial revenues, from electricity sales, are accounted for in Hydro-Québec's financial statements. Moreover, insurance revenues for which the government does not set the rates are collected by the agencies that offer the public protection and that have at their disposal a separate asset base managed in trust.

It should be noted that the government regulates certain fees at the request and for the benefit of non-governmental agencies. These fees are excluded in our inventory, e.g. taxi rates, which are set by the Commission des transports du Québec.

⁷¹ In the specific case of fees levied by the SAAQ, insurance contributions appear with automobile insurance, vehicle registration and driver's licence fees in the revenues of the ministère des Transports and SAAQ administrative expenses are recorded in the accounts of the agencies.

TABLE 28

Summary of user fees by sector, 2006-2007

(in millions of dollars)

	Revenues	Percentage of total
Sectors under direct or indirect government control		
Government departments and agencies	3 522	15.9%
Health and education networks	3 120	14.1%
Parental insurance	1 184	5.3%
Drug insurance	1 302	5.9%
\$7-a-day childcare services	518	2.3%
Subtotal	9 646	43.5%
Other specific insurance plans	3 119	14.1%
Electricity	9 402	42.4%
Total	22 167	100.0%

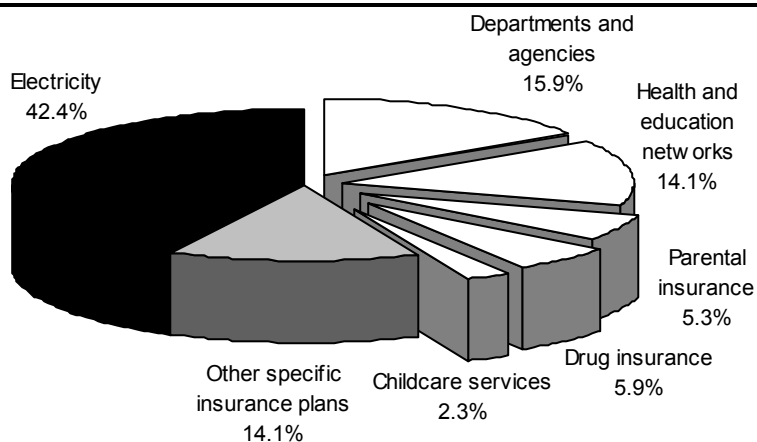
Source: Ministère des Finances du Québec.

In addition to the data above, it should be noted that the municipal sector collected \$2 656 million in user fee revenues in 2005. The government determines the services on which the municipalities may levy user fees. The municipalities are responsible for determining to what extent they wish to resort to this method of managing public services.

CHART 24

Breakdown of user fee revenues by sector, 2006-2007

(as a percentage)



Source: Ministère des Finances du Québec.

Revenues generated by user fees for public services total \$22.2 billion, of which 43.5% is under direct or indirect government responsibility. Specific insurance plans, including the CSST and the SAAQ, collect 14.1%, while electricity accounts for the remaining 42.4%.

Bearing in mind the importance of the latter three components, we have noted that 10 main sources of user fees account for 79.4% of all such fees.

TABLE 29

The 10 main sources of public user fees in 2006-2007

(in millions of dollars)

	Sector	Amount	Percentage of total user fees
1. Hydro-Québec	Electricity	9 402	42.4%
2. Occupational health and safety (CSST)	Insurance	2 262	10.2%
3. Drug insurance	Insurance	1 302	5.9%
4. Parental insurance	Insurance	1 184	5.3%
5. Driver's licence and vehicle registration fees	Government departments and agencies	841	3.8%
6. Automobile insurance (SAAQ)	Insurance	698	3.1%
7. Contribution by accommodated adults	Networks (health)	694	3.1%
8. Childcare services ¹	Childcare services and networks	546	2.5%
9. Tuition fees overall	Networks (education)	413	1.9%
10. Gross stumpage fees	Government departments	258	1.2%
Total		17 600	79.4%

1 Including \$7-a-day childcare services and school childcare services over \$7 a day.

Source: Ministère des Finances du Québec.

A2.3 Analysis of each sector

A2.3.1 Government departments and agencies

The following section examines the sectors under direct government control, i.e. government departments and agencies, whose user fee revenues total \$3.5 billion.

TABLE 30

Revenues of government departments and agencies, 2003-2004 to 2006-2007 (in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Revenues of departments	1 547	1 526	1 531	1 450	– 2.1%
Revenues of agencies	1 347	1 342	1 832	2 072	6.2% ¹
Total	2 894	2 868	3 363	3 522	NA

1 Average annual growth stands at 15.5% when account is taken of increases stemming from the financial reorganization of the agencies.

Source: Ministère des Finances du Québec.

The 2.1% decrease in the user fee revenues of government departments is offset by the increase in the revenues of government agencies.

— As we will see later, this growth stands instead at 6.2% when we eliminate the impact of changes in the status of agencies.

A2.3.2 Government departments

The revenues of government departments declined from \$1 547 million in 2003-2004 to \$1 450 million in 2006-2007.

This decrease stems essentially from the non-indexation of certain user fees. It also reflects the reclassification of certain revenues, in particular those of the Régie du bâtiment, which were previously recorded by the ministère du Travail and are now accounted for with government agencies.

TABLE 31

User fee revenues by government department, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Transports	720	722	739	751	1.4%
Ressources naturelles et Faune	155	266	231	175	4.2%
Finances	222	207	209	173	- 8.0%
Santé et Services sociaux	96	94	94	97	0.3%
Revenu	134	30	37	75	- 17.7%
Justice	61	51	60	52	- 5.1%
Sécurité publique	38	38	39	40	1.7%
Immigration et Communautés culturelles	34	27	30	34	- 0.2%
Agriculture, Pêcheries et Alimentation	13	9	10	13	1.2%
Développement durable, Environnement et Parcs	5	8	9	9	16.7%
Famille et Aînés	0	9	8	9	4.1% ⁽¹⁾
Éducation, Loisir et Sport	6	6	5	8	9.9%
Affaires municipales et Régions	4	4	4	4	0.0%
Secrétariat du Conseil du trésor et Administration gouvernementale	6	4	4	4	- 14.1%
Assemblée nationale	3	2	3	3	1.4%
Emploi et Solidarité sociale	3	3	2	2	- 13.0%
Développement économique, Innovation et Exportation	1	1	1	1	7.1%
Culture, Communications et Condition féminine	1	1	1	1	- 15.4%
Travail	45	44	45	0	—
Persons designated by the National Assembly	1	0	0	0	—
Conseil exécutif	0	0	0	0	—
Total	1 547	1 526	1 531	1 450	- 2.1%

1 The average annual change is calculated for the period 2004-2005 to 2006-2007.

Note 1: The following government departments did not collect use fee revenues during the period covered: Relations internationales, Services gouvernementaux and Tourisme.

Note 2: The detailed revenues of the government departments appear in alphabetical order at the back of the appendix.

Note 3: (—): not available or not applicable.

Source: Ministère des Finances du Québec.

The ministère des Transports collected over half of the user fee revenues of government departments, made up almost entirely of driver's licence and vehicle registration fees.

The ministère des Ressources naturelles et de la Faune mainly derives its revenues from permits and royalties in the forestry, mining and water resources sectors. The situation in the forest industry largely explains the striking annual changes.

The revenues of the ministère des Finances are derived mainly from guarantee fees obtained in exchange for its guarantee on the borrowings of government-owned corporations. In 2006-2007, the drop in revenues is attributable to the transfer to the ministère du Revenu of responsibility for the Enterprise Register.

The stability of the revenues of the ministère de la Santé et des Services sociaux stems from the recovery of health care costs from the SAAQ in respect of road accidents, which has remained constant at \$89 million pursuant to an agreement that has been in force for several years.

The decrease in the revenues of the ministère du Revenu is attributable to the elimination of specific and ad valorem duties on alcoholic beverages that were replaced by the specific tax in 2004-2005.

A2.3.3 Government agencies

The user fee revenues of government agencies stood at \$2 072 million, an average annual increase of 15.5% since 2003-2004.

However, when we isolate the six main agencies that did not collect revenues during the initial fiscal years, we note that average growth in revenues stands at 6.2% instead, calculated on the revenues overall.

TABLE 32

User fee revenues by government agency, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Héma-Québec	2	1	239	241	—
Fonds des services de police	217	223	229	236	2.7%
Société de l'assurance automobile du Québec	0	0	151	156	—
Agence métropolitaine de transport	109	119	128	139	8.5%
Régie de l'assurance maladie du Québec	119	116	120	126	2.2%
Fonds d'information foncière	108	117	120	116	2.5%
Autorité des marchés financiers	0	78	77	84	4.3% ¹
Société des établissements de plein air du Québec	67	72	76	80	6.0%
Centre de services partagés du Québec	0	0	0	73	—
Fonds des contributions des automobilistes au transport en commun	66	67	68	69	1.7%
Commission des normes du travail	50	49	52	55	3.1%
Commission des lésions professionnelles	50	51	53	53	1.7%
Fonds vert	0	0	0	48	—
Régie du bâtiment du Québec	0	0	0	47	—
Société de financement des infrastructures locales	0	0	34	44	—
Société immobilière du Québec	35	46	46	42	5.6%
Investissement Québec	22	21	34	32	13.2%
Fonds des registres du ministère de la Justice	28	29	30	30	1.9%
Fonds du service aérien gouvernemental	0	26	30	27	2.6% ¹
Société québécoise de récupération et de recyclage	24	23	23	26	3.0%
École nationale de police du Québec	16	17	18	20	8.9%
Société de développement de la Baie James	0	0	0	18	—
Other	434	286	304	310	- 10.6%
Subtotal	1 347	1 342	1 832	2 072	—
Less: New agencies and agencies whose status has changed	- 2	- 1	- 390	- 461	—
TOTAL	1 345	1 341	1 442	1 611	6.2%

1 The average annual change is calculated for the period from 2004-2005 to 2006-2007.

Note 1: The detailed revenues of the agencies appear in alphabetical order at the back of the appendix, after the departments.

Note 2: (—): not applicable.

Source: Ministère des Finances du Québec.

Revenues from the Fonds des services de police stem from the invoicing to the municipalities of police services provided by the Sûreté du Québec.

Users contribute for the most part to the revenues of the Agence métropolitaine de transport, but municipal contributions account for one-quarter of the revenues.

The revenues of the Régie de l'assurance maladie du Québec correspond to the recovery of costs from the CSST in respect of medical services related to industrial accidents (69%) and from the other provinces for services rendered to their residents (30%).

The land information fund derives its revenues, by and large, from land registration fees (64%) and from sales, fees and honoraria pertaining to renewing the cadastre (36%).

The revenues of the Autorité des marchés financiers rose appreciably in 2006-2007. Revenues from fees and permits related to corporate financing increased at the same time as share issues and mergers and acquisitions on the stock markets.

Several agencies changed status, were divided up or grouped together. For example, the Autorité des marchés financiers grouped together five agencies while the Centre de services partagés also grouped together a number of agencies in whole or in part. The Fonds du service aérien gouvernemental appeared previously in another agency included in "Other" in 2003-2004.

Aside from not having had revenues during the initial fiscal years and also to avoid distorting the analysis of changes in user fee revenues, we have excluded six agencies from the total for the reasons indicated below.

- Prior to 2005-2006, Héma-Québec received a subsidy from the ministère de la Santé et des Services sociaux and distributed free of charge blood products to hospitals, to which it now sells the products.
- The Société de l'assurance automobile du Québec's status changed. Its revenues from administrative expenses invoiced when vehicle registrations or driver's licences were issued or renewed were previously included with insurance revenues, which are now classified in the Fonds fiduciaire d'assurance automobile.
- The Société de la Baie James was a commercial enterprise until 2006-2007, when it was classified as an agency.
- The revenues of the Régie du bâtiment were recorded in the ministère du Travail until 2005-2006.

A2.3.4 The education and health networks

Growth since 2003-2004 in the networks' revenues stands at 5.2%, including 3.8% in the education network and 6.8% in the health network. The total revenues of the networks stand at \$3.1 billion when revenues from \$7-a-day childcare services are subtracted from the revenues of the elementary and secondary school sectors.

TABLE 33

**User fee revenues of the education and health networks,
2003-2004 to 2006-2007**
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Education					
Elementary and secondary	512.7	531.5	521.7	572.8	3.8%
Cegep	200.7	200.6	200.0	208.6	1.3%
University	788.6	825.6	862.8	900.2	4.5%
Subtotal	1 502.0	1 557.7	1 584.5	1 681.6	3.8%
Health and social services	1 180.6	1 226.2	1 342.9	1 438.7	6.8%
Total	2 682.6	2 783.9	2 927.4	3 120.0	5.2%

Source: Ministère des Finances du Québec.

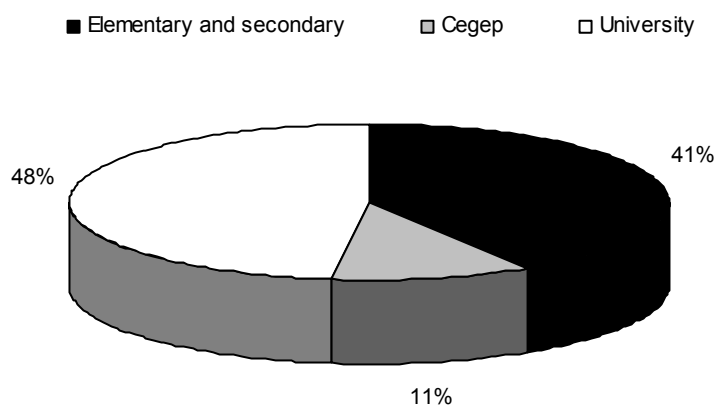
Data concerning the networks are drawn from the consolidation of the financial data of a great many relatively autonomous agencies but whose power to set user fees is generally limited by the government.

The ministère de l'Éducation, du Loisir et du Sport and the ministère de la Santé et des Services sociaux, which are responsible for their respective networks, consolidate the agencies' data.

A2.3.5 The education network

CHART 25

Breakdown of user fee revenues in the education network, 2006-2007¹ (as a percentage)



¹ Including \$7-a-day school childcare services.
Source: Ministère des Finances du Québec.

We have noted that the user fee revenues collected in public elementary and secondary schools (41%) are almost equivalent to those collected in the university network (48%).

In the elementary and secondary sector, school childcare services, which account for nearly 30% of revenues, have risen the most over the past three fiscal years, with average annual growth of 7.5%. Along with revenues linked to the recovery of expenditures (administrative operations, teaching and training, in particular) and other activities such as extracurricular activities, these three items account for 84% of revenues.

Revenues in the Cegeps have hardly varied. The average annual increase of only 1.3% in three years is below the consumer price index. The sale of goods and services is the biggest item (just over one-third of revenues), while registration and tuition fees account for only one-quarter of revenues.

In the case of the universities, the absence of information for 2006-2007 stems from the unavailability of the financial statements of certain universities. For the purpose of the analysis, we ascribed to all revenues growth in 2006-2007 similar to that in recent fiscal years.

Tuition fees are the biggest source of revenue, but since such fees were frozen during the period covered, only the growth in enrolment can explain the slight increase in revenues.

External sales, which account for 30% of revenues, are the second most important item and include, in particular, residence and cafeteria services.

TABLE 34

Breakdown of user fee revenues in the education network, 2003-2004 to 2006-2007
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Elementary and secondary					
Tuition fees					
Adults	9.7	10.6	10.7	10.4	2.3%
Other	6.1	7.6	8.7	8.3	10.8%
Revenues from teaching	40.4	37.4	37.7	41.2	0.7%
Sales of goods and services					
Residences	0.5	0.9	0.9	0.5	0.0%
Food services	20.5	20.1	19.4	19.8	- 1.2%
Childcare services ¹	185.2	232.9	225.5	230.2	7.5%
School transportation	10.1	10.7	10.9	10.8	2.3%
Other activities	120.1	121.7	112.6	131.6	3.1%
Building rental	29.4	28.8	33.8	32.7	3.6%
Recovery of expenditures	251.5	267.7	261.0	289.0	4.7%
	673.5	738.4	721.2	774.5	4.8%
\$7-a-day childcare services ¹	- 160.8	- 206.9	- 199.5	- 201.7	7.8%
Subtotal	512.7	531.5	521.7	572.8	3.8%
Cegep					
Registration and tuition fees					
Canadian students (including special fees linked to academic success)	44.4	47.8	47.6	50.6	4.5%
Students who are not Québec residents	0.7	0.7	0.7	0.7	0.0%
Foreign students	2.0	2.1	2.1	2.4	6.3%
Sales of goods and services	68.3	68.0	67.9	72.4	2.0%
Rentals	16.0	15.9	15.7	16.3	0.6%
Other revenues	69.3	66.1	66.0	66.2	- 1.5%
Subtotal	200.7	200.6	200.0	208.6	1.3%

¹ The revenues from \$7-a-day childcare services are deducted from the network's revenues and added to those of childcare centres and home childcare services presented in detail in section A 2.3.9.

Sources: Ministère de l'Éducation, du Loisir et du Sport and ministère des Finances du Québec.

TABLE 34 (continued)

Breakdown of user fee revenues in the education network, 2003-2004 to 2006-2007
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
University¹					
Tuition fees	331.8	334.0	343.6	NA	1.8%
Differential fees paid by Canadian students who are not Québec residents	26.5	29.3	32.2	NA	10.2%
Differential fees paid by foreign students	49.2	48.7	54.3	NA	5.1%
Admission and registration fees and fines	45.4	47.3	53.2	NA	8.2%
Contributions to student services	38.7	39.7	43.5	NA	6.0%
Sales to students	58.6	70.6	67.8	NA	7.6%
External sales				NA	
Instruction	29.0	31.7	34.8	NA	9.5%
Research	4.6	4.6	5.4	NA	8.3%
Support (administration, library, data processing and other)	29.7	35.4	36.3	NA	10.6%
Community services	19.7	21.4	20.2	NA	1.3%
Student services	25.7	26.1	27.0	NA	2.5%
Auxiliary services (residences, cafeteria and so on)	124.5	130.8	137.7	NA	5.2%
Agreements with other provinces					
New Brunswick	4.9	5.6	6.4	NA	14.3%
Ontario	0.3	0.4	0.4	NA	15.5%
Subtotal	788.6	825.6	862.8	900.2	4.5%
TOTAL	1 502.0	1 557.7	1 584.5	1 681.6	3.8%

¹ Data for the universities are unavailable for 2006-2007. The subtotal for 2006-2007 has been determined by the ministère des Finances based on growth in recent years. The average annual change has been calculated in respect of the period 2003-2004 to 2005-2006.

Sources: Ministère de l'Éducation, du Loisir et du Sport and ministère des Finances du Québec.

The main sources of user fee revenues in the elementary and secondary school sector are the recovery of expenditures, childcare services and other activities including, in particular, special projects and extracurricular activities.

In the Cégep sector, registration and tuition fees account for only one-quarter of user fee revenues. Sales of goods and services (cafeteria, parking, equipment or musical instrument rentals, and so on) and other revenues, including the sale to businesses of made-to-measure training, account for two-thirds of user fee revenues.

In the university sector, based on revenues in fiscal 2005-2006, tuition fees account for 39.8% of user fee revenues. In light of the tuition freeze during the period studied, the annual change is small. Auxiliary services are the second biggest source of revenues (16.0%).

A2.3.6 The health and social services network

The health and social services network's revenues rose 6.8% over the past three fiscal years, to \$1.4 billion.

TABLE 35

Breakdown of user fee revenues in the health and social services network, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Contribution by accommodated adults	533.1	563.7	641.0	693.9	9.2%
Private and semi-private room supplement	73.2	71.2	68.1	68.2	- 2.3%
Tax benefit for children placed in foster families	42.0	42.7	44.7	48.4	4.8%
Other revenues (charging for services)					
Public establishments					
- Canadian residents	26.0	31.2	32.7	31.8	6.9%
- Foreign residents	26.6	27.3	29.1	31.7	6.0%
- Solicitor General	5.4	7.1	8.6	10.2	23.6%
- Government of Canada	7.6	6.4	6.0	6.8	- 3.6%
- Other revenues	51.0	49.8	53.6	56.3	3.4%
Private establishments	84.5	87.9	90.1	93.4	3.4%
Subtotal, other revenues	201.1	209.7	220.1	230.2	4.6%
Ancillary business	253.8	259.4	280.4	309.3	6.8%
Commercial operations	77.4	79.5	88.6	88.7	4.6%
Total	1 180.6	1 226.2	1 342.9	1 438.7	6.8%

Sources: Ministère de la Santé et des Services sociaux and ministère des Finances du Québec.

