

Backgrounder D: A Chronology of Major Public Consultations on Fiscal and Savings Policy, 1993 to Present

Overview

Over the past two decades, the Government of Alberta has engaged in 17 major public consultations to inform the development of its fiscal and savings policies. Several methods of consultation have been used. These methods have included special select committees, commissions and councils; roundtables and summits; and mail and internet-based surveys of Albertans.

Fiscal policy consultations were particularly prevalent between 1993 and 2001, when 11 separate major consultations were held on such topics as development of a new fiscal framework, input into the annual budget-setting process, the future direction of the Alberta Heritage Savings Trust Fund, and provincial tax reform. Public consultation on fiscal policy has tended to be less pronounced over the past decade.

These consultations have resulted in fundamental and longstanding changes to Alberta's fiscal and savings policies, including new or revised fiscal frameworks, improved governance and management of the Heritage Fund, reductions in personal and business taxes, the elimination of the provincial Machinery and Equipment tax and establishment of Alberta's single rate personal income tax system.

Mail and internet-based surveys have been employed to solicit input on budget and fiscal priorities from a broad cross-section of Albertans. Public participation in surveys has grown as these surveys have moved from a mail-based to a largely internet-based format. The most recent budget priorities survey *It's Your Future*, conducted in 2004, saw close to 290,000 Albertans respond to the survey questions. This compares to just 61,000 Albertans who responded to the first budget priorities survey in 1996.

The following is a summary of the major consultations on fiscal and savings policy which have taken place in Alberta since 1993, including the key recommendations resulting from these consultations and the government's policy responses.

Alberta Financial Review Commission, 1993

In January of 1993, the government established the Alberta Financial Review Commission (AFRC) to review the province's finances and accounting practices.

The AFRC's report, released in the spring of 1993, recommended that the government follow Generally Accepted Accounting Principles, implement three-year fiscal and business plans, report quarterly to Albertans on the state of the province's finances and develop a plan to eliminate the deficit in an orderly fashion.

The recommendations of the AFRC were generally accepted by the government and reflected in fiscal framework legislation over the next few years, most notably in the *Deficit Elimination Act*, the *Balanced Budget and Debt Retirement Act* and various amendments to the *Financial Administration Act*.

Budget Roundtable, 1993

In advance of the release of *Budget 1993*, the government invited a number of stakeholders to a Budget Roundtable in the spring of 1993 to discuss the deficit crisis facing Alberta at that time, and to develop potential solutions.

The major recommendation coming out of the roundtable was for the government to commit to a four-year plan to balance the budget and to enshrine that commitment in legislation.

In *Budget 1993*, the government set out a four-year plan to balance the budget and later that spring passed the *Deficit Elimination Act*, which called for the elimination of the provincial deficit by 1997 (the province actually managed to balance the budget two years ahead of schedule, in 1994-95, beginning a run of 14 consecutive budget surpluses).

Alberta Tax Reform Commission, 1993-1994

The Alberta Tax Reform Commission was established in 1993 with a mandate to review all aspects of the tax system. The review was conducted at a time when Alberta had a large budget deficit, which led the commission to conclude that “current fiscal realities of the province mean that little can or should be done at this time to reduce taxes.”

The commission also outlined its vision of an “ideal tax system for the future”, once the budget was balanced. In the commission’s view, the ideal tax mix would include the lowest possible personal and corporate income tax rates, property taxes to support local services and infrastructure and some of the costs of education, and selected fees to cover the costs of specific services. The commission also discussed steps that could be taken to improve the competitiveness of the property tax system, including reform of the Machinery and Equipment Tax.

The government responded to the recommendations of the Alberta Tax Reform Commission by phasing out the provincial education property tax on machinery and equipment between 1996 and 1998, saving manufacturing and processing businesses \$178 million annually. Investment was stimulated and jobs in value-added and processing industries created without shifting the cost to other property taxpayers. This was accomplished by tying the elimination of the tax to increased investment in the manufacturing and non-conventional oil sectors.

Budget Roundtable, 1994

A second Budget Roundtable of invited stakeholders was held in September of 1994. The purposes of this roundtable were to assess progress on eliminating the deficit and to assist the government in developing a new three-year business planning model.

In *Budget 1995*, three-year business plans, complete with performance measures, were prepared for all government ministries. The business planning process was enshrined in legislation later that spring, with the passage of the *Government Accountability Act*.

Public Review of the Heritage Savings Trust Fund, 1995-1996

In 1994, the government announced a public review of the Heritage Fund, including its role within the province's evolving fiscal framework, to take place the following year.

