Auditor General
OF ALBERTA

Putting Alberta's Financial Future in Focus

A Commentary by the Auditor General

April 2018

Mr. David Shepherd
Member of the Legislative Assembly, Edmonton-Centre
Chair, Standing Committee on Legislative Offices

I am honoured to send my commentary, *Putting Alberta's Financial Future in Focus*, to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
April 19, 2018

> We are here to fulfill our shared commitment and responsibility to make a better world. Let us never fail in our duty to serve and lead through example for the sake of our children's children and all those who come after us."
>
> Honourable Robert E. Wanner
> Speaker of the Legislative Assembly of Alberta
> March 8, 2018

Introduction

My responsibility

As Auditor General I am well aware that it is my responsibility to pay attention to Alberta's financial sustainability—in other words, Alberta's financial health, both short and long term.

The transparency of financial sustainability is implicit in my office's mission to identify opportunities to improve the performance of and confidence in the public service.

I wish I had been able to make the following commentary my first, rather than my last, official communication with my clients – the Members of the Legislative Assembly and Albertans. Based on intuition, including in our work plan audits on capital planning, pension sustainability, the environment, healthcare, and indigenous children's school attendance was the right decision. Each of these areas, if not well managed, pose serious risk to the well-being of our Province and of the people who call it home. And results analysis, another focus of our legislative auditing, is the tool by which government managers and citizens learn whether course correction is necessary—for example, more resources, less resources, different approaches, or to stay the course.

Rather than relying on intuition I now have a clear sense of the public interest, and why thinking long term is challenging for many politicians. I understand, with evidence, that considering the impact of today's decisions on future generations of Albertans is not just important but without question the right thing to do.

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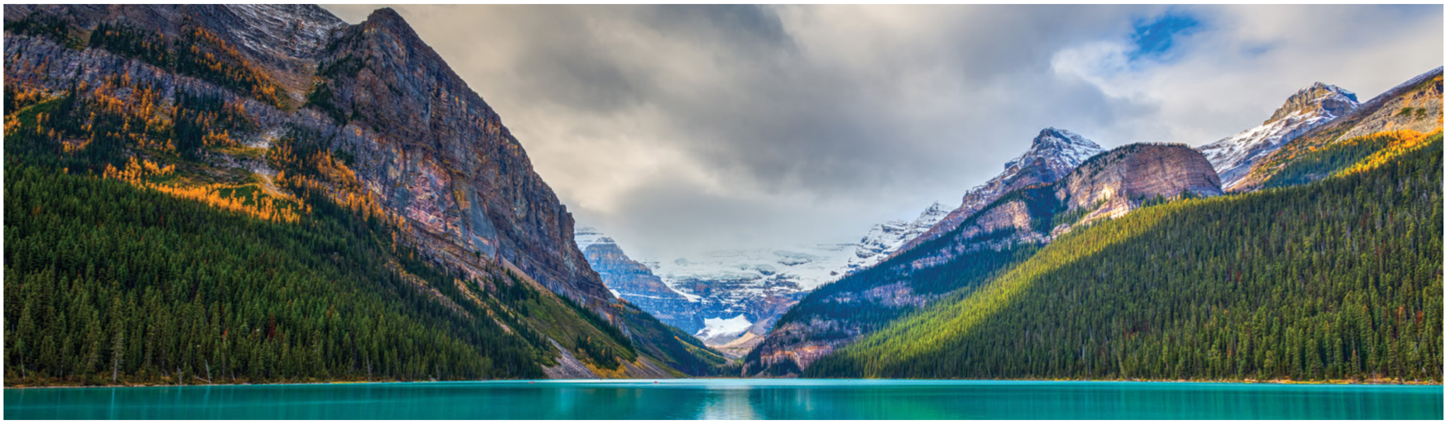
The problem that politicians, in general, face is that thinking and making decisions for the long term rather than thinking from the perspectives of short-term politics, election cycles, isolated controversies and lobbying for local interests tends to be seen as a risk to long term job security.