The contribution by adults accommodated in residential and long-term care centres, hospitals or certain rehabilitation centres accounts for 48.2% of the network's total user fee revenues. The contribution demanded is indexed annually.

Revenues from ancillary business and commercial operations cover the self-financing of expenditures unrelated to health care. Mention should be made of operations such as canteens, parking, television rentals, medical teaching and medical residents.

A2.3.7 Parental insurance

The Régime d'assurance parentale is administered by the Conseil de l'assurance parentale established in January 2005 to plan the payment of benefits to all eligible workers who take maternity, paternity or adoption leave.

Despite its revenues of \$1 184 million in 2006-2007, the popularity of the plan and the 8% increase in the birth rate in 2006 generated a deficit. Actuarial information was insufficient to increase the contribution rates in 2007 (the rates increased 7.5% on January 1, 2008).

A2.3.8 Drug insurance

Drug insurance was implemented on January 1, 1997. Registration in the plan is compulsory for anyone who is not covered by a private plan.

In addition to the premium paid when insured parties file their tax returns, those covered must pay a monthly deductible and a percentage of the cost of the drugs purchased. A monthly maximum contribution has also been set and the plan covers any excess amount.

TABLE 36

Changes in the premiums and costs of the drug insurance plan, 2003-2004 to 2006-2007
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Premiums – members and individuals 65 years of age or over	583	601	661	698	6.2%
Member contributions (deductible and co-insurance)	508	540	566	604	5.9%
Total, premiums and contributions	1 091	1 141	1 227	1 302	6.1%
Total cost of the plan	2 634	2 819	2 993	3 247	7.2%
Percentage of total cost of the plan covered by premiums and contributions	41.4%	40.5%	41.0%	40.1%	—

Sources: Annual reports of the Régie de l'assurance maladie du Québec and ministère des Finances du Québec.

The premiums and contributions demanded have increased steadily. Premium revenues have increased on average 6.2% over the past three fiscal years and contribution revenues, 5.9%. The contributions made by members and individuals 65 years of age or over range from 40.1% to 41.4% of the total cost of the plan. The government covers the balance of the costs.

The ageing of the population and the cost of new drugs, in particular, explain the steady growth in the plan's costs, which stood at 7.2% over the past three fiscal years. Growth in the first three years of the plan's operation between 18% and 24% affected average annual growth in expenditures of 13.1% since 1997-1998.

A2.3.9 Childcare services

The increase in the number of reduced-contribution spaces in childcare centres and home childcare services stands at 3.7% a year, on average.

TABLE 37

Change in clientele of childcare services, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
Number of reduced-contribution spaces	177 848	189 380	196 618	198 606	3.7%
Daily childcare service fee	\$5	\$7	\$7	7 \$	11.9%

Sources: Ministère de la Famille et des Aînés and ministère des Finances du Québec.

TABLE 38

Changes in revenues by clientele of childcare services, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
\$7-a-day school childcare services	161	207	200	202	7.9%
School childcare services over \$7 a day	24	26	26	28	5.3%
Total, school childcare services	185	233	226	230	7.5%
Childcare centres and home childcare services	210	288	305	316	14.6%
OVERALL TOTAL	395	521	531	546	11.4%
Including – Total at \$7 a day	371	495	505	518	11.8%

Sources: Ministère de l'Éducation, du Loisir et du Sport, ministère de la Famille et des Aînés and ministère des Finances du Québec.

Revenues from school childcare services are derived primarily from the clientele paying the reduced contribution. All told, during the period, revenues from school childcare services increased 7.5%, on average.

For 2006-2007, parental contributions in childcare centres and home childcare services added to school childcare service revenues total \$546 million, including \$518 million from \$7-a-day reduced contributions.

Despite the increase in parental contributions, the government's contribution per child has increased to \$40 a day in childcare centres.

A2.3.10 Specific insurance plans

Average annual growth in the insurance plans stands at 5.9% and the premium revenues of these plans totalled \$3.1 billion in 2006-2007.

TABLE 39

Change in revenues of specific insurance plans, 2003-2004 to 2006-2007

(in millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Average annual change
CSST	1 790	2 086	2 276	2 262	8.1%
SAAQ	653	671	685	698	2.2%
Fonds d'assurance-stabilisation des revenus agricoles	161	128	130	134	- 5.9%
Fonds d'assurance-récolte	24	22	20	25	1.4%
Total	2 628	2 907	3 111	3 119	5.9%

Sources: Annual reports of the abovementioned agencies and ministère des Finances du Québec.

Growth in the insurances revenues of the CSST and the SAAQ was used to cover cost increases in the plans. However, since the SAAQ's fees were frozen, the increase in revenues is attributable to an increase in the number of insured persons.

Through La Financière agricole du Québec, the government contributes two dollars to the Fonds d'assurance-stabilisation des revenus agricoles for each dollar paid by the members. The Fonds, which guarantees members a positive net annual income, had a deficit of nearly \$600 million as of March 31, 2007.

The Fonds d'assurance-récolte, which protects crops against uncontrollable risks not attributable to human intervention, has a cumulative surplus. The government, through its contribution to La Financière agricole du Québec, contributes an amount equivalent to members' contributions.

The case of the Régie des rentes du Québec

Established in January 1966, the Régie des rentes du Québec (RRQ) is a government agency that contributes to Quebec retirees' financial security and promotes retirement planning.

It is a compulsory insurance plan that covers everyone who works in Québec. Elsewhere in Canada, workers contribute to the Canada Pension Plan, which is equivalent to the Québec Pension Plan.

The contribution rate under the plan has been set at 9.9% since 2003.¹ Salaried workers contribute half the amount, i.e. 4.95%, and their employers, the other half. During the 2006-2007 fiscal year, 3 724 000 contributors paid \$8.9 billion in contributions and 1 450 000 beneficiaries received \$8.3 billion in benefits.

As is true of the CSST and the SAAQ, the RRQ is a government agency administered by a board of directors, which establishes its own contribution policy based on actuarial valuations, but must submit the contribution rate to the government for approval. The board of directors is responsible to the government for the management of the Régie through the Minister of Employment and Social Solidarity.

By definition, the user fee is a price linked to the consumer of a good or a service. In the case of the SAAQ and the CSST, the premium that motorists and businesses pay offers them in return immediate protection against risks.

As for the RRQ, the worker's contribution will be paid back later at the time of retirement in the form of a pension calculated according to the work income on which the contributions were collected. In fact, this is equivalent to a retirement savings service funded by workers and their employers.

While employers must obligatorily contribute to the plan, no direct service is offered to them in return except to replace possible financial participation in a private pension plan.

Thus, for the purpose of this report, the revenues generated by the RRQ's operations are not considered a form of user fee but rather as a compulsory savings plan. It was thus agreed not to include RRQ contributions in the realm of Québec government user fees.

¹ Workers 18 years of age or over contribute to the QPP on the portion of their employment income that exceeds \$3 500, up to a maximum of \$44 900 in 2008.

A2.3.11 Electricity

Electricity sales revenues in Québec increased, on average, by 3.1% a year between 2003-2004 and 2006-2007, which is attributable to distribution rate increases of 3.6%, on average, during the period, while consumption remained unchanged.

A2.4 Indexation and revision of user fees

This section seeks to pinpoint the proportions of revenues derived from indexed user fees, if indexation⁷² can be applied, and how user fees are reviewed.

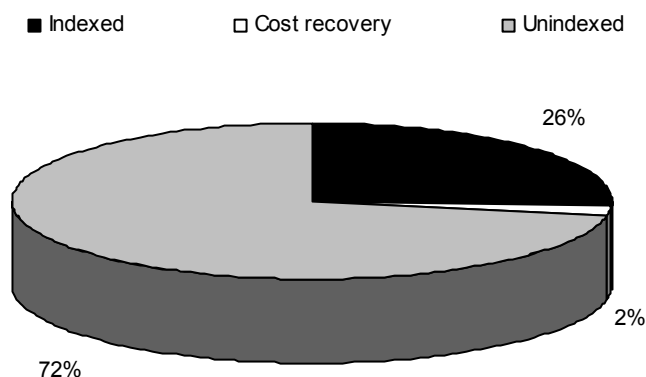
A2.4.1 Government departments

Revenues from indexed user fees accounted for only 26% of user fee revenues in 2006-2007.

CHART 26

Indexation and revision of the user fees of government departments, 2006-2007

(as a percentage)



Source: Ministère des Finances du Québec.

The low level of indexed user fees stems from the nature of several fees. First, revenues from driver's licence and vehicle registration fees are not indexed and account for half of all overall revenues in government departments.

Moreover, fees related to natural resource royalties vary according to the economic value of the resource and can, consequently, increase or decrease over time, e.g. forests.

Other fees are set in light of market price, e.g. parking lots, office space rental, and so on.

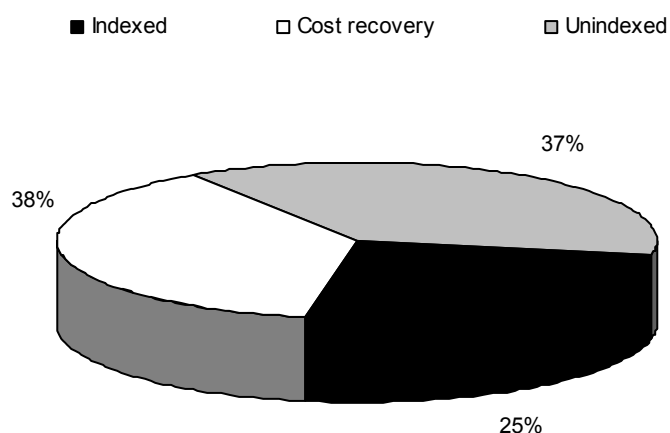
⁷² Indexation is the adjustment in rates of payment to reflect variations in the cost-of-living index or other economic indicator (*The Canadian Oxford Dictionary*).

A2.4.2 Government agencies

Revenues generated by indexed user fees account for 25% of the user fee revenues of government agencies, while those stemming from cost recovery stand at 38%. The remaining 37% of revenues are not indexed.

CHART 27

Indexation and revision of the user fees of government agencies, 2006-2007
(as a percentage)



Source: Ministère des Finances du Québec.

The revenues of government agencies that recover all of their costs account for 38% of the overall revenues of such agencies. Some examples are Héma-Québec, police services provided by the SQ to the municipalities, and the recovery of medical costs from the CSST by the Régie de l'assurance maladie du Québec.

Unindexed revenues account for 37% of the revenues of government agencies. This category includes, for example, most of the fees levied by the Société de l'assurance automobile in respect of the issuing and renewal of driver's licences and vehicle registration, which have been frozen since 1990, and hunting and fishing licences in parks and reserves managed by SÉPAQ, and entrance fees at certain museums.

Furthermore, some user fees that are indexed annually were established a long time ago on uncertain bases and have not been reassessed since then.

A2.4.3 Networks

In the education network, university tuition fees were frozen for over 10 years before they began to rise gradually starting in 2007. There are few or no indexed user fees in the network overall.

In the health network, the contribution from adults accommodated in residential and long-term care centres and private and semi-private room fees in hospitals are indexed annually according to the pension index used to make annual adjustments to pensions, which in turn is based on the consumer price index (CPI).

A2.4.4 Parental insurance

The Régime d'assurance parentale was established recently and employee contributions are based on self-financing of the plan. Consequently, indexation does not apply to this plan.

The Conseil de gestion de l'assurance parentale examines in June of each year the advisability of revising contribution rates in light of past experience.

A2.4.5 Drug insurance

The premium increase is determined each year according to the increase in the plan's costs.

A2.4.6 Childcare services

Only one increase in the basic fee has been levied since reduced-contribution spaces were introduced. Even if the fee offered remained markedly below costs, the indexation principle could apply.

A2.5 Basis for setting user fees

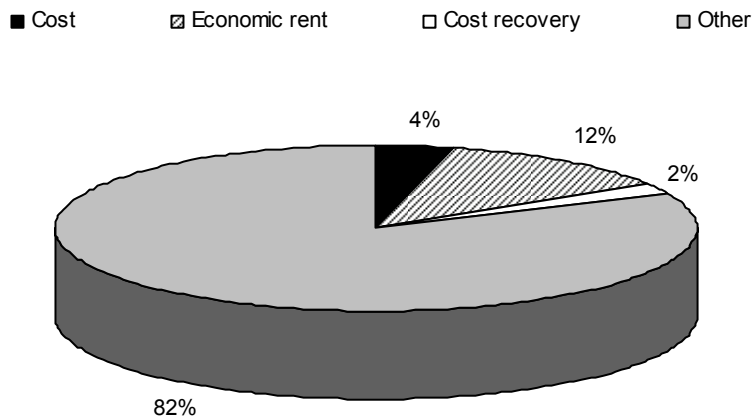
The following section indicates the methods used to determine on what bases user fees for the goods and services offered are established.

A2.5.1 Government departments

It is impossible, in government departments, to accurately determine the basis for establishing the user fee in respect of over 80% of user fee revenues.

CHART 28

Method of setting user fees in government departments, 2006-2007 (as a percentage)



Source: Ministère des Finances du Québec.

Indeed, the “Other” category is the one that government departments mention most frequently as the method of setting user fees. This category was mentioned when the user fee was determined by regulation or directive or when the method of determining the user fee was unknown.

A number of user fees have been adopted by regulation for a long time and, even though they are indexed, the method of setting the user fee is unknown.

Certain user fees, especially in legal services, are set below cost to foster access to the services.

Furthermore, the rate set for certain fees, licences or royalties must not be confined to cost recovery but instead to the value of the privilege granted.

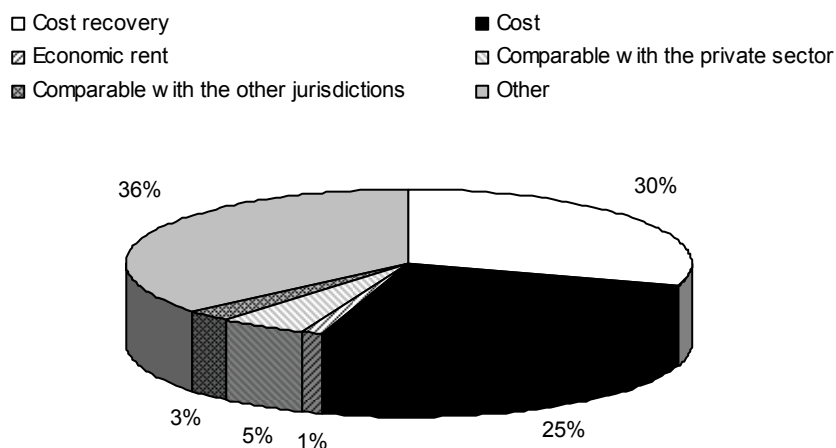
A2.5.2 Government agencies

A number of agencies offer their services to a limited number of clients. Consequently, they invoice all of their expenditures that are included in the “Cost recovery” category.

The method based on cost differs from cost recovery since it implies a unit cost for a good or a service offered.

CHART 29

Method of setting user fees in government agencies, 2006-2007 (as a percentage)



Source: Ministère des Finances du Québec.

As is true of government departments, the “Other” category is most often mentioned by government agencies as the method of setting user fees.

Moreover, user fees that are comparable to those in other jurisdictions and the private sector are much more common than in government departments. Conversely, the economic rent is less widely used.

Several other user fees have been adopted by regulation for a long time and, even if they are indexed, the method of setting the user fee is unknown.

A2.5.3 Networks

In the education network, all tuition and admission fees are set by regulation without a precise basis. In the elementary school sector, \$7-a-day childcare services are also offered.

Furthermore, the agencies are responsible for setting user fees for the goods, services and activities offered. Classes and training or research activities are offered with the desire to recover costs or generate a small surplus.

In the health sector, most revenues are of regulated origin and thus without a precise basis for setting user fees. In addition, the beneficiary's income level can reduce the fee paid as a contribution by accommodated adults. However, the operations of services unrelated to health care must be self-financing.

A2.5.4 Parental insurance

The contribution rate is established according to the maximum insurable income, determined in light of that used by the CSST.

The revenues thus anticipated must be sufficient to fund the benefits paid. Such benefits are estimated on the basis of actuarial studies of the birth rate and the level of benefits to be granted.

A2.5.5 Drug insurance

The drug insurance rates are initially set in relation to the plan's costs. When the cost increase is too big, the users' contribution is set at a level that the government deems acceptable. The government funds the plan's deficit.

A2.5.6 Childcare services

The \$5-a-day reduced rate was set to make the policy attractive. The increase to \$7 a day is in no way based on cost.

A2.6 Detailed revenues of government departments and agencies

Data in the tables that follow are drawn from a survey conducted among government departments and agencies.

The user fee revenues itemized are presented, in alphabetical order, first for government departments, then for government agencies. The data cover fiscal years 2003-2004 to 2006-2007 and are divided into two revenue categories, i.e. “Fees and licences” and “Sales of goods and services.”

Certain series of revenues appear in 2003-2004 in the departments and then disappear. In most instances, these changes stem from changes in the agencies’ status. Subsequent annual revenues are usually recorded among other agencies.

It should be noted that, despite their number, the sub-categories indicated do not necessarily represent a single user fee. For example, the \$1 million in revenues recorded under the heading “Other assistance for farmers” in the ministère de l’Agriculture, des Pêcheries et de l’Alimentation are derived from over 200 user fees set for laboratory analyses.

The right-hand column in the tables, “Indexed user fees,” informs the reader of the indexation of the user fee that generates the revenues. “Yes” or “No” means that the user fee is indexed or unindexed. The letters “CR” in the column mean cost recovery.