To initiate the consultation process, a discussion guide and questionnaire entitled *Can We Interest You in an \$11 Billion Decision* was circulated among Albertans during 1995. Over 50,000 responses were received. The survey indicated that Albertans favoured the retention of the Heritage Fund, rather than using the fund's assets to pay down the provincial debt.

In 1995, an all-party Heritage Savings Trust Fund Review Committee was named to examine the mandate and governance of the Heritage Fund. This committee recommended that management of the fund be placed at greater arms-length from the government, with private sector managers more involved in investment decisions and the government's role focused on setting overall objectives for the fund. The committee also recommended greater transparency of the fund's operation, through enhanced reporting of results and performance.

The government responded by making changes to the role and governance of the fund, between 1996 and 1997. The fund was no longer used by government for direct economic development or social investment purposes. A new business plan was implemented, with a plan to increase long-term investments. A new Legislative Standing Committee, operating at arm's length from the government, was put in place to review and approve the business plan and ensure that the goals of the fund were met.

***Straight Talk, Clear Choices* Survey, 1996**

With the success of the balanced budget plan, the government sought the advice of Albertans on next steps for the province's fiscal policies. In the spring of 1996, a survey entitled *Straight Talk, Clear Choices* was distributed to all households in Alberta. About 61,000 Albertans responded to the survey.

Among respondents, the top priority was paying down the net debt as quickly as possible. A secondary priority was to target some of the available dollars to key spending areas.

The government responded by directing windfall revenues towards accelerated repayment of the net debt. Over succeeding budgets, significant new dollars were also reinvested in health and education to improve the quality and accessibility of services.

Alberta Growth Summit, 1997

By 1997, the success of Alberta's fiscal plan had helped restore business and consumer confidence. Strong economic growth began to attract increasing numbers of people from other provinces.

In September 1997, a Growth Summit was held to help develop options to respond to the pressures of a growing economy and population. The summit made a number of recommendations, specifically around increased investment in health care, education and infrastructure to deal with the consequences of a growing population.

The government acted on several of the recommendations. Rising resource revenues made it possible to allocate one-time dollars to address the pressures of growth on Alberta's infrastructure – roads and public transit, schools and post-secondary institutions, and hospitals and nursing homes. The government was also able to boost ongoing health and education funding to meet the needs of an expanding population.

***Talk it Up, Talk it Out* Survey, 1998**

By the fall of 1998, dramatic progress had been made on paying down the net debt. In addition, reinvestment in health and education had boosted spending on those priorities above previous highs reached back in 1992-93.

Another survey, *Talk it Up, Talk it Out*, was sent out to all Albertans, asking them to identify their priorities once the net debt was eliminated. Close to 80,000 Albertans participated in this survey.

Albertans' top priority remained paying down the debt. However, the second priority had changed from the 1996 survey. With the reinvestment in priority programs that occurred between 1996 and 1998, a majority of respondents also placed a priority on tax cuts.

In 1999, the *Fiscal Responsibility Act* set out a plan to pay off the remaining accumulated debt, and *Budget 1999* announced a plan to cut Albertans' taxes (summarized on the following page). As well, over the next few budgets, available program dollars continued to be targeted to health, education and infrastructure.

Alberta Tax Review Committee, 1998

In 1998, the Alberta Tax Review Committee was established to evaluate options for the province's personal and corporate income tax system. Phase I of the review examined the issue of tax incentives for knowledge-based industries, while Phase II addressed personal income tax issues, including the 'tax on income' approach for provincial personal income tax and the appropriate number of provincial income tax brackets.

The committee stated that "the best tax policy for Alberta was to provide a low-rate, broad-base tax environment", noting that it "benefited all business and industry and avoided having the government play a direct role in interfering in the marketplace."

The committee recommended that Alberta move to a 'tax on income' approach (calculating Alberta personal taxes as a percentage of taxable income rather than as a percentage of federal tax), the adoption of a single rate of provincial income tax, an increase in the basic personal exemption, and increasing the spousal exemption level to rectify differences in the tax treatment of single and dual income families.

Budget 1999 set out a plan to cut Albertans' taxes significantly through a new, single-rate personal income tax system. Along with the new single rate that came into effect on January 1, 2001, basic and spousal exemptions were also increased.

Alberta Business Tax Review Committee, 2000

After accepting most of the key recommendations of the Alberta Tax Review Committee, the government established the Alberta Business Tax Review Committee in 2000. This committee was charged with examining the competitiveness of Alberta's business tax system and making recommendations to improve the province's competitive position.