Paradoxically, the electorate is satisfied with this state of affairs. It is much easier to focus on the here and now; the future is complex and frightening; and it's the job of others to look out for our best interests.



But surely, for both politicians and members of the public, longer-term thinking and debate is not a question of political ideology. It is simply common sense, albeit seemingly unrewarding in practice.

I have set out my point of view because it is why I felt it important to make this commentary on Alberta's financial future and the case for long-term fiscal reporting.

It is my job to report whether risks are being identified, studied and dealt with.

Risk

I am not saying that we should all switch thinking about the short term to thinking only about the long term. I am simply saying our thinking must not be exclusively focused on the present with the hope that the future will take care of itself.

Of course there are immediate problems to solve. I am not saying that we should all switch thinking about the short term to thinking only about the long term. I am simply saying our thinking must not be exclusively focused on the present with the hope that the future will take care of itself.

In addition to today's challenges we must make time to identify the new risks that we face now and those that are rapidly approaching. I refer specifically to the longer-term risks to the Province's financial health. For example:

- Demographic changes and specific estimates of their impacts on costs and funding sources. An ageing population will, all else equal, consume a higher dollar amount of public services, and contribute less in tax revenues to fund them.
- Ageing, all else equal, will reduce the labour force and in turn GDP. Immigration or significant productivity increases will be necessary to maintain GDP growth. What programs or strategies will Alberta need to manage this risk?
- Chronic disease (e.g. diabetes, obesity) if not well managed will lead to fiscal pressure in Alberta's healthcare system.
- What will climate change adaption mean for the economy and how we work and live?
- Will the mix of services change (e.g. more long-term care, perhaps fewer schools)?
- In the short to medium term, infrastructure maintenance and replacement can be deferred. Eventually future surpluses or more debt will be needed to fund these costs.

- Beyond the short term, the economy will experience cyclical recessions. If government wants to use fiscal stimulus will it have built up fiscal capacity during economic expansion to do so?
- There will be permanent changes in the economy resulting from the shift from fossil fuels to renewables. Technological increases in productivity will displace workers in some jobs. What programs does government need to transition the workforce?
- Interest rates are at historic lows. Eventually they will go up, inflation will be high, or both. What impact would higher interest rates or inflation have on the province's fiscal health?
- Environmental clean-up. Who will ultimately fund these costs, how and when?

Longer-term reporting (probably in the range of from 30 to 70 years) would undoubtedly reveal risks to our financial health that would not be fully apparent from a shorter perspective.

Since we do not know exactly what will happen it is important to acknowledge this by presenting more than one potential outcome, and then asking ourselves in the public interest:

- How well do plans stand up to different assumptions?
- What are the financial implications of the choices in dealing with risk?

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Opportunity

The opportunity that comes from longer-term thinking is why my office's strategic plan says:

> *The accelerating pace of change and disrupting trends, such as changing demographics and the effects of exponentially advancing technology will have a significant impact on all business sectors, including the auditing profession.*
>
> *This dynamic and often unpredictable environment also places increasing pressure on Alberta's public service to anticipate and adapt policies, programs and services to ensure it continues to best serve its citizens.*

Our planning had contemplated an audit of the quality of the long-term fiscal sustainability reporting that governments have made to Albertans.

After concluding that the type of long-term reporting that we discuss in this commentary has never been provided to Albertans, I asked my colleagues to:

- explore how other jurisdictions measure and report on their government's plans to preserve their financial condition in the long term
- understand what economists and political scientists have to say on the fiscal challenges faced by governments in petroleum reliant economies
- provide our own analysis of Alberta's fiscal trends

What follows is our commentary, which has a conclusion based on the facts as we see them.

As your Auditor General, I summarize as simply as I can:

Fact
No government in Alberta has reported about Alberta's financial condition in the long term.

Problem
Without a long-term outlook, a government cannot show whether decisions made today are likely sustainable in the long run.