A2.6.1 User fees levied by government departments, 2003-2004 to 2006-2007

Affaires municipales et Régions (in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Fees levied by the Régie du logement	4 564	4 678	4 598	4 485	Yes
Subtotal	4 564	4 678	4 598	4 485	
Sales of goods and services					
Agency dues	30	0	0	0	No
Other	35	19	15	20	No
Subtotal	65	19	15	20	
TOTAL	4 629	4 698	4 614	4 505	

Agriculture, Pêcheries et Alimentation

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
File processing	24	15	15	331	Yes
Agri-Traçabilité du Québec registration fee	1 794	0	0	0	No
Régie des marchés agricoles	0	43	3	53	Yes
Sale and mixing of medicating feed	43	35	42	40	Yes
Auction sales	4	4	2	6	Yes
Request for authorization – agricultural zone	544	0	0	0	No
Grain marketing	195	0	0	0	No
Marketing	105	110	101	81	Yes
Slaughterhouse and workshop	156	160	161	214	Yes
Inseminators	55	56	57	63	Yes
Declaration - CPTAQ	92	0	0	0	No
Commercial fishery	116	65	76	91	Yes
Preparation or canning of fish	52	50	51	62	Yes
Food service and retail food sales	7 558	7 639	8 066	11 062	Yes
Registration of farm enterprises	2	0	0	0	No
Other	73	0	0	0	No
Subtotal	10 813	8 177	8 574	12 003	
Sales of goods and services					
Forms and documents	0	0	0	0	No
Photocopies of documents	33	25	2	0	Yes
Courses	34	0	0	0	No
Farm products	1	0	0	0	No
Water	0	9	10	1	No
Land and buildings	0	1	0	0	Yes
Land and building leasing	64	16	0	11	No
Boat ramp	29	52	50	47	No
Rental of personal services	0	1	1	2	Yes
Contributions – control of milk utilization	472	0	0	0	No
Contributions – control of quotas, poultry producers	51	0	0	0	No
Recoveries from third parties	0	5	6	1	No
Technical assistance and support	80	72	72	67	No
Other assistance for farmers	1 022	966	905	1 015	No
Analysis of drinking water	28	4	15	8	No
Access to information	0	0	0	1	No
Other	72	0	0	0	No
Proceeds of disposition of land	0	15	3	2	No
Proceeds of disposition of light ground transportation devices	0	0	8	3	No
Proceeds of disposition of specialized equipment	0	10	3	6	No
Subtotal	1 886	1 176	1 075	1 164	
TOTAL	12 699	9 353	9 649	13 167	

Assemblée nationale (in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Own-source revenues of the National Assembly	2 117	2 045	2 658	2 421	CR
National Assembly gift shop	388	340	271	189	CR
Subtotal	2 505	2 385	2 929	2 610	
TOTAL	2 505	2 385	2 929	2 610	

Conseil exécutif

Sales of goods and services					
Other	7	23	12	4	No
Subtotal	7	23	12	4	
TOTAL	7	23	12	4	

Culture, Communications et Condition féminine

Sales of goods and services					
Photocopies of documents	47	56	83	2	No
Courses	446	408	391	501	No
Instructional material	0	11	12	14	No
Professional development - Conservatoire de musique et d'art dramatique	0	6	0	0	No
Document storage	521	0	0	0	No
Admission fees	0	41	41	46	No
Technical assistance and support	178	154	151	193	No
Other	59	0	0	0	No
Subtotal	1 251	676	678	757	
TOTAL	1 251	676	678	757	

Développement durable, Environnement et Parcs

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Accreditation of private and municipal laboratories	508	420	441	527	No
Water regime	369	406	381	1 406	Yes
Dam safety	1 087	949	848	1 126	Yes
Depollution attestations	520	909	744	575	Yes
Fees pertaining to environmental protection	746	1 189	1 049	1 062	Yes
Other	1	0	0	0	Yes
Subtotal	3 231	3 873	3 463	4 696	
Sales of goods and services					
Forms, documentation and information	60	60	56	60	Yes
Leasing of water resources for aquaculture	0	15	20	24	Yes
Land and buildings	187	95	157	295	Yes
Leasing and concessions	795	861	839	1 101	Yes
Recoveries from third parties	8	0	0	0	No
Management of public dams	1 142	1 027	1 474	661	No
Gains on sales of capital assets	79	0	0	0	No
Environmental analysis	42	2 143	2 519	1 883	No
Canada Investment Fund for the renewal of legal aid	0	86	78	86	No
Subtotal	2 313	4 287	5 143	4 110	
TOTAL	5 544	8 160	8 606	8 806	

Développement économique, Innovation et Exportation

Fees and licences					
File processing	0	27	30	39	No
Upholstering	832	940	984	1 043	Yes
Visa – tax credit for design	0	33	37	40	No
Other	81	0	0	0	No
Subtotal	913	1 000	1 052	1 122	
TOTAL	913	1 000	1 052	1 122	

Éducation, Loisir et Sport

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Private educational institutions	0	1	0	20	No
Subtotal	0	1	0	20	
Sales of goods and services					
Recoveries from third parties	5 738	5 978	4 974	7 593	No
Fees for rereading exams	0	6	8	8	No
Other	6	0	0	0	No
Subtotal	5 744	5 984	4 983	7 601	
TOTAL	5 744	5 984	4 983	7 621	

Emploi et Solidarité sociale

Sales of goods and services					
Collection fees	3 094	2 580	2 487	2 040	No
Other	4	0	0	0	No
Subtotal	3 098	2 580	2 487	2 040	
TOTAL	3 098	2 580	2 487	2 040	

Famille et Aînés

Fees and licences					
File processing	102	40	68	54	Yes
Fees – public records	0	8 492	7 868	9 198	No
Subtotal	102	8 532	7 936	9 252	
TOTAL	102	8 532	7 936	9 252	

Finances

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Insurance companies	9	0	0	0	No
Constitution of depositary institutions	57	0	0	0	No
Creation and modification of legal persons	9 079	9 421	10 393	0	No
Legal publicity of enterprises	33 278	33 979	33 924	0	No
Company annual reports	32	0	0	0	No
Other	68	57	53	0	No
Subtotal	42 523	43 457	44 370	0	
Sales of goods and services					
Photocopies of documents	142	146	0	0	No
Contribution by trust companies and savings societies	706	0	0	0	No
Contribution by insurance companies	4 964	0	0	0	No
Inspection fees – depositary institutions	93	0	0	0	No
Contributions by brokers and real estate agents	152	146	0	0	No
Contributions by cooperatives and financial services	1 857	0	0	0	No
Loan guarantees – government-owned corporations	171 902	163 208	165 005	173 430	Yes
Other	36	0	0	0	No
Subtotal	179 852	163 500	165 005	173 430	
TOTAL	222 375	206 957	209 375	173 430	

Immigration et Communautés culturelles

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Fees – public records	5 980	0	0	0	No
Fees – private records	295	0	0	0	No
Door-to-door salespersons	181	0	0	0	No
Health clubs	63	0	0	0	No
Travel agents	705	0	0	0	No
Sponsorship application – foreign nationals	1 874	1 882	2 657	2 518	No
Employer's request regarding a temporary employment	0	0	1 078	1 155	No
Selection certificates – foreign nationals	20 296	20 183	21 018	24 072	No
Exemption certificates	50	0	0	0	No
Acceptance certificates – foreign nationals	2 951	3 384	3 903	4 258	No
Other	26	0	0	0	No
Subtotal	32 421	25 449	28 656	32 003	
Sales of goods and services					
Comparative assessment of studies conducted outside Québec	1 306	1 374	1 431	1 538	No
Other	40	0	0	0	No
Subtotal	1 346	1 374	1 431	1 538	
TOTAL	33 767	26 823	30 087	33 541	

Justice

Fees and licences					
Legal publicity of enterprises	417	365	29	169	No
Subtotal	417	365	29	169	
Sales of goods and services					
Forms and documents	145	400	400	425	Yes
Room rental and board and lodging	92	98	97	97	No
Recoveries from third parties	133	15	15	20	No
Judicial documents	31 356	31 854	32 107	30 924	Yes
Legal transactions	28 495	18 305	27 150	20 161	Yes
Other	21	0	0	0	No
Subtotal	60 242	50 672	59 769	51 626	
TOTAL	60 659	51 037	59 798	51 795	

Persons designated by the National Assembly
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Delineation of electoral territory	124	0	0	0	No
Subtotal	124	0	0	0	
Sales of goods and services					
Fees for the transmission of information from the permanent electoral list	349	303	328	360	CR
Other	80	0	0	0	No
Subtotal	429	303	328	360	
TOTAL	553	303	328	360	

Ressources naturelles et Faune

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Forest resources					
Intervention permit – wood supply on public lands	320 252	422 969	388 400	258 069	Yes
Maple stands	1 571	1 562	1 567	1 545	No
Wood processing plants	737	698	711	698	Yes
Wood harvesting – domestic use	189	218	211	201	Yes
Intervention – works in the public interest	105	83	214	175	No
Intervention – mining operations	127	154	106	87	No
Intervention – wildlife and recreational management	189	121	76	90	Yes
Other rights on forest management	155	134	62	23	No
Wood measurers	5	8	37	5	Yes
Regular silvicultural treatment	– 155 802	– 173 758	– 152 336	– 145 747	No
Transfer to the Fonds forestier	– 71 100	– 107 900	– 128 900	– 57 006	No
Special recovery and production plans	– 7 041	– 1 769	– 27 021	– 33 106	No
Contribution to SOPFIM - SOPFEU	– 18 588	– 16 419	– 16 900	– 15 935	No
Forestry resource development programs	– 40 506	– 10 303	– 8 874	– 6 261	No
Total – forest resources	30 293	115 798	57 353	2 838	
Mining resources					
Mining operations - fees	5 627	26 376	48 403	48 787	No
Claim	4 272	6 982	6 412	12 379	No
Operation under lease	1 283	1 445	1 463	1 410	Yes
Search for underground reservoirs	0	58	145	180	No
Development – sand, gravel and other	2 164	1 954	1 942	2 716	No
Exploration	363	307	154	0	Yes
Staking tags	0	10	8	16	No
Prospectors	0	13	12	13	Yes
Development through mining concessions	0	0	4	0	No
Mining operations – credits for losses	0	– 9 940	– 5 614	– 13 212	Yes
Mining operations – credits for financing	0	0	0	– 379	No
Total – Mining resources	13 709	27 205	52 929	51 910	
Water resources					
Water power	8 118	9 662	13 452	9 977	Yes
Electrical power generated	57 617	68 107	61 715	63 535	No
Water regime	1 495	1 483	1 539	1 653	Yes
Total – Water resources	67 230	79 252	76 706	75 165	

Ressources naturelles et Faune (continued)
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Other					
Hunting, fishing and trapping licences	26 788	27 201	26 167	27 660	No
User permit – high-risk petroleum equipment	1 931	1 974	1 798	1 832	No
Fees for commercial operations	1 261	1 122	1 275	1 295	Yes
Oil and natural gas exploration	460	372	534	645	No
Development leases for underground reservoirs	41	55	66	64	No
Natural gas development and exploitation leases	0	16	16	16	No
Oil and natural gas royalties	0	1	0	16	No
Commercial and individual permits	263	265	239	284	Yes
General information	59	10	22	8	No
File processing	50	0	0	0	Yes
Other	97	0	0	0	No
Total – Other	30 950	31 016	30 117	31 820	
Subtotal	142 182	253 281	217 105	161 732	
Sales of goods and services					
Forms and documents	172	144	165	211	No
Equipment and supplies	0	0	1	1	No
Wood	103	5	26	264	No
Government-owned land	2 459	2 798	2 755	1 341	No
Land and buildings	0	15	9	10	No
Leasing of land to develop water power	83	95	120	165	Yes
Land sales and leasing expenses	431	432	444	510	No
Leasing and concessions	8 617	9 028	9 659	9 939	No
Recoveries from third parties	64	11	44	22	No
Registrations of transfers	177	199	129	101	Yes
Establishment of titles	0	17	5	0	No
Land surveying	61	25	19	29	No
Registration fees for drawings by lots	66	89	92	246	No
Access to information	0	7	6	3	No
Search fees	0	3	2	2	No
Gains of disposition of capital assets	6	318	204	369	No
Other	91	0	0	0	No
Subtotal	12 330	13 185	13 680	13 212	
TOTAL	154 512	266 466	230 785	174 944	

Revenu

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Retail beer sales	79 663	0	0	0	No
Sales by permitholders of spirits and wine	44 552	0	0	0	No
Logging profits	- 5 552	14 553	21 324	2 188	No
Retailers	48	0	0	0	No
Creation and modification of legal persons	0	0	0	10 854	No
Legal publicity of enterprises	159	170	508	29 754	No
Honoraria - public records	0	0	0	4 427	No
Land transfers	61	43	3	- 2	No
Registration of tax shelters and flow-through shares	214	199	350	360	No
International and interprovincial carriers	734	769	770	766	No
Fees pertaining to environmental protection	215	0	0	0	No
Subtotal	120 094	15 733	22 954	48 348	
Sales of goods and services					
Collection fees	721	0	0	0	No
Collection - RRQ	13 190	13 559	13 803	26 160	CR
Recoveries from third parties	0	50	125	124	No
Judicial instruments	134	153	145	197	No
Advance rulings	86	85	134	135	No
Other	83	0	0	0	No
Subtotal	14 214	13 848	14 207	26 616	
TOTAL	134 308	29 581	37 161	74 964	

Santé et Services sociaux

Fees and licences					
Private hospitals and other institutions	1 545	0	0	0	No
Subtotal	1 545	0	0	0	
Sales of goods and services					
Forms and documents	0	29	21	20	Yes
Third-party responsibility - internal	4 508	3 941	3 953	6 631	No
Third-party responsibility - external	880	839	753	1 119	No
Third-party responsibility - SAAQ	88 655	88 654	88 654	88 654	No
Hospital insurance for foreigners	128	175	121	168	No
Other	28	0	0	0	No
Subtotal	94 199	93 638	93 503	96 592	
TOTAL	95 744	93 638	93 503	96 592	

Secrétariat du Conseil du trésor et Administration gouvernementale
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Disposition of surpluses	710	0	0	0	No
Insurance plans – autonomous agencies and special funds	5 411	3 742	3 822	3 880	No
Subtotal	6 121	3 742	3 822	3 880	
TOTAL	6 121	3 742	3 822	3 880	

Sécurité publique

Fees and licences					
Promotional contests	4 018	4 374	4 412	4 507	No
File processing	951	912	944	969	No
Amusement devices	3 446	3 347	3 427	2 901	No
Retailers – alcoholic beverages	19 236	19 791	20 332	20 930	Yes
Lotteries – bingo	1 318	1 369	1 594	1 498	Yes
Industrial beverage production	532	547	593	587	Yes
Lotteries – draws	1 689	1 794	1 770	1 794	No
Lotteries – farm fairs	8	0	0	0	No
Lotteries - video	880	904	923	923	Yes
Races	209	185	191	182	Yes
Detective or security agencies	946	1 259	1 397	1 330	Yes
Combat sports	25	35	25	25	Yes
Organization – combat sports shows	87	111	202	176	Yes
Explosives permits	241	321	243	265	No
Other	10	8	13	8	No
Subtotal	33 596	34 956	36 066	36 095	
Sales of goods and services					
Disposition of surpluses	67	0	0	0	No
Room rental and board and lodging	3 357	2 400	2 800	2 800	Yes
Conciliation and investigations - police ethics	786	594	653	743	CR
Fees for verification of criminal record	0	0	0	172	Yes
Proceeds of disposition of light ground transportation devices	15	0	0	0	No
Other	47	1	1	2	No
Subtotal	4 272	2 995	3 454	3 717	
TOTAL	37 868	37 951	39 520	39 812	

Transports

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Vehicle registration - fees	623 546	627 163	639 993	654 462	No
Drivers	79 404	80 704	80 380	81 413	No
Commercial public transportation	741	706	712	694	No
Registration and updating fees – category A1	2 040	2 117	2 186	2 085	No
Registration and updating fees – category A2	1 935	2 032	2 011	1 909	No
Registration and renewal fees – transportation service intermediaries	116	119	118	122	No
Commercial tourism signage	23	23	27	25	No
Licence transfers	785	794	798	802	No
Subtotal	708 590	713 658	726 225	741 512	
Sales of goods and services					
Forms and documents	0	15	3	3	No
Plans and estimates	0	0	14	0	No
Photocopies of documents	0	8	0	0	No
Equipment and supplies	26	15	– 1	2	No
Gas and oil	170	0	0	0	No
Disposition of surpluses	475	548	683	572	No
Management of roadside rest areas	1 210	0	0	0	No
Land and buildings	6 521	5 812	8 846	6 427	No
Leasing of land and buildings	1 808	1 442	1 997	1 648	No
Leasing of parking spaces	0	13	11	12	No
Leasing of space for telephone booths	0	11	9	7	No
Telephones	0	0	5	0	No
Technical assistance and support	147	0	0	0	No
Road conservation	0	0	0	0	No
Page charges – permit applications	115	0	0	0	No
Access to information	0	0	2	1	No
Laboratory analyses	42	0	0	0	No
Landing fees	88	0	0	0	No
Boat landing fees	436	365	389	341	No
Services exclusive of road calls	0	4	2	1	No
Proceeds of disposition of complex networks	72	209	503	0	No
Other	39	0	0	0	No
Subtotal	11 149	8 444	12 462	9 016	
TOTAL	719 739	722 102	738 687	750 528	

Travail

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Sales of gas and liquid petroleum	576	477	473	0	Yes
Registration – development of liquefied petroleum gas	200	187	215	0	Yes
Gas installations	149	2	12	0	Yes
Gas-burning appliances	57	11	3	0	Yes
Inspection fee – gas distribution	2 004	2 099	2 164	0	Yes
Electrical installations	14 507	12 570	12 748	0	Yes
Installations of stationary machines	2 844	2 355	2 436	0	Yes
Pipefitting contractors	4 583	4 957	4 451	0	Yes
Construction contractors	18 109	19 517	21 097	0	Yes
Mechanical games and lifts	198	196	56	0	Yes
Lifting gear	1 281	1 192	1 140	0	Yes
Subtotal	44 508	43 562	44 794	0	
Sales of goods and services					
Forms and documents	66	68	117	70	Yes
Other	3	0	0	0	No
Subtotal	69	68	117	70	
TOTAL	44 577	43 630	44 911	70	

A2.6.2 User fees levied by government agencies, 2003-2004 to 2006-2007

Agence de l'efficacité énergétique (in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Contribution by partners	4 189	4 332	9 010	7 238	No
Subtotal	4 189	4 332	9 010	7 238	
TOTAL	4 189	4 332	9 010	7 238	

Agence métropolitaine de transport

Sales of goods and services					
Municipal contributions to commuter trains	27 176	28 276	29 520	31 524	No
Municipal contributions to metropolitan expresses	167	170	413	432	No
Contributions to metropolitan equipment costs	621	670	690	954	No
Revenues from the sale of the TRAM	47 968	54 427	58 419	63 742	No
Revenues from commuter trains	32 038	34 576	37 617	41 128	Yes
Revenues from metropolitan service	1 072	1 308	1 443	1 681	Yes
Subtotal	109 042	119 427	128 102	139 461	
TOTAL	109 042	119 427	128 102	139 461	

Autorité des marchés financiers
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
File processing	0	457	474	486	Yes
Insurance companies	0	27	26	28	No
Incorporation of deposit-taking institutions	0	17	18	14	No
Trust companies and savings societies	0	41	37	37	No
Examinations	0	1 083	1 093	1 118	Yes
Royalties - Centre collégial de formation à distance	0	11	2	13	No
Contribution from trust companies and savings societies	0	988	1008	1128	No
Contribution from insurance companies	0	6 945	6 816	7 804	No
Inspection fees – deposit-taking institutions	0	31	182	78	No
Contribution from cooperatives and financial services	0	2 600	2 662	3 181	No
Contributions	0	9 665	8 563	8 967	Yes
Analyse of distribution guides	0	41	105	40	No
Corporate financing	0	24 185	26 168	35 142	No
Registrations	0	5 806	4 706	6 587	No
Financial information	0	4 457	4 344	5 291	No
Inspections	0	99	20	211	No
Other services	0	587	534	515	Yes
Subtotal	0	57 040	56 757	70 639	
Sales of goods and services					
Premiums – deposit insurance	0	19 422	18 753	12 560	Yes
Forms, documentation and information	0	970	934	944	Yes
Other revenues	0	28	25	25	No
Honoraria of the Chambres	0	125	194	201	No
Revenues generated by agreements with the Canadian Securities Administrators (CSA)	0	11	9	10	No
Subtotal	0	20 557	19 915	13 740	
TOTAL	0	77 597	76 672	84 379	

Bibliothèque et Archives nationales du Québec

Sales of goods and services					
Other	318	502	793	1 198	No
Subtotal	318	502	793	1 198	
TOTAL	318	502	793	1 198	

Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Contributions	170	160	150	147	No
Other	29	0	0	0	No
Subtotal	199	160	150	147	
TOTAL	199	160	150	147	

Bureau de décision et de révision en valeurs mobilières

Fees and licences

Fees payable to the Bureau de décision et de révision en valeurs mobilières	0	1	4	3	No
Subtotal	0	1	4	3	
TOTAL	0	1	4	3	

Bureau des services financiers

Fees and licences

File processing	884	0	0	0	No
Inscriptions	8 780	0	0	0	No
Subtotal	9 663	0	0	0	

Sales of goods and services

Forms, documentation and information	682	0	0	0	No
Examinations	795	0	0	0	No
Royalties - Centre collégial de formation à distance	13	0	0	0	No
Honoraria of the Chambres	209	0	0	0	No
FISF administrative expenses	23	0	0	0	No
Other services	145	0	0	0	No
Analysis of distribution guides	122	0	0	0	No
Subtotal	1 988	0	0	0	
TOTAL	11 651	0	0	0	

Bureau du coroner

Sales of goods and services

Forms and documents	0	40	40	40	No
Subtotal	0	40	40	40	
TOTAL	0	40	40	40	

Centre de recherche industrielle du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Sales of services	7 698	7 650	7 807	6 885	CR
Space leasing	0	752	878	829	No
Research and development	5 207	3 303	2 013	2 885	CR
Other	808	0	0	0	No
Subtotal	13 713	11 705	10 698	10 599	
TOTAL	13 713	11 705	10 698	10 599	

