



RELEASE

Date: October 26, 2004

For release: Immediate

PRIME MINISTER ANNOUNCES NEW EQUALIZATION AND TERRITORIAL FUNDING FORMULA FRAMEWORK

OTTAWA, ONTARIO – Prime Minister Paul Martin today announced a new framework that, subject to approval by Parliament, will increase the support provided to provinces and territories under the Equalization and Territorial Financing Formula (TFF) programs by \$33 billion over ten years.

The increased funding will assist Canada's less prosperous provinces and the three territories in meeting their commitments under the Ten-Year Plan to Strengthen Health Care as well as their other priorities.

"This framework reflects the most significant improvement in these programs' history," said Prime Minister Martin. "By providing predictability, stability and increased funding, the framework will play an essential role in ensuring that all Canadians, no matter where they live, will have access to comparable public services."

The Prime Minister's announcement comes after a meeting of First Ministers to review the details of the Government of Canada's new approach to Equalization and TFF, which was first presented to premiers and territorial leaders at the September 2004 First Ministers' meeting.

Guaranteed growth track

The approach includes five elements: a new minimum funding floor of \$10 billion for Equalization and of \$1.9 billion for TFF for 2004-05, complete protection for provinces and territories against overall and individual declines in payments in 2004-05, a level of \$10.9 billion for Equalization and \$2 billion for TFF in 2005-06, a growth rate of 3.5% until 2009-10 and an independent panel to advise on the allocation among provinces and territories.

Over the next 10 years, and subject to a review in 2009-10, the new framework will provide \$33 billion more in Equalization and TFF payments to provinces and territories. This is compared with the annual entitlements for both Equalization and TFF estimated in the February 2004 budget. Equalization payments will increase from \$8.9 billion in 2004-05 (according to the official October 2004 estimates) to \$12.5 billion in 2009-10, a 42-per-cent increase.

Starting in 2005, the Government of Canada will establish a legislated financial framework for Equalization and TFF with fixed overall payment levels that provide predictable and growing funding. In 2005-06, funding levels will be set at \$10.9 billion for Equalization and \$2 billion for TFF, the highest levels ever reached by these programs. Both amounts will grow at 3.5% a year starting in 2006-07.

Independent expert review

The Government of Canada will also launch a review by an independent panel of experts on how the legislated Equalization and TFF levels should be allocated among provinces and territories in 2006-07 and after. Provinces and territories have been invited to appoint two members to the Panel. This review will, among other things,

- evaluate current practices for measuring fiscal disparities among provinces and territories
- examine alternative approaches, such as those based on aggregate macroeconomic indicators (e.g. GDP, disposable income) or expenditure needs
- review the evolution of fiscal disparities among provinces, and the costs of providing services in the territories, to help governments and citizens evaluate the overall level of support for Equalization and TFF
- advise whether the Government of Canada should establish a permanent independent body to advise it on the allocation of Equalization and TFF within the framework of legislated levels.

The Government of Canada will retain full accountability and responsibility for all decisions and will continue to consult extensively with provinces and territories, as before. The mandate of the panel is an advisory one and the federal government will make decisions based on advice received from the panel, provincial and territorial governments, and Canadians.

The expert panel will report back by the end of 2005, in time to provide advice on how Equalization and TFF should be apportioned among provinces and territories in 2006-07. The Government is committed to having any changes in allocation for 2006-07 and future years in place by April 1, 2006.

Complete floor protection

The framework also provides floor protection to every province and territory, to ensure that entitlements for 2004-05 are no lower than the levels forecast in the 2004 Budget.

Impact on overall federal transfer support

The new \$33-billion framework, when combined with the \$41 billion of health enrichments through the Canada Health Transfer, will result in a cumulative increase of \$74 billion over ten years compared to the annual levels estimated at the time of the February 2004 budget.

“The support for this new framework expressed at the First Ministers' meeting in September is repeated today,” said Prime Minister Martin. “The implementation of the framework underlines the goodwill and spirit of cooperation shown by everyone involved. This new partnership will be essential to our success as we move forward together on the other key policy issues outlined in the Speech from the Throne, such as child care, cities and communities, and the environment.”

For information:

Prime Minister's Press Office
(613) 957-5555

Finance Canada Communications
(613) 996-8080

**FMM 2004 - Investments for Equalization and Territorial Formula Financing (10-Year)
Total Impact on Provinces and Territories**

Current track

| (\$ millions) | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 6-Year Total | 2010-11 ¹ | 2011-12 ¹ | 2012-13 ¹ | 2013-14 ¹ | 10-Year Total |
|------------------------|---------|---------|---------|---------|---------|---------|-----------------|----------------------|----------------------|----------------------|----------------------|------------------|
| Budget 2004 | | | | | | | | | | | | |
| Equalization | 9,510 | | | | | | | | | | | |
| TFF | 1,800 | | | | | | | | | | | |
| October 2004 Estimates | | | | | | | | | | | | |
| Equalization | 8,852 | | | | | | | | | | | |
| TFF | 1,832 | | | | | | | | | | | |

FMM 2004

| (\$ millions) | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | | 2010-11 ¹ | 2011-12 ¹ | 2012-13 ¹ | 2013-14 ¹ | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|---------------|----------------------|----------------------|----------------------|----------------------|---------------|
| Equalization | | | | | | | | | | | | |
| 2004-05 | | | | | | | | | | | | |
| Floor at \$10B | 1,148 | | | | | | | | | | | |
| Individual Floor | 774 | | | | | | | | | | | |
| Prior-Year Adjustments | 57 | | | | | | | | | | | |
| Revised 2004-05 | 10,831 | | | | | | | | | | | |
| 2005-06 | | | | | | | | | | | | |
| New framework (\$10.9B escalated at 3.5%) | | 10,900 | 11,282 | 11,676 | 12,085 | 12,508 | | 12,946 | 13,399 | 13,868 | 14,353 | |
| Increase over Budget 2004 level | 1,321 | 1,390 | 1,772 | 2,166 | 2,575 | 2,998 | 12,222 | 3,436 | 3,889 | 4,358 | 4,843 | 28,748 |
| TFF | | | | | | | | | | | | |
| 2004-05 | | | | | | | | | | | | |
| Floor at \$1.9B | 68 | | | | | | | | | | | |
| Prior-Year Adjustments | 33 | | | | | | | | | | | |
| 2005-06 | | | | | | | | | | | | |
| New framework (\$2.0B escalated at 3.5%) | | 2,000 | 2,070 | 2,142 | 2,217 | 2,295 | | 2,375 | 2,459 | 2,545 | 2,634 | |
| Increase over 2004-05 | 133 | 200 | 270 | 342 | 417 | 495 | 1,858 | 575 | 659 | 745 | 834 | 4,670 |
| Total increase (Equalization and TFF) | 1,454 | 1,590 | 2,042 | 2,509 | 2,992 | 3,493 | 14,080 | 4,011 | 4,547 | 5,102 | 5,677 | 33,418 |

¹ For illustrative purposes only. The levels in 2010-11 will be reviewed based on indicators of disparities developed by the Expert Panel.