Without long-term reporting, Albertans are being asked to accept on faith that we can carry on borrowing indefinitely or that government has an acceptable plan to increase revenues or reduce expenses which will kick in as oil and gas revenues decline.

Conclusion
Albertans should be shown through long-term reporting whether the government of the day intends to narrow the fiscal gap and if so how and at what speed. Alberta's structural deficit – or fiscal gap – is the biggest risk to the Province being able to provide quality programs and services into the future.

Fiscal Gap Picture

Take a look at the picture on page 17. It shows that in every year since 1981, the Province would have had a deficit if oil and gas revenues are excluded. The same is true if the picture is extended to 2024.

For the past 35 years, excluding oil and gas revenues, Alberta has spent more than it takes in.

Without the oil and gas revenues generated over that same period, the province would have been forced either to run up crippling amounts of debt to maintain spending, or to cut back on programs and services. Eventually, Alberta will not be able to rely so heavily on oil and gas revenues to fund provincial programs and services.

Long-term fiscal sustainability reporting

Long-term reporting is a demonstration by government of the budgetary impact of existing policies and policy options on the Province's long-term fiscal position and the sustainability of public finances.

Such reporting can be done looking at the potential impact of future government activity, by projecting how spending and revenues may evolve over the next, say, 35 years, and the effect this activity would have on the Province's net assets (net liabilities).

We are not prescribing what the reporting should look like. We are saying that government should make long-term financial information available to Albertans, so that they can understand how the decisions government is making today, and which can be reasonably anticipated in the future, will impact them, their children and their grandchildren. And by understanding, engage in an informed way with their elected representatives.

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Merwan N. Saher FCPA, FCA
Auditor General of Alberta

Putting Alberta's Financial Future in Focus

Conclusion

Our conclusion is that Albertans deserve long-term reporting and analysis on how decisions made today will result in sustainable programs and services in the future.

Alberta faces unique financial risks from its reliance on oil and gas revenues. Given these risks, longer-term reporting is critical to show Albertans how the programs and services they have today will be sustainable for future generations.

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Governments in Alberta have not provided Albertans with the sort of long-term reporting alluded to throughout this commentary.

In this document, we talk a lot about dollars, debt and deficits but it is much more than a commentary about money.

A strong and sustainable financial condition is the essential base that supports the public programs and services that Albertans rely on to have a high standard of living.

A healthy financial condition needs a stable fiscal structure.

The public accounting standards board defines financial condition as:

> *A broad, complex concept with both short- and long-term implications that describes a government's financial health in the context of the overall economic and financial environment. Financial condition is a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.*

A government's fiscal structure is the relative amount it spends and the composition of funding that supports it. A fiscal structure should be evaluated not just by the relative magnitude of these parts but the interrelationships between them and the outcomes they achieve together.

What do we mean by fiscal gap?
What the surplus or deficit would be if oil and gas revenues are excluded from the calculation.

Alberta's fiscal structure has a significant gap between the dollar value of Alberta's public programs and services and the dollar value of *stable* revenues used to fund them. In the long run, this fiscal gap, what the surplus or deficit would be if oil and gas revenues are excluded from the calculation, puts Alberta's financial condition, including programs and services, at risk of being unsustainable.

Why a longer-term view matters

Alberta reports on its financial condition through annual financial statements and a three-year budget. There is no reporting to citizens about the financial condition in the long term. A long-term outlook demonstrates whether financial decisions made today are sustainable in the long run. For example, longer term reporting could show whether government intends to narrow the fiscal gap, and if so, how and at what speed.

The fiscal gap has persisted partly because Alberta's budgeting and financial reporting systems are focused on the short term.

Consider this analogy: high-quality cameras use different types of lenses to capture different perspectives. Some lenses work best for close ups and others are used for panoramic shots. By using a lens with a limited perspective the fiscal gap can be obscured in a picture of the province's financial condition. Alberta's fiscal reporting system needs to add a panoramic lens that captures the fiscal horizon.