Centre de services partagés du Québec

Sales of goods and services					
Sales of services	0	0	0	165	No
Government information	0	0	0	22 648	No
Information and communications technologies	0	0	0	13 737	No
Integrated resource management	0	0	0	352	No
Government reprographics	0	0	0	169	No
Supplies and furnishings	0	0	0	17 361	No
Office automation equipment maintenance services	0	0	0	139	No
Government mail services	0	0	0	1 207	No
Semicurrent records centre	0	0	0	390	No
Disposition of surpluses and acquisitions	0	0	0	16 929	No
Subtotal	0	0	0	73 097	
TOTAL	0	0	0	73 097	

Comité de déontologie policière

Sales of goods and services					
Equipment and supplies	0	4	2	4	Yes
Subtotal	0	4	2	4	
TOTAL	0	4	2	4	

Commissaire à la déontologie policière

Sales of goods and services					
Conciliation and investigations - police ethics	0	600	600	600	No
Subtotal	0	600	600	600	
TOTAL	0	600	600	600	

Commissaire de l'industrie de la construction
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Forms and documents	3	2	2	1	No
Contributions from the Commission de la construction du Québec	985	1 005	1 005	905	No
Contributions from the Corporation des maîtres mécaniciens en tuyauterie du Québec	33	34	34	34	No
Contributions from the Corporation des maîtres électriciens du Québec	33	34	34	34	No
Contributions from the Régie du bâtiment	0	34	34	34	No
Subtotal	1 054	1 108	1 108	1 007	
TOTAL	1 054	1 108	1 108	1 007	

Commission de la capitale nationale du Québec

Sales of goods and services					
Rental income	85	100	144	168	No
Ticket office	0	11	191	189	No
Educational and cultural activities	0	0	153	132	No
Sales of publications	0	13	14	22	No
Other	21	0	0	0	No
Subtotal	106	124	502	511	
TOTAL	106	124	502	511	

Commission de protection du territoire agricole du Québec

Fees and licences					
File processing	0	15	14	10	Yes
Request for authorization – agricultural zone	0	562	613	588	Yes
Attestation - LPTAA	0	14	16	22	Yes
Removal of arable land	0	11	12	17	Yes
Declaration - CPTAQ	0	89	96	98	Yes
Subtotal	0	691	751	735	
Sales of goods and services					
Photocopies of documents	0	2	2	2	Yes
Plans of agricultural zones	0	9	7	8	Yes
Subtotal	0	11	9	10	
TOTAL	0	702	759	745	

Commission des lésions professionnelles

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Contribution from the Commission de la santé et de la sécurité du travail	50 153	50 975	52 759	52 786	CR
Publications and services	23	14	12	10	No
Subtotal	50 176	50 989	52 772	52 796	
TOTAL	50 176	50 989	52 772	52 796	

Commission des normes du travail

Sales of goods and services					
Recovery of legal fees	200	263	206	196	CR
Employer contributions	49 858	48 537	52 095	54 702	No
Claims collected on behalf of wage earners whose whereabouts are unknown	0	26	19	18	No
Sales of publications	3	5	3	5	No
Employer seminars	84	0	0	0	No
Subtotal	50 145	48 830	52 324	54 920	
TOTAL	50 145	48 830	52 324	54 920	

Commission des relations du travail

Sales of goods and services					
Forms and documents	15	13	7	6	Yes
Subtotal	15	13	7	6	
TOTAL	15	13	7	6	

Commission des services juridiques

Sales of goods and services					
Contributory section - contributions from beneficiaries	1 166	1 171	1 247	1 202	No
Contributory section - administrative fees	259	252	256	247	No
Bills of fees	54	29	29	21	CR
Reimbursement of legal aid costs	345	342	387	438	CR
Net proceeds from professional liability and fire and theft funds	- 73	- 40	- 12	- 81	No
Subtotal	1 752	1 754	1 907	1 827	
TOTAL	1 752	1 754	1 907	1 827	

Commission des valeurs mobilières du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Corporate financing	15 944	0	0	0	No
Registrations	3 214	0	0	0	No
Financial information	2 870	0	0	0	No
Inspections	88	0	0	0	No
Other	9	0	0	0	No
Subtotal	22 126	0	0	0	
Sales of goods and services					
Settlement agreements and fines	654	0	0	0	No
Subtotal	654	0	0	0	
TOTAL	22 779	0	0	0	

Conseil des services essentiels

Sales of goods and services					
Books, newspapers and souvenirs	0	1	1	0	No
Subtotal	0	1	1	0	
TOTAL	0	1	1	0	

Corporation d'urgences-santé

Sales of goods and services					
Ambulance transport – establishments in the health and social services network	9 542	9 510	9 392	9 690	No
Ambulance transport - Société de l'assurance automobile du Québec	1 067	1 034	1 036	1 060	No
Ambulance transport - individuals	6 396	6 590	6 895	6 876	No
Ambulance transport - other	344	366	423	360	No
Other	335	431	387	564	No
Subtotal	17 685	17 930	18 133	18 550	
TOTAL	17 685	17 930	18 133	18 550	

Curateur public
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Honoraria – public records	0	8 639	12 617	9 224	Yes
Subtotal	0	8 639	12 617	9 224	
TOTAL	0	8 639	12 617	9 224	

École nationale de police du Québec

Sales of goods and services

Accommodation - other activités	256	0	0	0	No
Contributions from police forces	8 397	9 131	9 202	9 581	Yes
Accommodation - training of police recruits	1 552	0	0	0	No
Accommodation – training of police officers, aboriginal peoples and para-police officers	1 043	0	0	0	No
Accommodation - Centre d'appréciation du personnel de la police	40	0	0	0	No
Registrations - training of para-police officers	1 740	0	0	0	No
Registrations – training of police officers, aboriginal peoples and para-police officers	1 926	0	0	0	No
Registrations - Centre d'appréciation du personnel de la police	606	0	0	0	No
Tuition fees, registration, accommodation and other	0	8 153	9 107	10 500	No
Subtotal	15 561	17 285	18 309	20 082	
TOTAL	15 561	17 285	18 309	20 082	

École nationale des pompiers du Québec

Sales of goods and services

Courses	0	283	899	1425	No
Instructional material	0	0	114	98	No
Other	0	6	24	37	No
Subtotal	0	289	1 037	1 560	
TOTAL	0	289	1 037	1 560	

Fondation de la faune du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Contributions collected on hunting, fishing and trapping licences	3 014	3 092	3 033	3 101	No
Subtotal	3 014	3 092	3 033	3 101	
Sales of goods and services					
Sponsorship and advertising	66	0	0	0	No
Other	217	0	0	0	No
Subtotal	283	0	0	0	
TOTAL	3 297	3 092	3 033	3 101	

Fonds de développement du marché du travail

Fees and licences					
Certificates of qualification – gas	451	501	542	531	Yes
Stationary machine mechanics	328	424	374	429	Yes
Other technicians	0	883	869	883	Yes
Halocarbon environmental qualification	0	0	0	40	Yes
Occupational qualification in drinking water	0	0	0	66	No
Interprovincial examinations	4	8	15	43	Yes
Pressure vessels	66	66	60	74	Yes
Non-construction trades	865	0	0	0	No
Subtotal	1 714	1 882	1 860	2 065	
Sales of goods and services					
Books, newspapers and souvenirs	5	0	0	0	No
Services for individuals - CSST	352	0	0	0	No
Other	3	0	0	0	No
Subtotal	360	0	0	0	
TOTAL	2 074	1 882	1 860	2 065	

Fonds de financement

Sales of goods and services					
Issuing costs	3 282	7 957	4 424	5 016	No
Management fees	2 491	2 975	2 183	2 164	No
Management fees at Financement-Québec	0	572	577	698	No
Subtotal	5 773	11 504	7 184	7 878	
TOTAL	5 773	11 504	7 184	7 878	

Fonds de fourniture de biens ou de services du ministère de l'Emploi et de la Solidarité sociale

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Professional services	0	0	0	30	CR
Subtotal	0	0	0	30	
TOTAL	0	0	0	30	

Fonds de gestion de l'équipement roulant

Sales of goods and services					
Machinery and equipment rental	8 214	12 852	14 556	17 641	Yes
Subtotal	8 214	12 852	14 556	17 641	
TOTAL	8 214	12 852	14 556	17 641	

Fonds de l'état civil

Sales of goods and services					
Applications for certification	16 491	16 036	14 853	17 564	No
Late registrations	83	73	76	74	No
Name changes	139	142	151	155	No
Attestations	202	180	207	245	No
Electronic data transfer	246	98	89	184	No
Other	29	27	33	34	No
Subtotal	17 191	16 556	15 409	18 256	
TOTAL	17 191	16 556	15 409	18 256	

Fonds de l'information gouvernementale

Sales of goods and services					
Other	8 800	0	0	0	No
Subtotal	8 800	0	0	0	
TOTAL	8 800	0	0	0	

Fonds de partenariat touristique

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Activities in partnership	2 568	4 040	3 124	4 245	CR
Tourism goods and services	502	232	210	199	CR
Space rental	616	591	620	612	CR
Publications	1 162	0	0	0	No
Outdoor advertising	0	165	231	197	CR
Training, partnerships and organization of special events	461	0	0	0	CR
Subtotal	5 309	5 027	4 186	5 253	
TOTAL	5 309	5 027	4 186	5 253	

Fonds des contributions des automobilistes au transport en commun

Fees and licences					
Contributions from motorists – net	65 553	66 760	67 727	69 044	No
Subtotal	65 553	66 760	67 727	69 044	
TOTAL	65 553	66 760	67 727	69 044	

Fonds des pensions alimentaires

Sales of goods and services					
Arrears fees and other	1 423	884	908	850	No
Subtotal	1 423	884	908	850	
TOTAL	1 423	884	908	850	

Fonds des registres du ministère de la Justice

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Commissioner for oaths	0	615	596	588	No
Subtotal	0	615	596	588	
Sales of goods and services					
Forms and documents	0	2 000	2 000	2 000	No
Services rendered by the Bureaux de la publicité des droits	0	26 744	27 586	27 428	CR
Official registrations	593	0	0	0	No
Services rendered in respect of the register of personal and movable real rights	27 629	0	0	0	No
Certification fees	134	10	10	12	No
Registry of lobbyists	3	5	9	15	No
Other	57	0	0	0	No
Subtotal	28 416	28 759	29 605	29 455	
TOTAL	28 416	29 374	30 201	30 043	

Fonds des services de police

Sales of goods and services					
Police services – federal bridges	3 263	3 336	3 405	3 478	Yes
Police services invoiced to any person other than a municipality	640	0	0	0	No
Centralized 911 emergency call service	708	0	0	0	No
Police services	212 624	218 141	225 388	231 385	No
Other	0	1 546	182	787	No
Subtotal	217 235	223 023	228 976	235 650	
TOTAL	217 235	223 023	228 976	235 650	

Fonds des services gouvernementaux

Sales of goods and services					
Fonds des services gouvernementaux	105 018	0	0	0	No
Subtotal	105 018	0	0	0	
TOTAL	105 018	0	0	0	

Fonds d'information foncière

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Fees and honoraria collected by publication of rights officers in respect of the reform of the land register	36 490	39 027	40 224	38 982	Yes
Sales of cadastral registrations and services rendered	2 992	3 576	3 508	3 426	Yes
Services rendered by the Bureaux de la publicité des droits	67 652	74 196	75 459	72 736	Yes
Distribution of cadastral products	728	642	824	882	CR
Subtotal	107 862	117 441	120 015	116 026	
TOTAL	107 862	117 441	120 015	116 026	

Fonds d'information géographique

Sales of goods and services					
Sales	1 447	0	0	0	No
Other	0	1 116	1 146	1 527	No
Subtotal	1 447	1 116	1 146	1 527	
TOTAL	1 447	1 116	1 146	1 527	

Fonds du Centre financier de Montréal

Fees and licences					
File processing	0	884	840	826	No
Annual contribution – financial centres	527	450	450	450	No
Attestation – employees of financial centres	404	0	0	0	No
Certification – financial centres	10	0	0	0	No
Certification – employees of financial centres	139	0	0	0	No
Modification - CFI	4	0	0	0	No
Subtotal	1 083	1 334	1 290	1 276	
TOTAL	1 083	1 334	1 290	1 276	

Fonds du service aérien gouvernemental

Sales of goods and services					
Air service	0	25 836	29 528	27 215	No
Subtotal	0	25 836	29 528	27 215	
TOTAL	0	25 836	29 528	27 215	

Fonds forestier

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Contributions from beneficiaries	20 035	24 550	25 357	19 273	No
Forest protection	18 589	0	0	0	No
Subtotal	38 624	24 550	25 357	19 273	
Sales of goods and services					
Other	2 045	0	0	0	No
Subtotal	2 045	0	0	0	
TOTAL	40 669	24 550	25 357	19 273	

Fonds pour la vente de biens et services du ministère des Transports

Sales of goods and services					
Concession holders' fees	0	0	0	2 843	No
Road and information signs	0	6 095	6 296	6 731	CR
Subtotal	0	6 095	6 296	9 574	
TOTAL	0	6 095	6 296	9 574	

Fonds vert

Fees and licences					
Fees for the elimination of residual materials	0	0	0	47 779	Yes
Subtotal	0	0	0	47 779	
TOTAL	0	0	0	47 779	

Héma-Québec

Sales of goods and services					
Blood products sold outside Québec	234	362	62	394	CR
Billing of Québec hospitals for labile and stable products	0	0	238 554	239 957	CR
Laboratory analyses	0	6	3	74	No
Other	1 329	153	315	538	No
Subtotal	1 563	521	238 934	240 963	
TOTAL	1 563	521	238 934	240 963	

Institut de la statistique du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Sales of services	738	1 214	1 789	2 060	No
Subtotal	738	1 214	1 789	2 060	
TOTAL	738	1 214	1 789	2 060	

Institut de tourisme et d'hôtellerie du Québec

Sales of goods and services					
Other revenues	477	593	958	797	No
Retraining, skills upgrading and made-to-measure training	805	550	741	598	No
Academic education	375	404	458	565	No
Food service	1 563	1 321	2 189	2 391	No
Accommodation	1 055	384	1 074	1 166	No
Professional services	1 333	805	763	801	No
Subtotal	5 607	4 058	6 182	6 317	
TOTAL	5 607	4 058	6 182	6 317	

Institut national de santé publique du Québec

Sales of goods and services					
Sales of services	2 822	0	0	0	No
Other	1 114	1 975	3 214	3 151	No
Subtotal	3 936	1 975	3 214	3 151	
TOTAL	3 936	1 975	3 214	3 151	

Investissement Québec

Sales of goods and services					
Attestations	0	104	2 160	3 687	No
Guarantee fees	12 525	14 636	19 696	22 073	Yes
Commitment fees	7 666	6 613	12 151	6 599	Yes
Other	2 093	0	0	0	No
Subtotal	22 284	21 353	34 007	32 359	
TOTAL	22 284	21 353	34 007	32 359	

La Financière agricole du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Administrative fees	3 631	3 097	2 896	3 209	No
Other	0	913	1 557	2 497	No
Subtotal	3 631	4 010	4 453	5 706	
TOTAL	3 631	4 010	4 453	5 706	

Musée d'art contemporain de Montréal

Sales of goods and services					
Gift shop	553	0	0	0	No
Space rental	155	191	192	143	No
Exhibition rentals	113	93	29	47	No
Ticket office	193	233	308	424	No
Publications	0	10	22	22	No
Educational and cultural activities	0	102	109	121	CR
Fees – Food services	55	57	63	53	No
Other	166	601	165	176	CR
Subtotal	1 236	1 287	888	986	
TOTAL	1 236	1 287	888	986	

Musée de la civilisation

Sales of goods and services					
Leasing and concessions	449	491	569	559	No
Exhibition rentals	77	702	493	2	No
Ticket office	926	844	878	886	No
Sponsorship obtained in exchange for advertised items, observed during the presentation of exhibitions	160	0	0	0	No
Gift shop	673	549	607	603	CR
Sponsorship in exchange for goods and services received	324	0	0	0	No
Sponsorship in exchange for the mounting of exhibitions	181	93	179	408	No
Sales of goods and services	306	441	499	439	CR
Other	100	126	79	336	No
Subtotal	3 196	3 246	3 303	3 233	
TOTAL	3 196	3 246	3 303	3 233	

Musée national des beaux-arts du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Rental and dissemination of art works and exhibitions	164	241	1185	485	No
Sponsorship and advertising	0	353	449	394	No
Gift shop and publications	528	642	727	820	CR
Space rental and allied services	281	322	349	315	No
Educational and cultural activities	136	213	231	213	No
Other contributions and partnerships	182	0	0	0	No
Fees – food services	88	126	142	171	No
Ancillary operations - parking	160	186	197	215	No
Ticket office and cloakroom	471	825	1 228	1 306	No
Sponsorship	273	0	0	0	No
Other	29	29	26	43	No
Subtotal	2 313	2 936	4 534	3 962	
TOTAL	2 313	2 936	4 534	3 962	

Office de la protection du consommateur

Fees and licences					
Door-to-door salespersons	0	219	193	230	Yes
Money lenders	0	11	14	16	Yes
Health clubs	0	74	80	92	Yes
Debt collection agencies	0	11	16	12	Yes
Merchants – extended coverage	0	3	6	5	Yes
Travel agents	0	685	732	700	Yes
Exemption certificates	0	54	52	51	Yes
Subtotal	0	1 056	1 093	1 106	
TOTAL	0	1 056	1 093	1 106	

Office des professions du Québec

Sales of goods and services					
Contributions from members of professional orders	6 629	7 088	6 295	5 468	CR
Management fees of the Fonds de l'Ordre des sages-femmes du Québec	7	0	0	0	No
Other	32	0	0	0	No
Subtotal	6 668	7 088	6 295	5 468	
TOTAL	6 668	7 088	6 295	5 468	

Protecteur des usagers en matière de santé et de services sociaux
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Private hospitals and other institutions	0	1 533	1 549	1 581	Yes
Subtotal	0	1 533	1 549	1 581	
TOTAL	0	1 533	1 549	1 581	

Régie de l'assurance dépôt

Sales of goods and services					
Premiums	16 184	0	0	0	Yes
Subtotal	16 184	0	0	0	
TOTAL	16 184	0	0	0	

Régie de l'assurance maladie du Québec

Sales of goods and services					
Contribution from the Commission de la santé et de la sécurité du travail	78 427	74 030	77 891	85 067	CR
Recovery from third parties and foreign nationals respecting hospital care	5 850	2 290	2 608	2 661	CR
Reciprocal agreements with the other provinces	26 957	33 982	32 707	32 923	CR
Other	7 352	5 312	6 409	5 823	CR
Subtotal	118 586	115 614	119 615	126 474	
TOTAL	118 586	115 614	119 615	126 474	

Régie de l'énergie

Sales of goods and services					
Fees – remuneration and operations	8 399	7 579	8 010	8 672	CR
Fees - property	122	0	0	0	No
Contribution carried forward - capital assets	30	93	86	69	No
Fees and other	6	0	0	0	No
Subtotal	8 558	7 672	8 096	8 741	
TOTAL	8 558	7 672	8 096	8 741	

Régie des installations olympiques

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Sports and tourism facilities – admission fees	3 845	4 452	4 756	4 569	No
Sports and tourism facilities – rents	1 563	1 609	1 279	1 690	No
Sports and tourism facilities – advertising	400	390	447	476	No
Parking lots and cloakrooms	3 072	2 799	2 312	2 374	No
Souvenirs	460	666	640	594	CR
Concession holders' fees	1 088	1 177	1 071	1 001	No
Commercial space and offices	0	1 563	1 596	1 689	No
Recovery of the cost of energy supplied to third parties	3 970	4 039	3 925	3 824	CR
Works and services invoiced to third parties	984	931	1 326	2 104	CR
Leasing of offices and commercial space	1 528	0	0	0	No
Other	564	290	72	177	No
Subtotal	17 474	17 916	17 424	18 498	
TOTAL	17 474	17 916	17 424	18 498	