This committee concluded that lowering corporate income tax rates was the top priority for business tax reform. Corporate income tax reductions were described as the "most effective tool for stimulating economic growth...providing the biggest incentive to invest, create wealth, attract and grow new businesses and create quality jobs for Albertans." The committee also recommended that Alberta "should maintain a low-rate, broad-based tax system, rather than introduce tax credits."

The Committee recommended that Alberta's general corporate income tax rate be reduced to 8 per cent (from 15.5 per cent), and that the small business rate be reduced from 6 per cent to 3 per cent while increasing the small business threshold (the amount of income eligible for the small business rate) from \$200,000 to \$400,000. The committee further recommended the elimination of Alberta's capital tax on financial institutions.

The Alberta government accepted the majority of the committee's recommendations, including those on general corporate income tax and small business rates, the small business threshold level and the elimination of the financial institutions capital tax.

It's Your Money Survey, 2000

In 2000-01, resource revenues reached a then-record level of \$10.6 billion, doubling the previous record of \$5.2 billion set in 1984-85. As a result, the government was able to allocate about \$4 billion in 2000-01 to repay accumulated debt.

In the fall of 2000, the government decided to seek Albertans advice about their priorities once the accumulated debt was eliminated.

A survey entitled *It's Your Money* was distributed to all Alberta households in November 2000. More than 125,000 Albertans responded. Albertans were asked what the government should do with the two different types of extra funds the government would have available once the accumulated debt was gone – permanent funds freed up by eliminating the annual interest costs on the existing accumulated debt, and one-time funds when resource revenues, or other revenues, temporarily spiked upward.

The survey indicated that Albertans' top priorities were putting money back in their pockets through permanent tax reductions and one-time tax rebates, rather than through increases in permanent spending or a savings plan.

Alberta Future Summit, 2001-02

The Alberta Future Summit was a province-wide public consultation designed to give citizens a voice in planning for Alberta's future. From September through December 2001, more than 4,000 Albertans contributed their thoughts, ideas and insights.

More than 2,300 Albertans also completed the Future Summit workbook, *Imagine Our Tomorrow*, which contained 18 questions designed to generate ideas for the future.

In February 2002, 260 delegates gathered in Red Deer to draft strategies and ideas for action in seven priority areas Albertans had identified: the economy, learning, fiscal responsibility, communities, health and wellness, the environment and governance.

Among the recommendations of the Future Summit was to stabilize government expenditures over economic and commodity price cycles and to maintain zero-deficit budgeting practices. Delegates proposed several ideas for smoothing out government expenditures, including the creation of a revenue stabilization fund and the creation of specific endowments to support strategic areas.

Over succeeding budgets, the government established a Sustainability Fund to protect the fiscal plan from revenue volatility and to fund emergencies and disasters; as well, the government allocated surplus dollars to such special purpose endowments as the

Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, and the Alberta Cancer Prevention Legacy Fund.

Alberta Financial Management Commission, 2002-2003

The Alberta Financial Management Commission (AFMC) was established in March 2002 to explore the province's finances and recommend possible policy changes.

Specifically, the commission was asked to review the accounting principles used to prepare the province's financial statements, quarterly updates and fiscal plan; the government's fiscal planning policies and strategies, capital expenditure accounting and financing (including the use of public private partnerships, or P3s); and the overall fiscal planning and strategy for the Alberta Heritage Savings Trust Fund.

The commission reported that the existing fiscal framework did not adequately manage the fluctuations in energy revenue and that capital spending was linked too closely to swings in oil and natural gas prices.

The AFMC advocated enhanced mechanisms to stabilize the impact of volatile resource revenues on the province's budget. Its recommendations included the preparation of three-to five-year plans for capital and infrastructure projects; changes to existing legislation to allow funding for specific approved projects to be carried over from one fiscal year to the next; and that government and government-funded entities should be allowed to enter into alternative funding arrangements, such as P3s, for capital projects under specific conditions and with appropriate guidelines in place.

The AFMC also recommended that the Alberta Heritage Savings Trust Fund be renewed based on four new purposes – to stabilize the impact of volatile resource revenues on the province's budget; to manage the orderly pay down of existing debt as it comes due; to address the backlog of deferred capital projects in the short term; and to serve as a transition to the time when resource revenues decline and as an integral part of the province's strategy for achieving a sustainable economic vision for the future.