A full and focused view of the horizon is necessary to assure Albertans that actions taken by governments now and going forward, within the context of reasonably plausible changes to the economy, population, technology, and environment, will result in a healthy financial condition and sustainable programs and services.

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How do others go about thinking longer-term?

The Alberta provincial budget and financial statements detail information about the province's financial condition. When used with other demographic and economic data, fiscal trends can be found in comparisons across time and to other governments. However, these documents do not tell enough of the story to determine whether Alberta's fiscal path is a sustainable one.

The three-year time frame used for the budget is too short. A short time frame does not show how Alberta's financial condition will fare in the long run. A shortsighted view can make fiscal choices appear affordable in the long run when they are not.

Other governments assure their citizens that spending and taxation levels are feasible in the long term.

A shortsighted view can make fiscal choices appear affordable in the long run when they are not.

We reviewed the long term fiscal reporting of 10 other national and sub-national governments to find out how. A summary of what each government reports is in Appendix A. Below we summarize the key and common elements of those reports.

Measuring financial condition is grey by nature. Fear of having to explain why actual results differ from planned ones can dissuade governments from providing useful indicators of financial condition and the government's plans to preserve/improve that condition.

Just as our family doctor can use knowledge from diagnostic tests, our present physical condition, family history, and our lifestyle to make a prognosis and prescription, there is a reasonable way to assess the province's financial health and evaluate courses of action.

What can a longer-term view reveal?

Other governments use long-term fiscal projections as a way to help achieve inter generational well-being.

Long-term reporting on financial condition helps make governments accountable not only for how their decisions affect their citizens today but also tomorrow.

Stewardship is taking care of resources on behalf of others, as opposed to using them for one's own benefit. Long-term reporting on financial condition helps make governments accountable not only for how their decisions affect their citizens today but also tomorrow.

Governments have four pillars on which the fiscal structure rests – how much they spend, tax, borrow, and invest. There are many potential combinations on which the load can be spread but each pillar has limits. An unbalanced load and faltering pillar may take decades to show strain which is why stewardship needs to be assessed on foreseeable long-term projections of financial condition.

Standards and practice for evaluating and reporting on long-term financial condition are developing in Canada. However, governments outside of Canada have recognized the importance of long-term thinking and have been reporting on long-term financial condition for many years.

Measuring and projecting the outcomes of program and service commitments is an emerging good practice. There is great value in preparing these types of reports because they help identify and focus action on the greatest risks. Projected outcomes can also help test how proposed solutions will work in the long run.

A report on long-term financial condition can include a projection, a forecast, or both.

A projection is different than a forecast in that a projection is hypothetical. It is what could happen given a certain set of assumptions. A forecast is what could reasonably be expected to happen if assumptions are based on current trends and actions.

Projections made by jurisdictions that we reviewed ranged from 10 to 75 years. The longer the projection the wider the range of potential outcomes from actual experience. However, the value of these projections is not in precisely predicting the future. The projections make governments accountable for the reasonably foreseeable effects of their actions not only while in power but long after.

Often, more than one projection is used.

It can be useful to compare different scenarios. For example, one might want to compare maintaining the status quo to one or more potential changes in spending or taxation levels. When two or more reasonably possible economic scenarios have significantly different impacts it is best to consider more than one potential future state.

These long-term financial assessments include analyzing demographic and economic changes. Then the estimated impact on the government's financial condition can be projected. Some of these changes may have little impact in the short run and therefore go unnoticed in an annual budget. Over the longer term however, the effects can be significant.

A long-term forecast can help identify which risks affect the government's financial condition the most.

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For example, as the population ages and chronic diseases develop, healthcare costs can be expected to increase. At the same time the workforce participation rate could decrease lowering the tax base to fund these increasing costs. In the short term, the government's infrastructure will not necessarily show signs of needing repair or replacement. A long-term view would acknowledge these inevitable costs and funding requirements.

Interest rates are currently at historic lows. In the longer term they can be expected to rise and the cost of borrowing will be different than it is today. A longer-term view would have to consider economic cycles and that there will be recessions in the future requiring fiscal room to maneuver.