Régie des marchés agricoles et alimentaires du Québec

Fees and licences					
File processing	0	8	10	9	Yes
Auction sales	0	1	1	0	Yes
Grain marketing	0	208	206	207	Yes
Marketing	0	3	2	2	Yes
Subtotal	0	219	220	219	
Sales of goods and services					
Photocopies of documents	0	15	25	29	Yes
Courses	0	29	32	37	Yes
Grain inspection	0	8	7	6	Yes
Sampling kit	0	0	1	1	Yes
Contributions – control of milk utilization	0	471	469	469	CR
Contributions – control of quotas, poultry producers	0	41	54	40	No
Technical assistance and support	0	2	3	2	Yes
Subtotal	0	566	590	584	
TOTAL	0	785	810	803	

Régie du bâtiment du Québec

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Liquefied petroleum gas sales	0	0	0	437	Yes
Registration – development of liquefied petroleum gas	0	0	0	209	Yes
Gas installations	0	0	0	4	Yes
Inspection fees – gas distribution	0	0	0	2 313	Yes
Electrical installations	0	0	0	13 074	Yes
Installations of fixed machines	0	0	0	2 661	Yes
Pipefitting contractors	0	0	0	4 224	Yes
Construction contractors	0	0	0	21 952	Yes
Mechanical games and lifts	0	0	0	281	Yes
Lifting gear	0	0	0	1 539	Yes
Subtotal	0	0	0	46 694	
Sales of goods and services					
Forms and documents	0	0	0	35	Yes
Subtotal	0	0	0	35	
TOTAL	0	0	0	46 728	

Régie du cinéma

Fees and licences					
Examination fees – film classifications requests	1 339	1 252	1 376	1 513	No
Examination fees – permit applications	91	79	101	90	No
Permits	1 202	1 048	1 285	1 097	No
Video material control	8 462	11 353	11 999	13 278	No
Subtotal	11 094	13 732	14 762	15 978	
TOTAL	11 094	13 732	14 762	15 978	

Société d'habitation du Québec

Sales of goods and services					
Honoraria – Immobilière SHQ	609	685	520	529	No
Honoraria – Société de gestion immobilière SHQ	47	32	50	60	Yes
Honoraria – miscellaneous agencies	148	194	340	49	No
Gouvernement du Québec - Corporation d'hébergement du Québec	0	65	0	0	No
Subtotal	804	976	910	638	
TOTAL	804	976	910	638	

Société de développement des entreprises culturelles
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
File processing	0	0	0	111	No
Guarantee fees	1 062	741	567	474	No
Ticket office	0	39	40	42	No
Certification fees	1 763	1 347	1 461	1 464	No
Built heritage – rents and other	1 408	1 467	1 579	1 529	Yes
Other	74	0	0	0	No
Subtotal	4 307	3 594	3 647	3 620	
TOTAL	4 307	3 594	3 647	3 620	

Société de financement des infrastructures locales du Québec

Fees and licences					
Additional registration fees – big-engined vehicles	0	0	34 360	44 653	No
Subtotal	0	0	34 360	44 653	
TOTAL	0	0	34 360	44 653	

Société de la Place des Arts de Montréal

Sales of goods and services					
Ancillary services	3 591	3 714	3 574	3 956	Yes
Commercial space and offices	0	1 754	1 818	1 826	Yes
Auditorium rentals	3 186	3 512	3 314	3 473	Yes
Office and commercial space rentals	1 639	0	0	0	No
Fees and other ticket office revenues	1 557	2 072	2 084	2 662	Yes
Sponsorship and advertising	625	659	624	575	No
Stage services	107	31	19	22	Yes
Other	796	0	0	0	No
Subtotal	11 501	11 742	11 433	12 514	
TOTAL	11 501	11 742	11 433	12 514	

Société de l'assurance automobile du Québec

(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Registration fees – roadside inspections	0	0	55 578	54 721	CR
Subtotal	0	0	55 578	54 721	
Sales of goods and services					
Administrative expenses	0	0	95 224	100 938	No
Subtotal	0	0	95 224	100 938	
TOTAL	0	0	150 802	155 658	

Sociétés de télédiffusion du Québec (Télé-Québec)

Sales of goods and services					
Sales, services, equity interests	13 801	0	0	0	No
Other	0	13 798	15 860	15 563	No
Subtotal	13 801	13 798	15 860	15 563	
TOTAL	13 801	13 798	15 860	15 563	

Société des établissements de plein air du Québec

Sales of goods and services					
Services in parks and reserves	11 936	12 948	12 836	15 874	Yes
Food service	8 582	8 514	9 560	10 342	Yes
Gift shops	4 717	5 489	6 937	6 993	Yes
Concession holders' fees	353	310	277	311	Yes
Hunting, fishing, resort and campground packages	40 693	43 209	45 544	46 485	Yes
Other revenues	843	1 684	970	36	No
Subtotal	67 124	72 154	76 124	80 041	
TOTAL	67 124	72 154	76 124	80 041	

Société des traversiers du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Vehicle transportation	7 141	7 282	7 758	7 828	Yes
Passenger transportation	6 059	6 316	6 203	6 458	Yes
Mooring fees	70	0	0	0	No
Parking and miscellaneous	106	0	0	0	No
Vending machines and food concessions	213	0	0	0	No
Outdoor advertising	34	0	0	0	No
Ship leasing	9	0	0	0	No
Space rental	18	0	0	0	No
Other	0	934	606	834	No
Subtotal	13 649	14 532	14 567	15 120	
TOTAL	13 649	14 532	14 567	15 120	

Société du Centre des congrès de Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Space rental – events	2 009	1 974	1 974	2 183	Yes
Fees – food services	938	1 388	1 161	1 249	Yes
Fees – audiovisual services	311	305	193	266	Yes
Fees - other	51	20	15	41	Yes
Optional services – handling, shipping and securing	413	387	465	444	Yes
Optional services – electricity, plumbing and other technical personnel	393	394	379	429	Yes
Optional services - housekeeping	16	19	15	16	Yes
Optional services – outfitting and furnishing	310	353	286	312	Yes
Optional services – audiovisual, PA equipment and lighting	69	80	97	97	Yes
Optional services – telecommunications	311	211	270	272	Yes
Optional services – reception, ticket office, cloakroom	67	77	93	132	Yes
Optional services – security	47	36	37	44	Yes
Optional services – other	32	44	49	133	Yes
Subtotal	4 968	5 287	5 033	5 616	
TOTAL	4 968	5 287	5 033	5 616	

Société du Grand Théâtre de Québec

Sales of goods and services					
Parking space rental	113	111	104	103	No
Ticket office	1 496	1 842	1 815	1 777	No
Auditorium rental	911	836	841	806	No
Stage services	1 102	941	898	873	No
Production and presentation of shows	586	1 015	1 509	1 601	No
Client services	116	120	105	113	No
Other	90	66	50	54	No
Subtotal	4 414	4 931	5 321	5 327	
TOTAL	4 414	4 931	5 321	5 327	

Société du Palais des congrès de Montréal
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Commercial space and offices	502	0	0	0	No
Space rental – events	5 258	6 284	7 281	6 655	Yes
Fees - food services	1 668	1 970	1 782	2 282	No
Fees – audiovisual services	0	609	871	633	No
Fees – tickets sold	480	532	464	445	No
Fees – audiovisual services and simultaneous translation	388	0	0	0	No
Fees – other	70	82	129	103	No
Optional services – housekeeping	0	0	534	427	No
Optional services – telecommunications	0	536	822	730	No
Ancillary services - parking	765	856	878	1 009	No
Ancillary services – outfitting	1 319	1 492	1 487	1 380	No
Ancillary services – audiovisual	594	367	529	488	No
Ancillary services – cloakroom	165	162	203	181	No
Ancillary services – crowd controller	30	28	39	42	No
Ancillary services – plumbing and electricity	1 160	1 236	1 678	1 438	No
Ancillary services – security	77	121	174	140	No
Ancillary services – dynamic signing	0	1	28	4	No
Ancillary services - other	175	516	853	765	No
Subtotal	12 651	14 790	17 752	16 722	
TOTAL	12 651	14 790	17 752	16 722	

Société du Parc industriel et portuaire de Bécancour

Fees and licences					
Port revenues	2 568	1 955	2 958	2 607	No
Subtotal	2 568	1 955	2 958	2 607	
Sales of goods and services					
Industrial water service	1 101	1 132	1 194	1 348	Yes
Immovable property leasing	448	567	608	517	Yes
Other	– 4	0	0	0	No
Subtotal	1 545	1 699	1 802	1 865	
TOTAL	4 113	3 654	4 760	4 471	

Société immobilière du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Sales of goods and services					
Ancillary services - parking	14 317	0	0	0	No
Space rental – other clients	20 372	46 337	46 173	41 742	Yes
Gains on sales of capital assets	784	0	0	0	No
Subtotal	35 473	46 337	46 173	41 742	
TOTAL	35 473	46 337	46 173	41 742	

Société québécoise d'assainissement des eaux

Sales of goods and services					
Management fees	512	396	292	415	No
Subtotal	512	396	292	415	
TOTAL	512	396	292	415	

Société québécoise de récupération et de recyclage

Fees and licences					
Environmental tax on tires	21 661	22 351	21 771	22 650	No
Subtotal	21 661	22 351	21 771	22 650	
Sales of goods and services					
Revenues from deposit-refund schemes – bottlers and brewers	839	859	871	863	No
Revenues from the glass recycling assistance program	809	0	0	0	No
Revenues from industrial agencies	128	224	493	490	No
Revenues – selective collection compensation	0	0	0	1627	No
Other	52	0	0	0	No
Subtotal	1 827	1 083	1 364	2 980	
TOTAL	23 488	23 434	23 135	25 630	

Société québécoise d'information juridique

Sales of goods and services					
Revenues from publications and services - private clientele	9 008	0	0	0	No
Other	0	12 033	12 469	12 270	CR
Subtotal	9 008	12 033	12 469	12 270	
TOTAL	9 008	12 033	12 469	12 270	

Tribunal administratif du Québec
(in thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	Indexed fees
Fees and licences					
Redress procedures carried out	105	216	174	146	Yes
Subtotal	105	216	174	146	
Sales of goods and services					
Other	27	0	0	0	No
Subtotal	27	0	0	0	
TOTAL	132	216	174	146	

APPENDIX 3
COMPENSATORY MEASURES DEFINED BY THE QUÉBEC GOVERNMENT IN
FAVOUR OF LOW-INCOME HOUSEHOLDS

A3.1 Change in the purchasing power of low-income households since 2003 in the wake of decisions in Québec respecting user fees and taxes

A3.1.1 Tax measures geared to income support

Tax measures geared to income support raise the disposable income of the least privileged members of society:

- the Work Premium, which encourages employment assistance beneficiaries to enter the labour market;
- the child assistance program, which enhances, in particular, the incomes of low-income families;
- the refundable tax credit to maintain in their homes seniors 70 years of age;
- the property tax refund, which is aimed at reducing the property tax burden borne by low- or middle-income taxpayers living in areas where the local tax burden is relatively high;
- the QST tax credit, which is intended to lighten the tax burden of low- or middle-income taxpayers.

A3.1.2 Specific measures intended to offset increases in certain user fees

Certain more specific measures offset the increase in certain user fees in respect of low-income households.

In the health network, special benefits are granted to social aid beneficiaries to cover certain medical expenses.⁷³

The government also offers a refundable tax credit for medical expenses.

In the education network, the calculation of financial assistance in the form of loans and bursaries takes into account the students' income.⁷⁴

⁷³ For example, ambulance transportation, orthotic and prosthetic devices, glasses and lenses.

⁷⁴ Interest paid on a student loan also gives rise to entitlement to a non-refundable tax credit.

Moreover, beneficiaries of low-cost housing or rent supplement recipients must assume 25% of their income in accommodation expenses. Since the cost of heating is included in the rent, the program covers part of it.⁷⁵

- At the same time, through the Allocation-logement program, the Québec government offers financial assistance to certain low-income households that devote a substantial part of their budget to housing. The cost of electricity is included in the calculation of financial assistance and the program thus offsets a portion of the increase in electricity rates.

Social aid beneficiaries do not have to pay for childcare services.

As for mass transit, the elderly and students, who usually have below-average incomes, pay reduced fares.

Social aid beneficiaries and certain low-income seniors receive drugs free under the drug insurance plan.

- Furthermore, the contribution to the plan is adjusted to the individual's income. Social aid beneficiaries are thus not affected by an increase in the contribution to the drug insurance plan.

A3.1.3 Measures to maintain purchasing power

Since January 2006, the eligibility thresholds for free legal aid have been raised, thus increasing the funds available to low-income households.

On May 1, 2008, the minimum wage will increase by \$0.50, the biggest increase in over 30 years.

Since 2005, social aid benefits granted to individuals deemed to be subject to severe constraints to employment have been indexed at the rate used to index the personal income tax system.

- The rates used to index social aid benefits paid to individuals who are not deemed to be subject to severe constraints to employment correspond to half of the indexation rate of the taxation system.

⁷⁵ On the other hand, tenants must pay for household electricity, i.e. lighting, household appliances, hot water, and so on.

- The government's action plan calls for the savings achieved through semi-indexation to be reinvested in labour market integration programs.

TABLE 40

Summary table of compensatory measures intended for low-income households

	Type of income	Compensatory measures
Health network	Social aid	– Special benefits
	Low income	– Refundable tax credit for medical expenses
Education network	Social aid	– Loans and Bursaries Program
	Low income	– Loans and Bursaries Program
		– Tax credit in respect of interest paid on a student loan
Electricity rates	Social aid and low income	– Rent supplement
		– Rental of low-cost housing
		– Housing allowance program
\$7-a-day childcare services	Social aid	– No contribution
	Low income	– No measure
Mass transit	Social aid	– No measure
	Low income	– Reduced fares for seniors and students
Drug insurance	Social aid	– Free prescriptions drugs
	Low income	– Premium established according to household income
		– Claim booklet for workers who have received social aid
		– Free for seniors receiving at least 94% of the guaranteed income supplement
Fiscal measures applicable to all		– Work Premium
		– Child assistance
		– Home support
		– Indexation of the taxation system
		– QST tax credit
		– Property tax refund
Other measures		– Enhancement of the minimum wage
		– Enhancement of last resort assistance
		– Free legal aid

A3.1.4 Financial support for low-income families

The Québec government offers several measures that support the income of low-income households.

In Québec, since 2003, the disposable income of low-income households has increase significantly.

For example, the income of a household with a household income of \$25 000 in which there two children, one of whom is under 5 years of age and the other one is attending a childcare centre, has increased by \$7 103, despite the increase in certain user fees.

TABLE 41
Change in purchasing power since 2003 –
Couple with two children (3 and 12 years of age) and equal incomes, one of whose
children attends a childcare centre

	25 000 ¹	50 000 ¹
TAX RELIEF OFFERED BY QUÉBEC		
– Child assistance	2 032	660
– Work Premium	1 780	0
– Single plan	75	150
– Deduction for workers	390	400
– Tax reduction, 2007-2008 <i>Budget</i> (\$950 million)	0	142
– Indexation of the taxation system	456	581
Subtotal, tax relief	4 733	1 933
INCREASES IN USER FEES²		
– Electricity	– 154	– 190
– Childcare services, from \$5 a day to \$7 a day ³	– 370	– 432
– Régime d'assurance parentale ⁴	– 28	– 55
– Québec drug insurance plan ⁵	– 83	– 308
Subtotal	– 635	– 985
TAX RELIEF LESS USER FEES	4 098	948
OTHER COMPONENTS OF PURCHASING POWER		
– Wage increase between 2003 and 2008	4 673	9 347
– Taxes and contributions on wage increase ⁶	877	– 821
– Impact of inflation	– 2 545	– 3 717
Subtotal	3 005	4 809
INCREASE IN PURCHASING POWER	7 103	5 757

1 Household income in 2003, a 3.5% average annual increase is applied to obtain income in 2008.

2 Nominal change in the cost of user fees.

3 Bearing in mind the impact of the deduction for childcare services granted by the federal taxation system on federal tax, the Canada Child Tax Benefit (CCTB), the National Child Benefit Supplement (NCBS) and the QST tax credit.

4 Bearing in mind the reduction in employment insurance contributions granted to Québec.

5 Including the premium, the deductible and co-insurance.

6 Including, in particular, taxes and contributions on the wage increase and all modifications of the federal taxation system between 2003 and 2008.

Source: Ministère des Finances du Québec.

APPENDIX 4
INDIVIDUALS AND ORGANIZATIONS CONSULTED AND ANALYSES
CONDUCTED

☐ Individuals and organizations consulted

Ministère des Finances	Monique Jérôme-Forget, Minister of Finance, Minister of Government Services, Minister responsible for Government Administration and Chair of the Conseil du trésor
Ville de Laval	Gilles Vaillancourt, Mayor
Ministère des Transports	Jean Couture, Assistant Deputy Minister, transportation policy and safety Bertrand Fournier, Planning Director Bernard Letarte, Head, Service des orientations stratégiques Donald Fallu, Analyst, Service des orientations stratégiques
SAAQ	André Legault, Vice-President, human resources, administration and finance
Union des municipalités du Québec	Peggy Backman, Acting Director General
Société Conseil Jean A. Guérin inc.	Jean A. Guérin, President

☐ Analyses conducted

ÉNAF	“Les politiques tarifaires à l’étranger” Appendix 5 summarizes the study, the full version of which appears on the Website of the Task Force on Fees for Public Services (www.gttsp.gouv.qc.ca)
Société Conseil Jean A. Guérin inc.	“Pour un usage judicieux et rationnel de l’eau : la création d’une Régie de l’eau” Appendix 6 presents the study

APPENDIX 5

USER FEE POLICIES ABROAD

A5.1 Introduction

Below is a summary of the full report submitted by ÉNAP on user fee frameworks in the world.

The full ÉNAP report is available online (www.gttsp.gouv.qc.ca).

The summary of the report presents the following highlights:

- first, the overall legal, political and regulatory framework for the six most relevant jurisdictions in this respect, i.e. Finland, Australia, New Zealand, the United Kingdom, the United States and Nova Scotia;
- second, the user fee framework and the sectoral mechanisms specific to the five fields of activity of the State of interest to the Task Force on Fees for Public Services, with particular emphasis on the specific characteristics of the most relevant jurisdictions in each field:
 - education;
 - childcare services;
 - transportation;
 - water;
 - electricity.

A5.2 Legal, political and regulatory framework

A5.2.1 Finland

In 1992, the Finnish Parliament adopted the *Act on Criteria for Charges Payable to the State*, which confers on public authorities almost unlimited power to resort to user fees, in accordance with the general principles spelled out in the legislation.

- The following services are usually subject to user fees: goods and services produced on request, administrative measures adopted in response to a request, and other products whose production stems from action by the user.
- The Act stipulates that a service must be billed when this service or a similar one is produced by a private entity in a commercial capacity or when the user uses the service provided for commercial operations.
- It is the government department that exercises jurisdiction that decides which services must be classified as free services and which services must be billed, then establishes the statutory regulations.

Services that public entities must bill are divided into statutory services and commercial services.

- “Statutory services” are services in respect of which the public entity possesses the exclusive right to provide the service (monopolistic situation).
 - The user fees collected must be equivalent to the full cost of delivering the service.
 - In some exceptional cases, the legislation authorizes public authorities to set prices below cost or to entirely forego the fees.

This applies to health care and other social protection services, the administration of justice, education, general cultural activities, and environmental protection services.

- For commercial services, user fees are based on market principles, i.e. the price is set by free competition on open markets.
 - Entities that offer fee-based services in this way are obliged to be profitable overall.

To calculate the prices paid under this system, public entities must include an amount corresponding to the cost of capital.

- Commercial services provided by a public entity are subject to the principles of competitive neutrality stipulated by general legislation governing competition.

If the services provided by a public entity occupy a dominant position on the market, legislation respecting competition prohibits the abuse of such a position in the form of excessive prices.

At the same time as the coming into force of the Act of 1992, Finland introduced a net budgeting system that allows public entities to finance growth in expenditures through corresponding increases in the fees set for services without first requesting the approval of Parliament.

