SUBJECT: Implementation of the Saskatchewan Futures Fund

SUBMITTED BY: Finance Committee

BACKGROUND

The opportunity to save for future generations and institute a safeguard to prevent the province from becoming unduly dependent on non-renewable resource revenue to fulfill ongoing budget commitments generated a lot of discussion during the 2011 provincial election. A resource revenue fund was heralded as a useful tool to fulfill both these objectives.

On November 12, 2013 Peter MacKinnon, former President of the University of Saskatchewan, presented a report to the provincial government on the establishment of the Saskatchewan Futures Fund. The purpose of this fund would be to save a portion of Saskatchewan's non-renewable resource revenue for use by future generations. This proposal echoed elements of Saskatchewan Chamber's previously existing policy on the topic.

ISSUE

Both the Saskatchewan Chamber's Resource Revenue Fund policy recommendations and MacKinnon's Saskatchewan Futures Fund recommendations advise establishing a diversified fund with third-party management. However, the SCC policy recommendations do not align with the MacKinnon recommendations on contributions to the fund and on the use of the fund's investment income. Included in these two points of disagreement is the item of debt repayment.

1. **On Use of Non-Renewable Resource (NRR) revenues:**
   A. The Saskatchewan Chamber of Commerce (SCC) recommends that 5% of current annual NRR revenues be committed to the fund, along with 20% of future new-source NRR revenues (anything over a $2 billion baseline threshold).
      i. Taking the 2013 NRR and General Revenue Fund revenues as an example, this policy would have led to an initial deposit of $126 million.
         a. If the government sets the fund up outside of the GRF and treats transfers as expenses, then a pre GFSF transfer deficit of $111 million would result, but if the government sets it up inside the GRF and changes its accounting to follow GAAP, the reported pre GFSF transfer surplus of $15 million would be unaltered.

B. The MacKinnon report recommends using only NRR revenues in excess of 26% of the provincial budget (assumed to be GRF revenues) to support the Saskatchewan Futures Fund.[1] There are three options to start the fund:
    i. These excess NRR revenues would be used to reduce the debt first, and then with the debt eliminated, used to make contributions to the fund. With this option, using 2013 as an example, NRR revenues were 22% of GRF revenues; no NRR revenues would be used to reduce debt, and no contribution to the fund would have been made.
    ii. These excess NRR revenues would be used to reduce the debt and contribute to the fund in a 50-50 split of the use of these excess revenues. With this option, using 2013 as an example, no debt reduction and no contribution to the fund would have been made.
    iii. Regardless of debt levels, launch the fund with a $100 million contribution.
        a. Taking the 2013 GRF revenues and expenses, and if the government sets the fund up outside of the GRF and treats transfers as expenses, then a pre GFSF transfer deficit of $85 million would have resulted, but if the government sets up the fund inside the GRF and changes its accounting to follow GAAP, the pre-transfer surplus of $15 million would be unaltered. It is assumed that options i. and ii. would then be followed after the initial launch.

Regardless of these three Saskatchewan Futures Fund options, the provincial government's NRR revenues exceeded 26% of GRF revenues only once since 1985, in 2009.[2] This means that the MacKinnon plan would very infrequently receive contributions unless there is a dramatic ramp-up of resource production to mimic Alberta since 2000.

2. On use of investment income

A. The SCC recommends that investment income from the fund be used to
    i. Pay down debt.
    ii. Then when debt is eliminated, support strategic infrastructure investment.

B. The MacKinnon recommendation is to use investment income to
    i. Cover operating expenses.

[1] Notes: The Saskatchewan Futures Fund figure of 26% is derived by taking the average contribution of NRR to total revenues from 2009 to 2013, with the 2013 budgeted figure and not the actual figure. The 2009-2013 actual average was 25.3% and the exceptional 2009 NRR revenues drove the average up for the province by amounting to 37% of total government revenues.

[2] Notes: The average of NRR revenue as a percentage of GRF revenue from 2000 to 2013 was 21.0%. The average for 2006-2013 excluding 2009 was 21.9%. If a 22% cap were used then the fund would have received 5 contributions since 2000, in 2008, 2009, 2011-2013.

ii. Inflation proof the fund (increase the nominal asset value of the fund in line with inflation).
iii. With the remainder going to the GRF with no further stipulations on use.

3. **The SCC policy has the additional item of ensuring that the SCC's recommendations from "A Tax Framework for Saskatchewan Continuing Prosperity" are implemented**.

RECOMMENDED

1) That the Government of Saskatchewan not delay in creating a resource royalty-based fund for preserving non-renewable resource wealth of the province for future generations.

2) That the Government of Saskatchewan establish third-party management of the fund.

3) That the Government of Saskatchewan commit to a fund contribution policy that does not effectively eliminate contributions of non-resource revenues except under extremely unusual resource revenue conditions. Use of only those NRR funds in excess of 26% of GRF revenues is unreasonably restrictive and might never lead to contributions to the fund. A figure of 22% is much more reasonable. (A 5% automatic annual contribution with an additional contribution from revenues in excess of some figure would more closely resemble the SCC policy.)

4) That the Government of Saskatchewan commit investment income of the fund, after covering operating expenses and inflation proofing, to debt reduction, and then to strategic infrastructure investments rather than to operating expenses.

5) That the Government of Saskatchewan adopt a policy where the dividends being generated from the fund be put into diversified investments (being managed by a 3rd party) with a focus on strategic infrastructure investments within Saskatchewan whenever possible.

6) That the preceding recommendations be acted upon only while implementing and maintaining the competitive royalty and taxation rates proposed in the Canada West Foundation's "A Tax Framework for Saskatchewan's Continuing Prosperity" report.