Governments project many different indicators of financial condition. The surplus/deficit is usually included.

One jurisdiction we found focused instead on net cash flows. Others forecast debt and net debt – the difference between a government's liabilities and financial assets. We found a few focus on the fiscal gap as an alternative to the surplus/deficit measure. Some governments, relate these measures to the size of the economy or population such as net debt to GDP or debt per capita. We found another that summed all of the projected cash flows as one number.

No one measure is best. A few taken together can provide a reliable signal whether a chosen path is not sustainable in the long run.

All governments that we sampled at least implicitly acknowledge their service commitments in their spending projections.

To measure whether service commitments will be met by these spending projections, long-term fiscal reporting needs to measure not only the effect of policies on the balance sheet but also the projected outcomes it has on people.

New Zealand provides a good example of how to integrate other measures of well-being. For example, its report looks not only at financial capital but also what they term human, social, and natural capital. Their report recognizes that a government's success lies in balancing the use and development of each of these forms of capital.

Traditional economic measures of prosperity focus on economic growth such as GDP or GDP per capita. However, these measures do not tell how economic gains are utilized to enhance living standards. A suite of indicators covering financial, social, environmental, and health outcomes could show whether economic growth has been converted into tangible prosperity.

Some governments produced these reports annually while others do so every four or five years. Usually they are prepared by a government department. In a few cases an independent parliamentary budget officer prepares similar analysis either directly or as commentary on the government's report.

Risks and opportunities are likely to be missed in absence of putting pen to paper and projecting a fiscal path. Doing so clarifies objectives, requires strategies to achieve them, and measures to periodically check whether the strategies are working.

The field of behavioral economics helps explain that people in general are not inherently good at weighing monetary choices. This weakness is particularly true for monetary decisions with long-term implications.

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Alberta faces many of the same economic and demographic risks and opportunities as other provinces. Exploring each one goes beyond the scope of this commentary. However, in doing research for this report, we found certain risks that are endemic to petroleum producing countries. Exploring them underscores why taking a long-term view is so important.

A revenue or spending problem?

The question of whether Alberta has a spending or revenue problem greatly over-simplifies the crux of the matter.

Of important note is that Alberta is not much different than other petroleum dependent jurisdictions in dealing with the impact of booms or busts on its finances.

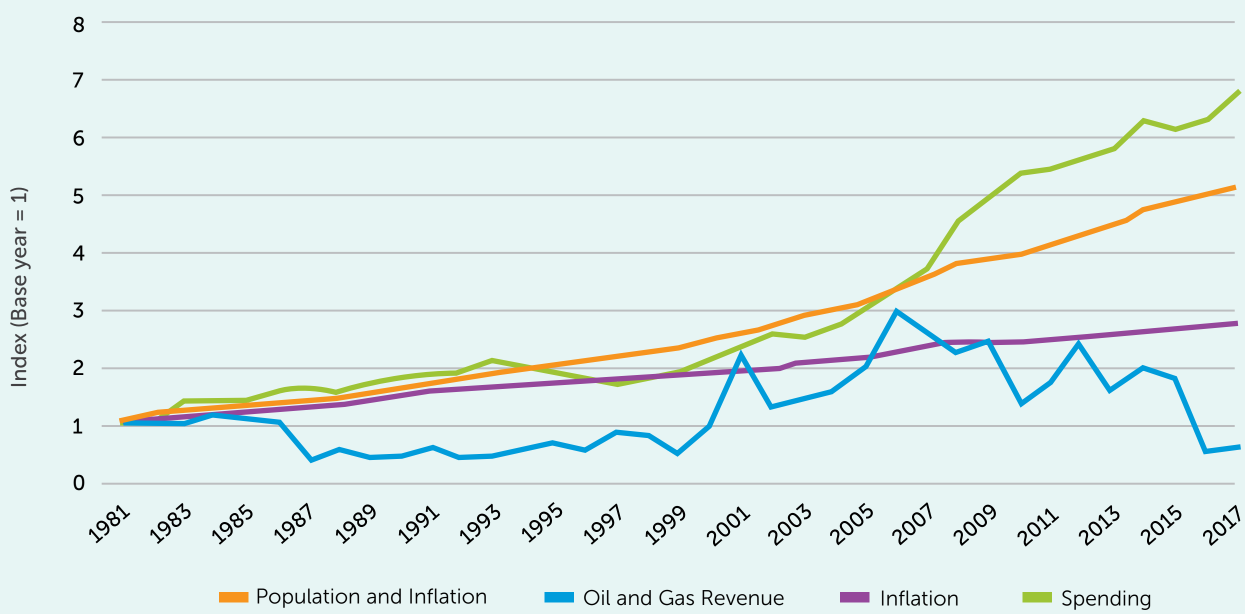
The economic and fiscal risks that governments in petroleum dependent states face have been well studied.