A5.2.2 Australia

In 2002, the Australian Department of Finance and Deregulation published the *Australian Government Cost Recovery Guidelines*, a regulatory framework that enables government departments and agencies and public entities to elaborate and set user fees.

- It should be noted that cost recovery does not apply to the government departments and agencies and public entities that engage in commercial operations or operations on a competitive or potentially competitive market.

In this instance, they are governed by the *National Competition Policy*.

- In the case of non-competitive operations, the guide provides guidelines or indicates basic principles to government agencies and entities.
 - Such bodies may fully recover the costs of their products and services, provided that such costs are deemed to be relevant to the government's objectives.
 - The bodies may partially recover the costs of their products and services, provided that the government's objectives are implicit in this type of recovery.
 - Cost recovery must not be applied if it is clearly harmful to competition or innovation in the sector concerned.
 - The products and services funded by the federal government budget must not, as far as possible, be subject to cost recovery. However, user fees may be applied to unfunded products and services.

When a new cost recovery mechanism is adopted, federal government departments and agencies and public entities must account for their operations. Specifically, they must:

- demonstrate that the user fees adopted reflect the costs of the products and services;
- identify the beneficiaries of the products and services or the individuals who engendered the need for regulation of the user fees;
- pinpoint the most appropriate means of recovering costs, e.g. a fee-based service or a tax.

In 1995, the Australian federal and state governments elaborated and adopted jointly the *National Competition Policy*, a competitive neutrality policy.

- The principles of fair competition apply solely to public entities and agencies engaged in commercial operations, such as government-owned corporations, public enterprises, and so on.
 - These public entities and agencies must levy user fees that enable them to fully recover their costs.
 - This principle prevents these government organizations from benefiting from competitive advantages stemming from their inclusion in the public sector.

From the standpoint of setting user fees for public services, for example, competitive neutrality prevents a government agency from taking advantage of its position and adopting a monopolistic price-fixing strategy.

A5.2.3 New Zealand

The Regulations Review Committee of the New Zealand Parliament established as a principle at the outset that cost recovery should not apply to a few of government activities.

- When services are offered to the entire community, user fees are neither possible nor appropriate. This is true, for example, of the armed forces, the police and the New Zealand House of Representatives.
- The committee has also noted that it is illegal for the State to collect money without Parliament's approval.

Since all taxes must be ratified through legislation, user fees set on services should not be a “disguised tax.”

The New Zealand government has reiterated and updated these general considerations and many others in the *Guidelines for Setting Charges in the Public Sector* published in 2002, which summarize the general principles that guide the setting of user fees for public services.

- These guidelines are intended primarily to ensure that the user fees levied on the goods and services provided efficiently reflect their production costs, that they are levied on those who use them, and that they respect the principle of competitive neutrality.

User fees on the services that these entities provide that exceed their production costs may be deemed a tax.

- These guidelines apply to the setting of user fees on services in respect of which the government exercises a monopoly.

The services covered by the guidelines can be provided by government departments or other entities of the Crown and may seek to:

- confer advantages on individuals or groups;
- limit health, safety and other risks.

- The guidelines respecting the setting of user fees in the public sector demand of government departments or other public entities that they ascertain whether the service displays the characteristics of a public good (the exclusion of an individual from benefits is difficult or costly and the use by an individual of the good does not prevent another individual from using the same good), a semi-public good (exclusion is possible), a merit good (rivalry exists in respect of consumption), or a private good (exclusion and rivalry).

The characteristics of these goods (rivalry and exclusion for the beneficiaries) make it possible to determine the fee-setting options (financing income taxes for public goods, user fees set below production costs for merit goods, and at the cost of production for the others).

- The guide suggest to government departments and other public entities that they elaborate a procedure to regularly review user fees.
- Moreover, the guidelines do not cover:
 - the elaboration or implementation of taxes aimed at limiting the negative externalities of a specific activity;
 - services produced in competitive conditions on the market, especially most of the services that government-owned corporations offer;
 - services subject to significant income redistribution objectives.

A5.2.4 The United Kingdom

The United Kingdom adopted a regulatory approach in respect of its public services, which stems from privatization policies adopted in the 1980s. The regulation of public services has thus become the key price adoption mechanism.

- Regulation designates all intervention by public authorities aimed at establishing competition in a sector where little or none existed before and to reconcile fair competition with the missions of general interest conferred on public service networks.

HM Treasury has established the calculation method by which government ministries and agencies can set user fees for public services. To this end, it takes into account the distinction between compulsory services and commercial services.

- The basic rule governing the first category of services is that the user fee must not exceed the cost of the service.
- The pricing rule governing the second category is market value and cost recovery in respect of the service may create a surplus.

A5.2.5 The United States

A circular from the Office of Management and Budget establishes the guidelines under which government agencies levy user fees for government services and which cover the use or sale of federal government goods or resources.

- The circular specifies in which situations and under which conditions an agency must levy a fee, i.e. the actual cost of use or the market value.
- The *Chief Financial Officers Act* of 1990 obliges government agencies to review the amounts of user fees every two years.
- In the United States, Congress legislates in respect of the mechanisms governing the adoption of user fees for public services.

The US Government Accountability Office occasionally advises Congress. It conducts studies to ascertain whether the methodology that the agency uses to set its user fees is appropriate and reflects the true cost of the service.

A5.2.6 Nova Scotia

We are unable to confirm the existence of legislation, policies or comprehensive rules governing the setting of user fees for public services in Nova Scotia.

- However, the Department of Finance makes public at the end of each fiscal year a report that exhaustively inventories user fees for public services, indicates adjustments to such fees, and links increases to the consumer price index.

Government departments and agencies are not obliged to justify before the Nova Scotia House of Assembly increases in user fees for public services, which is a regulatory question.

A5.3 Sectoral and framework mechanisms

A5.3.1 Education

□ The United Kingdom

Universities and colleges are legally independent entities (168 universities are public and only one is private) and they are not part of the British public sector. However, most, or at least a substantial portion, of their funding is public.

Since 2006, British universities have also been authorized to set annual tuition fees up to a maximum of £3 000 per student (C\$5 964 according to purchasing-power parity in 2006).

- This new measure is aimed at bolstering competition between the establishments and enabling the most efficient among them to increase their resources.

To compensate for this measure, the British government has introduced several measures aimed at guaranteeing the fairness of the higher education system:

- tuition fees are adjusted to parental income;
- scholarships have been substantially increased, up to £2 700 (C\$5 368) a year;
- repayment of loans begins only upon the completion of studies, based on a minimum salary, which has been raised to \$15 000 (C\$29 821) a year.

Moreover, any debt unrepaid after 25 years is written off.

□ Australia

In the wake of the reforms launched under the *National Competition Policy*, the higher education system has been largely deregulated since the beginning of the decade.

- The purpose of the reforms was to establish a higher education system in which educational institutions can determine the value of the training they offer in an environment of sustained competition between establishments.

In fact, in addition to obtaining funding, above all from the federal government, educational institutions enjoy greater flexibility, in particular from the standpoint of setting user fees.

- Tuition fees vary from one establishment to the next, depending on the programs offered. However, each year the federal government determines a maximum contribution from students in each course of study.

As for accountability, the *Higher Education Support Act* of 2003 stipulates that institutions of higher education must submit to the federal government before the beginning of each academic year a report on the user fees in force.

□ Alberta

Each university, college and technical institute is responsible through its board of directors for setting tuition fees. However, such fees must be set in keeping with the *Tuition Fee Policy*.

- This policy stipulates, in particular, that when tuition fee revenues are equivalent to or less than 30% of net operating expenditures, educational institutions could not increase tuition fees by more than \$276, on average, per full-time equivalent student in 2004-2005.

In subsequent years, the maximum tuition fee increase may not exceed the increase in the Alberta consumer price index.

- When tuition fee revenues are equivalent to more than 30% of net operating expenses, this policy stipulates that the institutions may not increase their tuition fees more than the increase in the Alberta consumer price index, plus 2% per full-time equivalent student.

This change in tuition fees may not lead to a total reduction or increase of 5% or more in tuition fees.

□ Finland

All levels of education are free in Finland, as is true of the other northern countries and Ireland, especially university.

- “In Finland, the basic right to education and culture is recorded in the Constitution. Public authorities must secure equal opportunities for every resident in Finland to get education also after compulsory schooling and to develop themselves, irrespective of their financial standing.
- In Finland, everyone has the right to free basic education, including necessary equipment and text books, school transportation, where needed, and adequate free meals.
- Post-compulsory education is also free. This means that there are no tuition fees in general and vocational upper secondary education, in polytechnics or in universities.
 - At these levels of education, students pay for their text books, travel and meals.”⁷⁶

A5.3.2 Childcare services

□ The United Kingdom

National governments and local authorities share responsibility for childcare services in the United Kingdom.

- However, local authorities implement such services.

The *Childcare Act* of 2006 nonetheless guarantees free access to childcare services for children under 5 years of age.

- In other cases, childcare services are responsible for establishing the pricing of such services.

Childcare tax credits are intended for families in which parental income does not exceed £19 601 (C\$38 968).

- If the parents satisfy the criteria, they receive 80% of childcare service fees in the form of tax credits.

⁷⁶ Source: Finnish Ministry of Education
(www.minedu.fi/OPM/Koulutus/koulutuspolitiikka/rahoitus/?lang=en).

❑ Australia

The Australian federal government offers cursory guidelines to the setting of user fees for childcare services.

- Private and public childcare service providers are responsible for setting user fees.

The *Family Assistance Law* compels establishments, when they set user fees for childcare services, to include the public financial assistance that their clientele receives, in particular federal government Child Care Benefits (CCBs).

- Child Care Benefits are a form of federal financial assistance that obliges childcare services to reduce their user fees for eligible clienteles. When families do not wish to wait to have their childcare expenses reimbursed, the childcare services directly collect the financial assistance and thus set the fees that beneficiaries pay in light of the funds obtained.

It should be noted that nearly 70% of the childcare service network in Australia belong to private enterprises. The remaining 30% are public services and thus compete directly with the private sector. The competitive neutrality mechanism applied by the *National Competition Policy* is applied to avoid giving public entities an advantage.

- Public funds account for an estimated 40% of the revenues of ABC, Australia's biggest childcare service provider. Despite the payment to parents of generous allowances, the cost of childcare services has soared.

❑ Finland

The municipalities set childcare service user fees.

As an example, Helsinki presents such fees on its Website (www.hel2.fi).

A5.3.3 Transportation

❑ Australia

State and local governments in Australia legislate and control user fees for public services in the realms of road transportation and public transport.

However, in 2004, the *National Transport Commission* (NTC), an independent statutory body established by the federal government and managed by five commissioners, was set up to standardize national road transportation regulations and the public user fees in this field.

- An intergovernmental user fee policy was established in respect of public services and the loads of heavy vehicles over 4.5 tonnes.

The federal government created a uniform pricing system, although the States are fully responsible for administering the reform.

- In this context, the NTC has a mandate to make to the Australian Transport Council (ATC), an intergovernmental council comprising federal and state transport ministers that adopts the new user fees, recommendations concerning the user fees levied on heavy vehicles.

A two-thirds majority of the ministers sitting on the ATC must approve the new fees.

As for the user fees levied on heavy vehicles, the costs of road wear and other road maintenance costs such as lighting, rest areas and road signs, are levied on drivers through registration fees and the net fuel charge.

- The user fees are set by calculating average road maintenance costs according to road type and vehicle class.

Through this structure, roughly 30% of the costs related to heavy vehicles are recovered through state and territorial registration fees, while the balance is recovered by means of the AUS\$0.19/L net fuel charge (\$C0.17/L according to purchasing-power parity in 2006).

□ California

The California Constitution and three other statutes govern the transportation sector.

- The California Constitution authorizes the California Public Utilities Commission (PUC) to set rules and establish the rates charged by private enterprises in several sectors, including transportation.
- The *Vehicle Code* specifies the rates in respect of driver's licences, vehicle registration, the fees collected by the government to fund the Alternative and Renewable Fuel and Vehicle Technology Fund, and the fees that cities levy to enhance air quality and public transport.
- The *Streets and Highways Code* governs the operation of toll roads and bridges and the price-setting mechanism.
- The *Public Utilities Code* governs the operations of certain government entities that set user fees in the public transit system.

When the legislation stipulates the user fees to be applied, the implementation or amendment of the rates is first submitted in the form of legislation proposal in one of the assemblies. To be adopted, two-thirds of the members of the California State Senate and the State Assembly must approve the legislation proposal.

The Department of Motor Vehicles (DMV) is the government entity responsible for issuing driver's licences and vehicle registrations. The funds it collects from the public are paid, in particular, into the Motor Vehicles Account (MVA), which funds the DMV, the California Highway Patrol and the Air Resources Board.

- The risk of a deficit in the MVA is the main factor that determines rate increases.

The factors considered when road and bridge tolls are set vary depending on the public entity that administers the tolls.

- The key factors that the Bay Area Toll Authority (BATA), which administers the revenues of the seven toll bridges around San Francisco Bay and the Golden Gate Bridge, takes into account to modify tolls are heavier traffic, which increases the frequency of bridge repairs, and the need for new infrastructure, such as the addition of a reserved traffic lane.

It should be noted that the tolls vary depending on the number of axles.

- The tolls set by the Orange County Transportation Authority (OCTA), which is responsible for tolls collected on State Highway Route 91, are based on congestion tolls, so that the toll is higher during rush hour.

Rush-hour tolls are changed every six months while regular tolls change according to traffic density.

The Bay Area Rapid Transit District, which serves the San Francisco valley and neighbouring counties, increases its public transit fares in light of inflation.

- It should be noted that user fees are based on the distance that the passenger travels.

❑ The United Kingdom

An urban toll was implemented in London in 2003, i.e. a tax levied on driving and parking upon entry into the city in a nearly 21-km² zone.

- The toll is intended to reduce congestion in the downtown area of the capital by encouraging motorists to use public transport instead of their own vehicles.
- The one-day toll applies to a given vehicle, which allows the motorist to make several trips and to enter and leave the toll zone repeatedly on a given day.

The toll stands at £8 a day (C\$15.90).

❑ Finland

The *Finnish Transport Policy* of the Ministry of Transport and Communication calls for the study between 2007 and 2011 of an avant-garde road toll system based on the user-payer principle, which would be implemented in 2015 at the earliest.

- The toll system under study would rely on new technologies, in particular satellite positioning, to establish the toll payable by the user.

A5.3.4 Water

❑ Australia

The reform of water management was a key facet of the *National Competition Policy*. In June 2004, the National Water Initiative (NWI) was concluded between the federal and state governments.

The NWI calls for the establishment of a national water market and an efficient water resource planning and management system, including water pricing based on consumption, planning of water access rights, the evaluation of water marketing, and the reform of urban water management.

- The NWI seeks to establish a price mechanism that ensures total cost recovery in respect of water planning and management.

The NWI obliges all of the states and territories to establish an independent entity responsible for the adoption and review of user fees policies for the storage and distribution of water in rural and urban areas in their jurisdictions, and in charge of the updating of fees and annual accountability.

- These independent public entities can be government departments, economic regulatory bodies, local governments, and so on, according to the context and the regulations in force in the states and territories.
- They must determine the revenues necessary (analysis of assets, capital, anticipated expenditures of public or private entities responsible for storing and distributing water) and the pricing structure (based on distribution adapted to the geography of rural areas and based on distribution throughout the state and territory in respect of urban areas).

Socioeconomic factors are considered when user fees are adopted, for example:

- the economic situation of consumers;
- environmental factors;
- subsidies from different levels of government;
- the objectives set and regulations established by the states and municipalities.

□ Ontario

In Ontario, the *Sustainable Water and Sewage Systems Act* of 2002 contains provisions governing water pricing.

- The legislation was adopted to ensure that the municipalities are able to fund their sewage and water supply systems.
- It stipulates that all municipalities must prepare and submit to the Minister the following documents:
 - a report on the total cost of water supply services;
 - a water supply cost recovery plan;
 - a report on the total cost of wastewater services;
 - a wastewater service cost recovery plan.

The evaluation of the total cost of water service delivery must include the cost of protecting water sources, operating costs, financing costs, renewal costs, replacement costs, and improvement costs to the collection or treatment of water or its distribution to the public.

- The regulations must specify the sources of revenues that a municipality is authorized or not authorized to include in its plan describing how it intends to pay the total cost of delivering these services. Furthermore, the regulations may impose conditions or restrictions on such sources of revenue.

However, the Act has still not come into force and no regulations stemming from the Act of 2002 have been adopted.

Moreover, the regulatory fee that will be implemented in 2009 will vary according to whether the water is used continuously in an open system, e.g. an industrial process that returns treated water to the water way, or a closed system, e.g. bottled water.

❑ The United Kingdom

In September 1989, the British government privatized government-owned corporations responsible for water purification and distribution in the United Kingdom.

The privatization gave rise to two regulatory bodies, the National Rivers Authority, responsible for protecting the environment (rivers, estuaries and coastal waters), and the Office of Water Services (OFWAT), responsible for the water industry from an economic standpoint and for controlling water prices paid by consumers.

- OFWAT's main objective is to strike a balance between the consumer's desire to enjoy lower costs and higher quality and the need to maintain the profitability of the companies that treat and distribute drinking water and wastewater.

To maintain the profitability of such enterprises, OFWAT examines the costs (operating costs plus anticipated capital investments) that they will incur to maintain their operations over a five-year period.

The calculation of prices also takes into account the need for these enterprises to recover their costs, bearing in mind the anticipated improvement in productivity, and to ensure that their shareholders receive a reasonable profit.

To adopt user fees, OFWAT uses a model that integrates a price ceiling based on the consumer price index and a factor representing anticipated efficiency from which it deducts the increase in operating costs required to comply with more stringent service delivery standards.

- Every five years, the user fees are set individually for each enterprise in order to take into account each one's context.

❑ Ireland

No rate is sent on domestic water supply for household consumption, laundry, and so on. However, under the *Water Services Pricing Policy*, non-domestic water supply (industry, commercial operations, sports facilities, and so on) is priced according to volume.

- Under this policy, water meters are installed and the customer must pay for the water consumed.

It should be noted that local governments are responsible for administering this policy.

A5.3.5 Electricity

❑ Australia

The National Electricity Market was established in 1998 in the wake of the adoption of the *National Competition Policy*, with a view to eliminating obstacles to competition within and between the Australian states and territories by dismantling State monopolies and introducing a system of access by third parties in the distribution sector.

- The objective was to increase competition in the sector and thereby offer more choice to consumers. A wholesale market was created to supply electricity to producers and consumers.

The National Electricity Market Management Company Limited (NEMMCO), a public enterprise, administers the National Electricity Market and adopts electricity generation rates.

The electricity rate adoption structure functions like a spot market where supply and demand are balanced in real time through a coordination process managed by NEMMCO.

- Electricity producers first offer to generate precise volumes of electricity at specific rates. These offers are submitted every five minutes to NEMMCO seven days a week.
- In light of these offers, NEMMCO simultaneously determines, by setting a dispatch price, which enterprises are entitled to generate electricity based on the principle of balancing supply and demand as profitably as possible.
- NEMMCO then authorizes the enterprises selected to generate electricity based on this dispatch price every five minutes.

❑ The United Kingdom

The Office of Gas and Electricity Markets (OFGEM) is an independent regulatory body, i.e. it exercises a power delegated by the government but separate from it.

- OFGEM executives are neither elected by the public nor under the control of public authorities.

OFGEM's mission is to make the electricity market accessible to all citizens and thus ensure citizen-consumer satisfaction, while promoting competitiveness in the sector.

- Surveillance and the application of the operating licences granted fall within its regulatory role. OFGEM can take to task an operator that violates its obligations or even modify the conditions of its licence.

In some instances, this procedure may require intervention by the Competition Commission.

- OFGEM's regulatory role also includes the setting and monitoring of industry performance standards.
- OFGEM controlled two types of prices. The first prices, still in force, are electricity transmission and distribution rates. The second prices, eliminated in 2002, concern the final prices paid by small consumers.
 - Since OFGEM's objective is to strike a balance between the satisfaction of demand and cost recovery by enterprises in the sector, a price-control mechanism was introduced according to the same principle as the rate ceiling formula applied in the water sector.
 - Reliance on this price-cap system makes it possible to set every five years user fees for each enterprise bearing in mind market conditions and possible fluctuations.

