

Backgrounder B: Alberta's Current Savings Framework and Savings Accounts

Current Savings Framework

Alberta's current savings framework (as of September, 2012) consists of two major elements:

- The *Alberta Heritage Savings Trust Fund Act* provides that the Heritage Fund retain a portion of its income as protection against inflation. Inflation-proofing is contingent upon the Heritage Fund generating enough annual income to meet the requirement.
- When the provincial budget is balanced, cash available from surpluses is to be deposited in the Sustainability Fund until its balance once again reaches \$10 billion. As of March 31, 2012, the balance in the Sustainability Fund was \$7.5 billion.

Although there are presently no legislated rules requiring the deposit of a portion of annual energy revenues or year-end surpluses in the Heritage Fund, since 2005-06 \$3.9 billion has been deposited by the government in the Heritage Fund (including the Access to the Future Fund), on an ad-hoc basis.

Major Savings Accounts

The Province has a number of major savings accounts - established at various points over the past three-and-a-half decades - which serve various purposes. These accounts include the Alberta Heritage Savings Trust Fund, the Alberta Sustainability Fund, and a number of special purpose endowment funds.

Alberta Heritage Savings Trust Fund (including the Access to the Future Fund)

The Alberta Heritage Savings Trust Fund (AHSTF) was established in 1976 with an initial investment of \$1.5 billion, and the stated objectives of saving for the future, diversifying Alberta's economy and improving the quality of life of Albertans.

When the AHSTF was established, the government's policy was to save 30 per cent of non-renewable resource revenues in the fund. In the early 1980s, in the face of falling resource prices and a deteriorating fiscal situation, all investment income earned by the AHSTF was transferred to the province's General Revenue Fund (GRF) and the annual contribution to the AHSTF was reduced to 15 per cent of resource revenues. As of April 1, 1987, the Province suspended all transfers of resource revenues to the AHSTF.

Investment income from the Heritage Fund has been of substantial benefit to Albertans. Since the establishment of the AHSTF, approximately \$30 billion of the fund's investment income has been transferred to the GRF to support provincial programs in areas such as health care, education, and infrastructure.

As a result of a public review of the Heritage Fund, in 1996 the fund's mandate was refocused to maximizing financial returns on AHSTF assets, and Alberta capital projects and economic development activities were no longer financed by the fund. In addition, new legislation allowed the fund to retain some of its investment income for the purpose of inflation protection. As of March 31, 2012, the accumulated amount retained in the Heritage Fund for inflation-proofing was nearly \$2.4 billion.

The AHSTF presently consists of investments in bonds, equities, real estate and other assets such as private investments, hedge funds and timberlands. It is managed on a day-to-day basis by the Alberta Investment Management Corporation (AIMCo), according to overall investment policies established by the Minister of Finance.

The Heritage Fund includes an endowment of assets specifically dedicated to the *Access to the Future* Program. Over the span of two fiscal years (2005-06 and 2006-07), \$1 billion was allocated to this program. Its purpose is to provide seed money for innovations in the post-secondary system as well as matching grants to stimulate private sector and other contributions to advanced education. The Alberta government has committed to expand the endowment to \$3 billion over a medium-term time frame.

As of March 31, 2012, the value (equity) of the Heritage Fund was just above \$14.6 billion.

The Alberta Sustainability Fund

The Alberta Sustainability Fund was established in 2003 to protect ongoing program spending from volatile revenue downturns, and to offset annual cash deficits. The fiscal framework adopted in 2003 required that all natural resource revenue above \$3.5 billion (a threshold which was eventually raised to \$5.3 billion) be deposited in the Sustainability Fund. In 2009, when a deep global recession forced a fundamental re-examination of Alberta's fiscal framework, these limitations on the amount of non-renewable resource revenues that could be used for budget purposes were eliminated.

Since 2008-09, savings in the Sustainability Fund have helped maintain funding for priority programs as provincial revenues have been affected by both the global recession and a major expansion in North American natural gas supplies, which contributed to a sharp decline in natural gas prices and provincial natural gas royalties.

The Sustainability Fund is also used to fund residual cash needs or sources that are not accounted for under the reported accounting surplus/deficit. Cash adjustments to the surplus/deficit include:

- capital cash requirements (essentially the difference between capital investment spending and capital amortization and alternative financing);
- differences between reported, “accrued” revenue and expense and actual cash income and spending; and
- the retained income of funds and agencies.

As of March 31, 2012, the balance in the Sustainability Fund was \$7.5 billion, down from a peak of \$16.8 billion in 2008-09. In *Budget 2009*, the government announced that once Alberta returned to a budget surplus position, it would rebuild the Sustainability Fund to \$10 billion as the first step of a renewed savings policy.