The government accepted many of the recommendations from the AFMC (which coincided with some of the directions from the Alberta Future Summit). In *Budget 2003*, the government established an Alberta Sustainability Fund to protect the fiscal plan from revenue volatility and to fund emergencies and disasters. Non-renewable resources available for budget purposes were capped (initially) at \$3.5 billion per year, with any excess amounts to be deposited in the Sustainability Fund.

As well, an Alberta Capital Account was created to provide an additional source of funding for capital projects. Funds allocated to the Capital Account could be used to fund projects in future years. Capital funding could also be carried over from one year to the next. The accounting treatment of capital investment also changed. Capital

expenditures on government-owned assets were no longer immediately and fully charged to the bottom line in the current fiscal year; instead, the expense was now amortized over the expected life of the asset. This change made the province's approach consistent with the Public Sector Accounting Board standard on the accounting treatment of capital assets.

Looking Forward: Planning the Future with the Alberta Heritage Savings Trust Fund, 2002-2003

In response to the recommendations of the AFMC, the government consulted with Albertans in the fall of 2002 on whether the Heritage Fund was being used in a way that best met the province's needs.

Through the *Looking Forward: Planning for the Future with the Alberta Heritage Savings Trust Fund* survey, four options for the Heritage Fund were set out for discussion: continuing to operate the Heritage Fund as an endowment for the future; using a portion of the fund to invest in capital projects; using a portion of the fund to repay accumulated debt; and holding a portion of the Heritage Fund's assets as a reserve for fiscal sustainability.

More than 77,000 Albertans responded to this survey on the Heritage Fund's future. Overall, the results showed that most Albertans wanted the Heritage Fund to continue to operate as an endowment fund.

It's Your Future Survey, 2004

With the province having retired its accumulated debt, the government decided to consult with Albertans again on their priorities. Close to 290,000 Albertans responded to the *It's Your Future* survey in the fall of 2004.

Albertans ranked health and education as their top priorities. In the second part of the survey, which asked Albertans where windfall money (once used to pay down debt) should now go, Albertans' expressed preference was for long-term investments in priority areas. Albertans were polarized on the question of tax rebates: 26 per cent of respondents gave it a 'low' priority rating of one, while 26 per cent of respondents gave it a 'high' priority of 10. Saving money and investing it in the Heritage Fund was the ranked third among Albertans' priorities.

The government also received a wide variety of suggestions in part three of the survey, which asked what three things the government could do for Alberta's future. Health and education were again the priority. Specific suggestions in these two categories include reducing hospital waiting times and increasing funding for post-secondary education.

Over succeeding budgets, the government responded to Albertans priorities by devoting a significant portion of spending increases to health care and education.

Alberta Financial Investment Planning and Advisory Commission, 2007-2008

In 2007, the Government appointed the five-person Alberta Financial Investment Planning and Advisory Commission (FIPAC), to review the province's savings strategy and make recommendations aimed at ensuring that Albertans receive the maximum benefit from the province's savings and investment funds.

FIPAC reported to the government in the spring of 2008. Among its major recommendations were: that a fiscal rule be established requiring the Government of Alberta to set aside a fixed share of the province's total revenues in a renewed Heritage Fund; that the government consolidate its special purpose endowments under the Alberta Heritage Fund; that a fixed percentage of the market value of assets in the Alberta Heritage Fund be used to determine annual disbursements from the fund; the establishment of a new Alberta Heritage Capital Fund to assist in meeting the province's current and future infrastructure needs; the retention of a separate Sustainability Fund, but whose purpose is limited to addressing unanticipated declines in revenues in a given fiscal year; and legislating a new approach to savings, with strict provisions governing the Alberta Heritage Fund, the Alberta Heritage Capital Fund, and the Sustainability Fund, with the legislation remaining in effect for at least 10 years.

Premier's Council for Economic Strategy, 2009-2011

The Premier's Council for Economic Strategy (PCES) was established in July 2009, with a mandate to give an external, big-picture perspective on what Alberta needs to do to secure long-term prosperity.

The PCES released its economic blueprint for Alberta for the next 30 years, entitled *Shaping Alberta's Future* in May 2011. Among the PCES recommendations was a proposal to establish a *Shaping the Future Fund* (SFF) to invest non-renewable energy assets in initiatives to support a prosperous Alberta.

Under this proposal, over a five- to ten- year transition period resource revenues would be directed from the General Revenue Fund to the SFF, with investments of the SFF principal targeted towards a number of flagship initiatives designed to drive Alberta's economic prosperity into the future.

As of mid-2012, the government continues to consider the recommendations of both FIPAC and PCES as it moves forward with a process to consult with Albertans on the future direction of its fiscal policies, including the use of long-term savings.