These user fees include a reasonable rate of return that maintains profitability and the attractiveness to shareholders of the enterprises, while controlling accessibility to citizens through the setting of a limit on a reasonable price.

❑ Nova Scotia

The Nova Scotia Utility and Review Board is responsible for the general supervision of public electricity services. In particular, it sets the user fees for public electricity services and natural gas distribution.

- However, as of January 1, 2009, Nova Scotia Power, a private Nova Scotia electrical utility, will modify its fees in keeping with fuel price fluctuations.

Under its agreement with the Nova Scotia Utility and Review Board, this private corporation will have, nonetheless, to make provision, in particular, for a mechanism to protect its customers against substantial price increases. In the opposite case, the regulatory body will terminate the project.

A5.4 Conclusion

The study of mechanisms surrounding the adoption of user fees has revealed a number of trends.

A number of countries have adopted a comprehensive legal, political or regulatory framework to manage the process of setting user fees and reviewing fees for services (Australia, Finland, New Zealand, the United Kingdom and the United States).

Services are divided into two categories pursuant to such legislation and regulations:

- statutory or compulsory services, provided exclusively by government departments or agencies and public entities engaged in non-competitive activities, i.e. that exercise a monopoly;
- commercial services, provided by government departments or agencies and public entities engaged in commercial activities or in public activities in a competitive markets, i.e. that are subject to open competition.

The method of setting rates also differs.

- The setting of user fees for statutory services must usually seek the recovery of the full cost of production, i.e. the fees collected must be equivalent to the overall cost of delivering the service.
- The setting of user fees for commercial services must respect the principle of competitive neutrality stipulated in general legislation governing competition, so that the fees are set at the market value of the goods and services and free competition on open markets determines the price.

Generally speaking, the accountability process, an important condition as regards the setting of user fees for public services, is solidly established. The recovery of costs must, in general, be reassessed periodically.

Control and follow-up in respect of the setting of user fees for services, especially in the electricity and transportation sectors, can be carried out through regulatory bodies.

Electricity goes to the private sector in most countries (Australia, Finland, New Zealand, the United Kingdom and the United States), so that consumers have a choice of supplier. In other jurisdictions, the State monopoly has been dismantled to create a wholesale market (Australia and Ontario).

- Almost everywhere, electricity rates are set at the market price and a regulatory body controls rate increases.

Water goes to the public sector in most countries (it is under municipal management in Finland, Ireland and Ontario and under state management in Australia), managed by the private sector in the United Kingdom, and deregulated in California (the private sector competes with the municipalities).

— However, all of these jurisdictions seek to adopt user fees that fully recover costs.

In the transportation sector, several countries are moving greater reliance on user fees on heavy vehicles to cover maintenance costs (Australia, Finland and Switzerland), roads and bridges tolls, bearing in mind maintenance costs and congestion (California, Finland and the United Kingdom), urban tolls to reduce congestion and pollution (London, Milan, Singapore and Stockholm), and public transit according to the distance travelled (California).

Childcare services are public in Finland, where the municipalities set the user fees. In the United Kingdom, such services are public and free for children up to 5 years of age. In Australia, the public sector (30%) competes with the private sector (70%) and user fees must respect competitive neutrality. All childcare services in California are private.

Tuition fees are usually set by the university and vary according to the course of study (Alberta, Australia, New Zealand, Nova Scotia, Ontario, the United Kingdom and the United States) and increases are controlled in some jurisdictions (Alberta and New Zealand).

— However, no tuition fees are charged in Denmark, Finland, Iceland, Ireland, Norway and Sweden.

In light of the best practices pertaining to user fees in the jurisdictions under study, the following factors should be considered in the elaboration of the Québec user fee policy:

- fair competition;
- the obligation for accountability;
- the need for transparency in respect of costs and user fee revenues;
- the systematization of operations that are essential to sound management of user fees;
- the need to recover costs, unless the benefits of consumption of these public goods and services warrant a subsidy drawn from tax revenues. In such instances, the objectives must be clearly spelled out and regularly validated.

APPENDIX 6
JUDICIOUS, RATIONAL WATER USE:
THE ESTABLISHMENT OF A RÉGIE DE L'EAU

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A6.1 Foreword

The mandate I received consists in exploring the relevance and feasibility of establishing a Régie de l'eau modeled on the Régie de l'énergie.

In my capacity as an energy specialist with a sound knowledge of economic regulation in general and of the Régie de l'énergie, of which I was the first President from 1997 to 2002, in particular, it strikes me, on the face of it, that energy and water as public services have a great deal in common.

To familiarize myself with the water sector, I quickly examined a number of documents devoted to public water service (see the bibliography). Moreover, given the short time allotted to the execution of this mandate, I wish to point out that I did not have time to study in detail practices at the national and international levels in the realm of the economic regulation of water service.

This report is of an exploratory nature and should be followed by a more thorough analysis if this course is to be followed.

A6.2 Problems

Water is a valuable resource that is essential to health and the quality of life, for which there is no known substitute.

A number of Canadian communities are becoming increasingly worried that they will not have enough water to satisfy current and future needs. Growing demand for water, growing urban populations, pollution of water ways and the anticipated impact of climate change are exacerbating this fear.

According to a survey conducted in 2004 by Environment Canada, 14.1% of the 510 Canadian municipalities indicated that they had experienced water shortages stemming either from the source, the water treatment plant or the distribution network.

This situation in Canada and in Québec is further complicated bearing in mind the obsolescence of drinking water distribution and sewage treatment infrastructure and the considerable cost of replacing and modernizing such infrastructure.

For example, the Ville de Montréal estimates that it will have to invest \$10 billion over a 20-year period, i.e. roughly \$500 million a year, to maintain and improve the quality of drinking water purification and distribution.

Québec has enormous quantities of freshwater compared with other regions and countries, although this water is not evenly distributed throughout the territory. This resource is vulnerable and can be threatened by our current activities and practices in all consumption sectors.

According to statistics published in 2004 by Environment Canada, average total per capita daily consumption was 76% higher in Québec than in Ontario. In Montréal, for example, an estimated 35% to 40% of drinking water leaks in the water supply system. According to Environment Canada (2004), daily per capita water production in Montréal in 2004 was three times higher than in Toronto.

In 2002, Québec adopted a *Politique nationale de l'eau* to better organize water management from the standpoint of sustainable development. This policy seeks to preserve water quality and ensure that this valuable resource is sustained.

This province-wide policy contains commitments, in particular with respect to municipal infrastructure. The government is aware of the problem of ageing infrastructure and wishes to sustain and enhance water management services.

The policy centres on a number of principles, including the notion that Quebecers must be liable for the use and deterioration of water according to a user-payer and polluter-payer approach.

A6.3 Objective

Once the government decided to tackle the problem described earlier, an effective policy must give priority to the attainment of two objectives:

- first, encourage the judicious, rational use of water, discourage waste and thus conserve and develop for current and future generations a limited natural resource that is essential to Quebecers' health and well-being;
- second, generate the funds necessary in the short, medium and long term to maintain and enhance the quality of water and maintain, repair, expand and modernize water treatment, storage, transmission and distribution infrastructure.

The pricing of water service based on the user-payer principle, as is already the case in certain Québec municipalities, regions of Canada and elsewhere in the world, seems inevitable. Moreover, this is one of the underlying principles of Québec's *Politique nationale de l'eau* published in 2002.

Obviously, this approach presupposes the installation of water meters to first inform consumers of their level of consumption and to enable the administrative entity responsible for water service to bill consumers accordingly.

Pricing of the water service could be conducted by:

- 1) the municipal council, as is often the case in France;
- 2) the Québec government (by way of comparison with electricity, another public service, it should be noted that until very recently, the government set electricity rates after a parliamentary committee examined them);
- 3) an independent economic regulatory body, a Régie de l'eau, modeled on the Régie de l'énergie du Québec.

As indicated in the foreword, my mandate consists in evaluating this third option, primarily in light of the model of the Régie de l'énergie, which has been in operation since June 2, 1997.

First, let us examine how this regulatory body operates, with particular emphasis on the relevant points likely to be applicable in the water service sector.

A6.4 Operating method of the Régie de l'énergie with respect to pricing public services in Québec

A6.4.1 Role and powers of the Régie

The Régie de l'énergie is an independent tribunal that performs quasi-judicial and administrative duties pertaining to economic regulation in the Québec energy sector.

The *Act respecting the Régie de l'énergie* was adopted in December 1996. The implementation of the Régie on June 2, 1997 marked the establishment of a rigorous, open, transparent electricity regulation process centred on active participation by stakeholders. It also created a level playing field in respect of the regulatory treatment applicable to electricity transmission and electricity and natural gas distributors. The establishment of the Régie also satisfied certain requirements of the Federal Energy Regulatory Commission (FERC) respecting reciprocity and non-discriminatory access by third parties to electricity transmission networks.

Its role (see the table on page 255) is to regulate monopolistic electricity transmission and distribution operations and natural gas distribution. Moreover, its role as regards the petroleum products market, where there is no transmission and distribution monopoly, is to monitor the prices of petroleum products in different regions of Québec to ensure healthy competition and protect consumers' interests. The Régie is also empowered to set every three years the operating costs per litre that retailers must bear.

In concrete terms, the Régie exercises exclusive jurisdiction to set, in the wake of public hearings, the rates and conditions applicable to electricity transmission and distribution and the rates and conditions applicable to the supply, transmission, delivery and storage of natural gas. The Régie's decisions are final and without appeal. While the Régie is an independent body, it must, when it sets a rate, take into account the economic, social and environmental concerns that the government indicates to it by order. The minister may also transmit to the Régie by ministerial order directives on the policy directions and general objectives to be pursued.

The Régie also monitors the operations of electricity and natural gas distributors to ensure that consumers obtain sufficient supplies and pay a fair rate. It approves the supply plans and commercial programs of electricity and natural gas distributors and investment projects pertaining to electricity transmission or electricity and natural gas distribution. The Régie ensures that electricity transmission in Québec is carried out in accordance with the reliability standards that it adopts.

The Régie approves the bidding and contract award procedure and the code of ethics applicable to the electricity distributor's supply contracts to satisfy the needs of Québec markets that exceed heritage pool electricity (165 TWh). The resulting supply contracts are submitted to the Régie for approval.

Moreover, the Régie exercises exclusive jurisdiction to examine complaints from consumers who disagree with the decisions of the electricity carrier and the electricity or natural gas distributors concerning the application of a rate or condition of service.

In the course of performing its duties, the Régie reconciles the public interest, consumer protection and fair treatment of the electricity carrier and the distributors. Furthermore, it promotes the satisfaction of energy needs from the standpoint of sustainable development and fairness to individuals and society as a whole.

The Régie may conduct the investigations that the performance of its duties requires. To this end, the commissioners are vested with the powers of commissioners appointed pursuant to the *Act respecting public inquiry commissions*. This provision in the Act was invoked to investigate the diesel market when truckers blocked access routes to La Tuque and the Abitibi-Témiscamingue Saguenay–Lac-Saint-Jean regions.

The Régie advises the Minister of Natural Resources and Wildlife on energy questions that he submits to it or, on its own initiative, on any question that falls under its jurisdiction. The Minister has resorted on many occasions to this provision in the Act, especially in respect of Le Suroît, small hydroelectric power generation plants, and the place of wind power.

TABLE 42

Role and powers of the Régie de l'énergie

	Pricing of public services		Price surveillance
	Electricity	Natural gas	Petroleum products
Supply	< = 165 TWh at 2.79¢/kWh >165 TWh: calls for tender	Free market	Free market
Transmission	Cost of service	NEB (federal)	Other jurisdictions
Distribution	Cost of service	Cost of service and incentive measures	Operating cost and advisability of inclusion
Processing of complaints	Decision-making authority		Other jurisdictions
Advice to the Minister	Any question that the Minister submits to it or on the initiative of the Régie		
Investigative authority	If necessary for the performance of its duties (<i>Act respecting public inquiry commissions</i>)		

Source: Société Conseil Jean A. Guérin, inc.

A6.4.2 Organization and operation

The Régie is composed of seven commissioners or administrative judges, including a chairman and a vice-chairman, appointed by the government for a period of five years. The government may also appoint supernumerary commissioners, where required for the proper dispatch of business.

Generally speaking, the Régie exercises its jurisdiction through public hearings, oral hearings, written observations or other consultation procedures. For example, the Régie has had recourse for several years to the negotiated contracting process to set the rates of certain natural gas distributors. The latter approach saves time and money ensures that all stakeholders concerned by the issues participate in a transparent process that is rigorously managed by the Régie.

The chairman of the Régie, who also acts as a commissioner, coordinates and distributes the work of the commissioners and is responsible for the administration of the Régie and staff management. Once the chairman has appointed the commissioners to hear an application, the commissioners alone are empowered to hand down a decision. Given the Régie's status as a quasi-judicial tribunal, the commissioners must comply with certain rules in the performance of their duties. The decision must, in particular, be impartial and based strictly on the evidence presented, regardless of the commissioners' personal or professional stances and preferences. In addition, they must comply with the rule of natural law and hear the other side.

A team comprising managers, lawyers and technical, environmental and economic specialists who study questions and provide analyses and advice assist the commissioners. The Régie's decision-making process also relies on consultation procedures in order to take into account stakeholders' interests.

Last year, the Régie had nine commissioners, two of whom were supernumeraries, supported by a team of roughly 70 managers, professionals and support staff.

In fiscal 2006-2007, the Régie's expenditures stood at \$8.8 million. Moreover, during the same period, the Régie authorized the repayment to stakeholders of approximately \$2.7 million.

Over 50 participants take part in the Régie's deliberations. They represent all of the groups and individuals concerned, including consumer associations, commercial and industrial associations, environmental associations, associations representing the First Nations, the Union des producteurs agricoles, municipal associations, the Corporation des propriétaires immobiliers du Québec, the Canadian Petroleum Products Institute, private companies and, of course, the companies or enterprises that are subject to the Régie's jurisdiction, e.g. Gaz Métro, Gazifère, Intragaz, Hydro-Québec Distribution, Hydro-Québec TransÉnergie, Imperial Oil, Petro-Canada, Shell Canada, and Ultramar.

The Régie is an autonomous, independent regulatory body funded through fees paid by the regulated carrier and distributors according to the user-payer principle in light of its deliberations pertaining to electricity, natural gas or petroleum products. The Régie maintains separate accounts for the electricity carrier and for each distributor. Since the Régie does not have a board of directors, the chairman submits each year to the Minister of Natural Resources and Wildlife for approval by the government the Régie's budget estimates for the subsequent fiscal year.

A6.4.3 Pricing of public services

Natural gas and electricity distributors in Québec and Canada are generally deemed to be public utilities. The essential nature of the service they offer the public and the possibility for a single company to offer the service more economically (monopolistic nature) means that such companies usually enjoy exclusive distribution rights in a given territory, called a franchise. This exclusive right is accompanied by conditions, in particular the obligation to serve, under certain conditions, all of the customers in the franchise. In the case of natural gas distribution, it should be noted that the government may, after seeking the Régie's advice, grant to an individual or a corporation the exclusive right to distribute natural gas in the territory that it delineates.

Such public utilities are usually regulated to protect consumers from potential abuse by monopolies and ensure that consumers receive quality service at a fair, reasonable price, while ensuring that the company earns a reasonable return on the capital invested.

There are several ways to regulate these companies. For example, when the government regulated Hydro-Québec, it relied mainly on the interest coverage ratio. This means, in particular, that rates are set in a manner that ensures that the company can fulfil all of its obligations to its creditors.

The method used by the Régie de l'énergie, called the rate base/rate of return form of regulation, consists in setting rates such that the revenues generated cover all facets of the cost of service, including operating and capital costs.

Thus, when the Régie sets a transmission or distribution rate, it must, in particular:

- establish the carrier's or the distributor's rate basis bearing in mind the fair value of the assets that it deems to be prudently acquired and useful for the operation of the transmission or distribution network (the fair value of assets is calculated according to the historical cost less amortization);
- determine the amount of total expenditure that it believes is necessary to assume the cost of service delivery;
- allow for a reasonable return on the rate basis.

When it sets a rate, the Régie must also take into account sales forecasts, the quality of service delivery, the cost of service, and the risk inherent in each category of consumer.

It must also promote reliance on incentives to enhance the carrier's and the distributors' efficiency and the satisfaction of consumers' needs. The Régie must ensure that the rates and other conditions applicable to service delivery are fair and reasonable.

In principle, rates are determined by category of consumer, usually residential, commercial and industrial, according to the cost of service allocated to each category.

In the case of electricity (see Table 42 on page 255), the final consumer rate set by the Régie includes distribution and transmission costs determined by the Régie according to the cost of service, to which is added the cost of supplying heritage pool electricity (set in the Act at 2.79¢/kWh up to a volume consumed of 165 TWh) and the real cost of supply contracts concluded by the distributor to satisfy the needs of the Québec market that exceed heritage pool electricity. The latter two components represent the cost of goods (the electron).

As for natural gas (see Table 42 on page 255), the final price paid by the consumer includes the price of the goods, i.e. the price of natural gas that is determined by the market, to which is added the transmission rate determined by the National Energy Board (NEB) based on the cost of service and the distribution rate set by the Régie based on the cost of service.

The Régie de l'énergie usually sets natural gas and electricity rates each year.

A6.4.4 Certain obligations of the electricity carrier and the distributors

To enable the Régie to dynamically, proactively regulate the sector, the carrier and the distributors must meet several obligations, some of which strike me as more relevant from the standpoint of the mandate assigned to me.

❑ Supply plan

The holder of an exclusive electricity or natural gas distribution right must prepare and submit to the Régie for approval according to the form, content and frequency that the Régie determines a supply plan describing the characteristics of the contracts that the holder intends to conclude to satisfy the needs of Québec markets.

❑ Bidding and award procedure

To ensure that suppliers participating in an invitation to tender are treated fairly and impartially, the electricity distributor must draft and submit to the Régie for approval a bidding and award procedure and a code of ethics governing the management of invitations to tender applicable to the electricity supply contracts required to satisfy demand beyond the volume of heritage pool electricity (165 TWh).

❑ Annual report

The Régie determines the electricity and natural gas carrier's and distributors' rates in light of the projected reference year, i.e. based on sales, cost, investment and other forecasts for the year in respect of which a rate increase has been requested, usually the following year.

To ensure follow-up and compare actual results with forecasts and make the necessary adjustments, if need be, for example to the rate base, the carrier and the distributors must submit each year within three months of their fiscal year end an annual report examination by the Régie.

A6.5 Application to a Régie de l'eau of the model of the Régie de l'énergie

A6.5.1 Introduction

Water is a good that is essential to public health but it is also, increasingly, a commodity that is sold for different types of public consumption.

The distribution to consumers of water is a public service along with the distribution of electricity and natural gas. From the standpoint of the organization of its operational components, water distribution is similar to electricity distribution, but even more so to natural gas distribution: treatment plants, commodity transmission network (natural gas) from the source of supply to the distribution network, storage centres, distribution network, and underground pipes.

The water distribution service displays the characteristics of a natural monopoly in that economies of scale are usually substantial and that the service of a single distributor in a region is more efficient and economical than the service of several distributors. It is a highly capital-intensive sector in which fixed costs are considerable.

Thus, given that water may be regarded from an economic viewpoint as a commodity, that water distribution displays all the traits of a natural monopoly and that the operational organization of a water distribution service is similar to natural gas and electricity distribution services, the process of elaborating and setting rates adopted by the Régie de l'énergie in respect of gas and electricity could, in principle, be applied to the water service.

Pricing based on the revenue required to cover all facets of the cost of service, i.e. operating and capital costs, would be the best means of achieving efficient resource use. On the one hand, it would rationalize consumption and, on the other hand, generate the funds necessary to maintain, repair and expand drinking water supply and wastewater treatment networks.

Such an approach would obviously have a social impact on low-income households and mitigation measures should be adopted in respect of this group of users. Generally speaking, to avoid rate shocks to users overall, provision should be made for a transitional period. My mandate does not cover the examination of these facets of the question.