Major Endowment Funds

In addition to the Heritage Fund and the Sustainability Fund, the government has, over the years, allocated surplus dollars to a number of specific-purpose endowment funds, most notably, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Scholarship Fund, and the Alberta Cancer Legacy Fund.

Alberta Heritage Foundation for Medical Research Endowment Fund

In 1980, the Government established the *Alberta Heritage Foundation for Medical Research (AHFMR) Endowment Fund*, through an initial investment of \$300 million from the Heritage Fund. Additional allocations of \$500 million came from the Alberta Government between 2005-06 and 2007-08.

The AHFMR’s mandate was to nurture and develop a first-class community of health researchers for the benefit of Albertans and people worldwide. Over a period of 30 years, the AHFMR has invested more than \$850 million in medical research, creating a community of health researchers in Alberta who have undertaken world-class research to improve the health care of Albertans and others.

As of March 31, 2012, the AHFMR Endowment had an estimated value of \$1.26 billion. The investments of the AHFMR Endowment are managed on a day-to-day basis by AIMCo according to overall investment policies established by the Minister of Finance.

In 2010, the Government of Alberta established *Alberta Innovates – Health Solutions* to continue the medical research granting activities of the AHFMR.

Alberta Heritage Science and Engineering Research Endowment Fund

The *Alberta Heritage Science and Engineering Research Endowment Fund*, more commonly known as the *Alberta Ingenuity Fund*, was established with an initial allocation of \$500 million from the Government of Alberta in 2000-01. An additional \$200 million in allocations were made to the Fund in 2005-06 and 2006-07.

The mandate of this fund is to develop internationally recognized science and engineering expertise through support of Alberta's research facilities; to facilitate programs directed to the discovery of new knowledge and the commercial application of that knowledge; to encourage young Albertans to pursue careers in science and engineering; and to attract top graduate students and researchers to Alberta.

As of March 31, 2012, the *Alberta Ingenuity Fund* had an estimated value of over \$720 million. Like the AHFMR Endowment, the *Alberta Ingenuity Fund* is managed by AIMCo under investment policies established by the Minister of Finance.

In 2010, the Government of Alberta established *Alberta Innovates – Technology Futures* to continue the granting activities of the *Alberta Ingenuity Fund*.

Alberta Heritage Scholarship Fund

The *Alberta Heritage Scholarship Fund* was established in 1980, with an initial allocation of \$100 million from the Alberta Heritage Savings Trust Fund. Between 2005-06 and 2007-08, an additional \$497 million was allocated by the Alberta Government to the *Alberta Heritage Scholarship Fund*.

The fund is designed to stimulate the pursuit of excellence by rewarding outstanding academic achievement and by encouraging and assisting Albertans to achieve their fullest potential. The fund provides funding for a number of different scholarships.

As of March 31, 2012, the *Alberta Heritage Scholarship Fund* had an estimated value of \$715 million. Like the AHFMR Endowment and the *Alberta Ingenuity Fund*, the Alberta Heritage Scholarship Fund is also managed by AIMCo under investment policies established by the Minister of Finance.

Alberta Cancer Prevention Legacy Fund

The *Alberta Cancer Prevention Legacy Fund* was established in 2006-07 with an allocation of \$500 million from the Government of Alberta.

The mandate of the fund is to facilitate cancer screening programs in Alberta through a virtual cancer research institute; to co-ordinate cancer research; and to promote public, private, provincial, national and international research and screening programs.

As of March 31, 2012, the fund had a value of \$492 million, and is managed by AIMCo in accordance with investment policies established by the Minister of Finance.

Appendix: Alberta’s Major Savings Accounts

Fund	Date Established	Mandate	Equity value at March 31, 2012 (\$ millions)
Alberta Heritage Savings Trust Fund	1976	Prudent stewardship of savings from Alberta’s non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans	14,652
Alberta Sustainability Fund	2003	The province’s primary fiscal risk management mechanism. Used to offset deficits and to fund annual cash requirements of government	7,497
Alberta Heritage Foundation for Medical Research (AHFMR) Endowment Fund	1980	Support a balanced long-term program of health research and innovation for the discovery of new knowledge and its application, and to improve health and the quality of health services in Alberta	1,255
Alberta Heritage Science and Engineering Research Endowment Fund	2000	Support a balanced long-term program of research and innovation directed to the discovery of new knowledge and its application to technology commercialization	721

Fund	Date Established	Mandate	Equity value at March 31, 2012 (\$ millions)
Alberta Heritage Scholarship Fund	1980	Stimulate the pursuit of excellence by rewarding outstanding academic achievement and by encouraging and assisting Albertans to achieve their fullest potential	715
Alberta Cancer Prevention Legacy Fund	2006	Support and encourage cancer prevention initiatives, including research, education, public policy development and social marketing initiatives	492