Aside from the implementation of a regulatory body that I am calling the Régie de l'eau in this report, the application to water service of a pricing system similar to the one that the Régie de l'énergie applies presupposes at the outset, however, that certain conditions, discussed below, be present.

It should be noted that the water service now falls under municipal jurisdiction and that a Régie de l'eau modelled on the Régie de l'énergie would report to the Québec government. It goes without saying that the legislative amendments necessary to establish this new water service pricing system would have to be made. An analysis of these amendments is not part of my mandate.

❑ Water meters

If we are to adopt pricing of the user-payer type whereby the rates vary according to the volume consumed, water meters must be installed to measure the volumes consumed so that customers are billed accordingly.

This information makes it possible to inform customers and heighten their awareness of changes over time in the volumes consumed. It also allows consumers to adjust their consumption habits in order to reduce waste and their water bills.

One of the first steps is to estimate the cost of and time required to install meters and to elaborate an implementation plan in different consumption sectors and regions.

❑ Regional consolidation and establishment of regulatory bodies

The Régie de l'énergie usually sets or modifies delivery rates and conditions at the request of an administrative or corporate entity that enjoys exclusive distribution or transmission rights and is subject to its jurisdiction. The Régie may also do so on its own initiative.

Gaz Métro is an example of a regulated corporate entity, while Hydro-Québec TransÉnergie is an example of an administrative entity subject to regulation by the Régie.

Insofar as the number of entities regulated and the frequency of applications are high, the size of the regulatory body increases and the cost of regulation for all consumers of the service can be costly. For example, the total annual cost of the Régie de l'énergie is approximately \$11.5 million (including fees paid to stakeholders). In other words, if we are to maintain the cost of regulating water at a reasonable level, we must avoid having all municipalities with a water distribution system appearing before the Régie de l'eau each year to have approved their rates and other conditions of service.

Given the preponderance of fixed costs inherent in this type of public service, it is reasonable to think that the consolidation of small municipal distribution networks into bigger water distribution networks would achieve substantial economies of scale, facilitate infrastructure funding, and more readily create a highly qualified team of managers and specialists. The question of the qualification and level of expertise of the human resources assigned to the operation of distribution networks is crucial: we have only to think of the tragedy in the small Ontario municipality of Walkerton to be convinced of it.

The consolidation at the regional level of distribution networks may involve the physical interconnection of networks and the sharing of water purification equipment, which can engender economies of scale for all users. However, even when physical interconnections between a series of small networks are not advantageous because the municipal networks are too widely scattered, the consolidation of the management and operation of a big integrated network can boost efficiency and lead to worthwhile savings for all consumers. Some examples are inspection services, meter reading and billing.

The consolidation at the regional level of water service networks might, in principle, be achieved initially on the basis of the new cities created in 2002 by municipal amalgamation. All told, there are 15 new cities, including Québec City, Montréal, Longueuil, Gatineau, Lévis, Saguenay, Shawinigan, Rimouski, Rouyn-Noranda, Sherbrooke, Trois-Rivières and Val-d'Or. Together, they account for roughly 46% of the population of Québec.

The Québec government would then oblige (by legislation or regulation) each of the 15 new cities to establish an independent body to manage and operate the water service.

Next, each of the new cities would obligatorily submit to the Régie de l'eau, within the time limit set by the government, a request for the exclusive right to distribute water, under conditions similar to those stipulated by the enabling legislation of the Régie de l'énergie in respect of natural gas distribution. Once the government sought the Régie de l'eau's advice, it could grant to the independent water service management and operation body of the city making the request the exclusive right to distribute drinking water and treat wastewater in the territory that it delineates. These territories could include the municipalities located on the outskirts of the new cities created in 2002 in order to foster greater regional consolidation.

Thus, the Régie de l'eau would initially have under its jurisdiction, if the government approves them, 15 independent bodies devoted to the management and operation of drinking water and wastewater treatment systems to regulate. To reduce costs and regulatory delays, an even smaller group could be examined at the opportune moment.

Subsequently, the regulatory treatment to be granted the remaining municipalities isolated from the 15 new cities and that operate a water distribution system would have to be examined. A first step would be to ascertain how the municipalities could be encouraged to group together at the regional level.

□ The independent management and operation body

This body would be the regulated entity responsible for water service. It would have a franchise, to which the city (its owner) would assign responsibility for the management, operation, maintenance, repair and expansion of drinking water distribution networks and sewers. The city would continue to own the assets but they would be accounted for in the accounting records of the independent body for regulatory purposes to establish rates based on the total cost of the service, including operating and capital costs.

The independent management of these bodies is essential to avoid the ups and downs of political interference. The body responsible for the water service must have a board of directors whose members are chosen for their competence and recognized professional experience. Management staff and highly qualified operators and technicians, especially from the standpoint of regulatory and environmental questions, would support the board of directors in the daily conduct of business.

The body responsible must maintain detailed accounts separate from those of the city containing all of the usual accounting items of a regulated corporation as the Régie de l'eau may stipulate in a general directive at the opportune moment. Such accounting is essential to the regulator to enable it to rationally apportion the costs among all the services, such as the drinking water supply service and wastewater treatment service, and categories of users, by taking into account all of the components of the cost of the service, i.e. operating and capital costs.

This separate accounting also creates greater transparency for users and government authorities concerning the cost and efficiency of the body responsible for water service and allows for comparisons of the performance of the bodies.

As for external funding needs to make the necessary investments to repair, modernize and develop infrastructure, the city can continue to engage in the borrowing that the water service requires inasmuch as this is the best way to achieve low borrowing levels. Debt service would be transferred to the water service body, which would include it as a component of the cost of service when it submits its pricing application to the Régie de l'eau. This is how TransÉnergie, the administrative division of Hydro-Québec responsible for electricity transmission, operates. The financing costs that Hydro-Québec charges it for its portion of the debt are included in the cost of service that it submits to the Régie de l'énergie in conjunction with its application to have approved its transmission rates.

The establishment of these independent water service management and operation bodies that obtain autonomous, foreseeable revenues stemming from their franchise and are subject to regulation by the Régie de l'eau will facilitate public-private partnerships (PPPs) and, possibly, privatization if it becomes a desirable objective. The body responsible for water service might well issue invitations to tender in order to delegate in whole or in part management to a private company. In this scenario, the city would continue to own the assets and the body responsible for the water service would oversee the delegated or subcontracted service. Under the circumstances, the Régie's powers to approve the bidding procedure, the code of ethics and contracts could prove highly useful.

A6.5.2 Role and powers of the Régie de l'eau

Given that the water service is a public service similar in several respects to natural gas and electricity services, and bearing in mind the objectives pursued in respect of pricing (send the right price signals to consumers and ensure that the distributor fully recovers its costs), the Régie de l'eau might, in principle, play the same role and exercise the same powers as the Régie de l'énergie (see section A6.4.1).

The Régie de l'eau should also be set up as an independent tribunal that would exercise quasi-judicial and administrative functions in respect of the economic regulation of water services in Québec. It would operate in a perspective of sustainable development and foster participation by stakeholders in public hearings. The Régie's decisions would be final and without appeal.

The Régie would have exclusive jurisdiction to set the rates and conditions governing the storage, supply, transmission or delivery of water by the bodies responsible for the water service.

Furthermore, the Régie would monitor the operations of the bodies responsible for water service, approve supply plans, commercial programs, water conservation programs, and infrastructure investment programs. It could also impose quality and reliability standards, for example as regards water losses in the network.

The Régie de l'eau should also be empowered to approve the bidding and award procedure, the code of ethics to be followed and contracts in certain specific fields such as the subcontracting of the management and maintenance of infrastructure to ensure that the same rules apply to all urban centres.

Moreover, the Régie de l'eau should have exclusive jurisdiction over the examination of complaints from consumers who disagree with the water service concerning the application of a rate or a condition of service.

The Régie de l'eau should have investigative authority and be able to advise the minister on any question pertaining to the water service that falls under its jurisdiction.

A6.5.3 Organization and operation of the Régie de l'eau

The organization and operation of the Régie de l'énergie (see section A6.4.2) should be applicable to the Régie de l'eau if there is agreement on the powers that it should assume, briefly summarized in the preceding section.

The method of organization and operation should, in particular, ensure the rigour, transparency and independence of the decision-making process in relation to the concerned parties. Generally speaking, stakeholders participate through public hearings but may also do so by means of the other consultation procedures adopted by the Régie de l'énergie, such as the negotiated contracting process.

From the standpoint of the independence of the tribunal that governs the water sector, the procedure for appointing the commissioners must be centred strictly on professional competence, not on political allegiance. In addition, the Régie de l'eau's financial autonomy in relation to government authorities is crucial to its independence.

The Régie de l'eau should be funded through annual duties (as contemplated in the *Act respecting the Régie de l'énergie*) paid by the bodies responsible for water service according to the user-payer principle, i.e. in light of the time the Régie spends examining applications from the bodies. The Régie de l'eau must maintain separate accounts for each of the bodies that it regulates. In return, such bodies must include in the cost of service submitted to the Régie in conjunction with a rate application the duties paid to the Régie. These expenses are recovered through the rates charged the clientele overall. It is, therefore, important that such expenses not be too high, above all since the expenses granted by the Régie to stakeholders to present their point of view are not usually negligible and that they are also funded by the clientele.

The size of the Régie de l'eau's budget will depend on the size of the agency, which will vary according to the number of stakeholders, the number of applicants and the frequency of applications. It is noteworthy (see the partial list in section A6.4.2) that many of the stakeholders that appear before the Régie de l'énergie would also appear before the Régie de l'eau. The budget of the Régie de l'énergie in 2006-2007 totalled \$8.8 million and the expenses reimbursed to stakeholders stood at \$2.7 million.

It is also worth noting that in several jurisdictions, especially in Canada, responsibility for the economic regulation of water service has been assigned to energy boards. This approach achieves economies of scale and economies of scope by combining in a single regulatory body expertise and know-how pertaining to several public services.

A6.5.4 Water service pricing

The application to the water service of the pricing method adopted by the Régie de l'énergie (rate base/rate of return) will allow the regulated body to recover its total costs, i.e. operating and capital costs. This methodology would mainly encompass two stages for each of the bodies responsible for water service, i.e. the calculation of the revenue required and the setting of the rate grid.

The first stage would consist in determining how much revenue the body needs in the course of a year to serve its clientele. Such revenue includes operating costs, debt service, return on capital and amortization.

However, before it determines the cost of capital, the Régie de l'eau must first establish (see section A6.4.3) the rate base of the body responsible for the water service, i.e. the fair value of the assets that it deems to be prudently acquired and useful for the operation of the water service. The fair value of the assets is usually calculated on the basis of historic cost, less amortization. Account must also be taken of infrastructure subsidies from different levels of government.

The second stage consists in determining how the water service will apportion among its customers the total annual revenue required. The setting of rates by the Régie will take into account, in particular, sales forecasts and the costs specific to each category of consumer. It will thus be necessary to determine the categories of consumers and the services on which fees are to be levied.

The allocation of cost by service, e.g. drinking water supply and wastewater treatment, and by category of user, e.g. residential, agricultural, institutional, commercial and industrial, centres on the calculation of the costs of each of the facilities used (water filtration and treatment plants, transmission and distribution networks, storage facilities, and so on) to deliver the service to the consumer.

As is the case of gas and electrical utilities (see Table 42 on page 255) regulated by the Régie de l'énergie, the final price or rate paid by the consumer includes all of the components in the supply chain, including a price for the resource or commodity.

In the case of natural gas, the supply or commodity price is determined by the free market. The price of gas purchased on the free market by the distributor for small consumers (called system gas) is transmitted directly to the final consumer with the authorization of the Régie (pass on).

The supply or commodity price of electricity, as we saw earlier, is set in the Act *respecting the Régie de l'énergie* at 2.79¢/kWh for heritage pool electricity, up to a volume of 165 TWh. Beyond this volume, the cost of delivering electricity or the commodity corresponds to the actual cost of the supply contracts concluded by the distributor to satisfy the needs of the Québec market.

In the case of water, the rate or the final price to the consumer authorized by the Régie de l'eau, under the approach adopted by the Régie de l'énergie in respect of gas and electricity, should include the cost of components of the supply chain, including a price or royalty for the resource (water) or the commodity.

In the absence of a clearly established market price for water, the price or fee applicable to the commodity or the resource could be set in the legislation as is the case for heritage pool electricity or, if the government wishes to maintain greater flexibility, it could grant itself the power in the enabling legislation of the Régie de l'eau to set the price of or the fee for water as it sees fit.

The body responsible for water service that collects this fee through the user fee approved by the Régie de l'eau will remit the amounts collected to the government according to the procedure established.

It should be noted that the setting of a price or the levying of a fee on the resource (water) has legal implications from the standpoint of the ownership of this resource that must be clarified before this approach is adopted.

To illustrate this point, it is worth noting that the invoice that Lyonnaise des Eaux sends to its customers in France, in addition to indicating the amount payable, the unit price per cubic metre and the volume of water consumed, also includes a detailed breakdown of costs by service component:

- the cost of water treatment;
- the cost of distributing drinking water;
- the cost of sewage collection;
- the cost of decontaminating wastewater;
- fees collected by public agencies;
- the water distributor's exact share.

The Régie de l'énergie also applies this billing method, which breaks down the total cost according to the components of the supply chain, to natural gas distribution by Gaz Métro (unbundling). This approach is not applied to electricity distribution (bundling).

From the standpoint of the establishment of the rate structure, in addition to seeking the recovery of all costs, the Régie de l'eau must take into account economic, social and environmental concerns.

Such concerns include consumers' ability to pay, questions of fairness related to cross-subsidization between categories of users, and the application of marginal rates that rise or fall with the volume consumed.

The Régie de l'eau may also advise the minister in question on the best way of reflecting all of these concerns following a general hearing organized to consult the stakeholders. It can also advise the minister, if need be, on the distinctions to be made in respect of rate policy between urban and rural communities. Moreover, the government may indicate to the Régie by order the concerns to be considered.

Water service rates can be set, in principle, on an annual or a multi-year basis. In light of the documentation consulted, it appears that several jurisdictions have adopted a multi-year approach. In the latter instance, the regulator establishes the price level of the initial year based on the principles described earlier and authorizes maximum annual price increases (the price-cap regulatory formula), for example, for a period of five years, according to an automatic formula whereby the maximum increase rate authorized depends on inflation, investment needs and efficiency gains.

Regardless of the annual or multi-year formula that the Régie de l'eau adopts following a consultation with stakeholders, it is important that the rate scheme adopted be based on consumption and that it ensure:

- efficient water use;
- the adoption of incentive measures to enhance the distributor's efficiency and the satisfaction of consumers' needs;
- the total recovery of costs, thus ensuring the financial autonomy of the bodies responsible for water service.

A6.5.5 Obligations of bodies responsible for water service

The setting of rates for water service by a Régie de l'eau would have the advantage of applying the same rate policy (and not the same rates since the rates would depend on the economic parameters of each system) to all regulated bodies. However, it would have to make a distinction between major urban centres and rural communities.

The bodies responsible for water service, in exchange for their exclusive distribution rights, would have to fulfil certain obligations. Based on the model of the Régie de l'énergie, they would, in particular, have to satisfy the obligations indicated below.

❑ Supply plan

According to the provisions in the Régie de l'eau's enabling legislation, the body responsible for water service would have to prepare and submit for approval by the Régie in accordance with the form, content and frequency that the Régie establishes a supply plan covering, for example, the next five years. The plan would describe demand forecasts by service and consumption sector, the supply strategy, including water conservation and loss reduction programs, and detailed annual investment plans for the period covered.

❑ Bidding and award procedure

To ensure the fair, impartial treatment of suppliers participating in an invitation to tender, the bodies responsible for water service should be obliged to establish and submit for approval to the Régie a bidding and award procedure and a code of ethics governing the management of invitations to tender.

This procedure would apply to contracts that exceed a certain monetary threshold and the Régie could exempt the body responsible from resorting to tendering for short-term contracts or in emergencies.

This section could prove highly useful if, for example, the body responsible for water service wishes to entrust, in the wake of competitive bidding, the management of certain operations to a private company.

❑ Annual report

The Régie de l'eau will determine water service rates on an annual or multi-year basis according to the regulatory method adopted following a consultation with stakeholders. It will set the rates in light of the forecasts pertaining, in particular, to sales, costs and investments submitted to it in conjunction with rate applications.

To ensure follow-up and compare actual results with budget forecasts, e.g. with respect to expenditures, investments, revenues, the return obtained, and the body's performance in relation to the service quality index applied to it, the bodies responsible for water service would be required to submit each year within three months of their fiscal year end for examination by the Régie de l'eau their annual report. The Régie could then demand that the body make the necessary adjustments, for example to the rate base. Once the Régie approves the accounts, the regulated body would then complete the year-end closing of its books.

A6.6 Conclusion and recommendations

Water is a valuable resource that is essential to health and the quality of life, for which there is no known substitute. However, it is increasingly becoming a commodity that is subject to widespread trade at home and abroad.

Québec has enormous quantities of freshwater compared with other regions and countries, although this water is not evenly distributed throughout the territory. This resource is vulnerable and can be threatened by our current activities and practices in all consumption sectors.

This situation is further complicated by the obsolescence of drinking water distribution and sewage treatment infrastructure and the billions of dollars that will have to be invested to replace and modernize such infrastructure.

The implementation of an adequate water pricing and user fee system would encourage judicious, rational water use and generate the funds necessary to repair, replace and modernize infrastructure.

A water service encompassing drinking water distribution and wastewater treatment is a public service that is similar in several respects to natural gas and electricity services. Furthermore, it is noteworthy that in several jurisdictions, especially in Canada, regulation of the water service is entrusted to the same quasi-judicial agencies that regulate energy.

Water service displays the characteristics of a natural monopoly. It is very capital intensive and fixed costs are high so that it is more efficient and economical for a single distributor rather than several distributors to provide service in a region.

Moreover, from an operational standpoint, the components of the supply chain are similar to electricity distribution and, even more so, to natural gas distribution: treatment plants, commodity transmission network (natural gas) from the source of supply to the distribution network, storage centres, distribution network, and underground pipes.

The process of elaborating and setting rates adopted by the Régie de l'énergie in respect of natural gas and electricity should be well suited to water service given the numerous similarities between these three public services.

The application by a Régie de l'eau of the same pricing scheme to water service would enable the body responsible for water service to fully recover its costs, i.e. all operating and capital costs, and would encourage consumers to use this precious resource prudently and rationally.

However, this assumes that certain conditions are present:

- the installation across the board in all designated consumption sectors of water meters;
- the necessary legislative amendments necessitated by municipal jurisdiction over water service;
- the establishment of autonomous regional operating bodies that have exclusive rights to provide water service in a given territory.

These bodies would maintain accounts separate from those of the city, would have an autonomous revenue base and be accountable to the Régie de l'eau for the management and operation of the water service. Water service networks could initially be consolidated at the regional level in keeping with the new cities created by municipal amalgamation in 2002.

To summarize, the model of the Régie de l'énergie is very well suited to a Régie de l'eau if we wish to adopt user fees that entirely cover costs under a rigorous, open, transparent process centred on participation by stakeholders. Many of these groups already appear before the Régie de l'énergie and are familiar with this method of consultation and decision-making (see section A6.4.2).

However, such an approach would obviously have a major social impact on low-income households and mitigation measures must be adopted in respect of this group of users. Generally speaking, to avoid rate shocks, provision should be made for a transitional period.

While the establishment of an autonomous Régie de l'eau warrants further analysis, bearing in mind the high costs of regulation that users ultimately pay, careful consideration must be given to the possibility of broadening the mandate of the Régie de l'énergie to include water service instead of creating from scratch a new regulatory agency.

As a first step, it would be highly advisable to visit other bodies that regulate water service to ascertain on site the advantages and drawbacks of different regulation and operating methods.

A6.7 List of documents consulted

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- 4) "Le défi des marchés énergétiques régionaux : Amérique du nord, une perspective du Québec," Jean A. Guérin, President of the Régie de l'énergie du Québec, presentation at the 18th World Energy Conference, Buenos Aires, Argentina, 2001.
- 5) *Politique nationale de l'eau* (2002), Québec.
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