Some have called it the paradox of plenty. Others have called it the resource curse. The paradox or curse is that resource windfalls make fiscal management harder not easier (see Appendix B). Governments that want to succeed at preserving their financial condition in the long term must align short-term decisions with clear long-term fiscal goals to prevent these risks from doing the opposite.

The chart below compares the relative magnitude of change in Alberta's spending, population growth and inflation, and oil and gas revenues over the last 35 years.

Governments that want to succeed at preserving their financial condition in the long term must align short-term decisions with clear long-term fiscal goals.

Comparing growth of spending, oil and gas revenue, population, and inflation



Footnotes:

1. Accounting for infrastructure expenditures has changed significantly over the 35-year period. To make the amounts as comparable as possible we adjusted the total expenses reported on the statement of operations by deducting amortization expense and adding capital asset purchases. Information was available to do this while attempting to restate older periods to current accounting policies was not.
2. Starting in fiscal 2010, the Government of Alberta's financial statements fully consolidated schools, universities, colleges, and hospitals (SUCH) sector financial results. This means that the full expenses of those entities were included where they were not before this date. We estimate that if these amounts were excluded, total expenditures would have grown by a factor of 6.6 times as opposed to 6.8 times shown in the graph

Over the last 35 years spending has grown on average by 5.5 per cent per year while population and inflation growth combined has been 4.7 per cent. This difference is practically even given the difficulty in predicting population and inflation growth and trying to match spending to it annually. However, compounded over 35 years the difference is significant. Population and inflation grew five-fold while spending grew almost seven times.

Following the recession of the 1980s, spending growth was restrained to population and inflation growth from 1985 to 1993. From 1993 to 1997 spending was cut significantly. But by 1997 spending growth in excess of population and inflation resumed. This increase in the rate of spending coincided with large fiscal surpluses, a boom in the economy, and higher than average population growth.

We noted that other jurisdictions have analyzed their cost trends in light of the economic forces that cause them to exceed inflation. Containing expenditures at or below inflation requires service reductions or continuous productivity increases. A long-term picture helps identify strategies that are durable in the long run.

While spending has grown faster than population and inflation growth, Alberta's total oil and gas revenues are less today than they were in the early 1980s. Further, the growth in these revenues was less than the general rate of inflation.

This trend is true despite Alberta's daily oil production tripling since 1981. Even when these revenues peaked in the 2000s, these revenues had grown less than population and inflation growth combined. Yet Alberta relies on them to fund spending largely driven by these demographic and economic changes.

This reliance on oil and gas revenues to fund spending puts public programs and services and the province's fiscal structure at risk.

A strong illusion that oil and gas revenues are a reliable source of funding and fiscal stability is created by nearsightedness and over-relying on the province's bottom line to tell the fiscal story.

The risk this poses to the fiscal structure can be seen in the long term. It is hidden in the short term when oil and gas prices spike creating transitory surpluses. Thus a strong illusion that oil and gas revenues are a reliable source of funding and fiscal stability is created by nearsightedness and over-relying on the province's bottom line to tell the fiscal story.

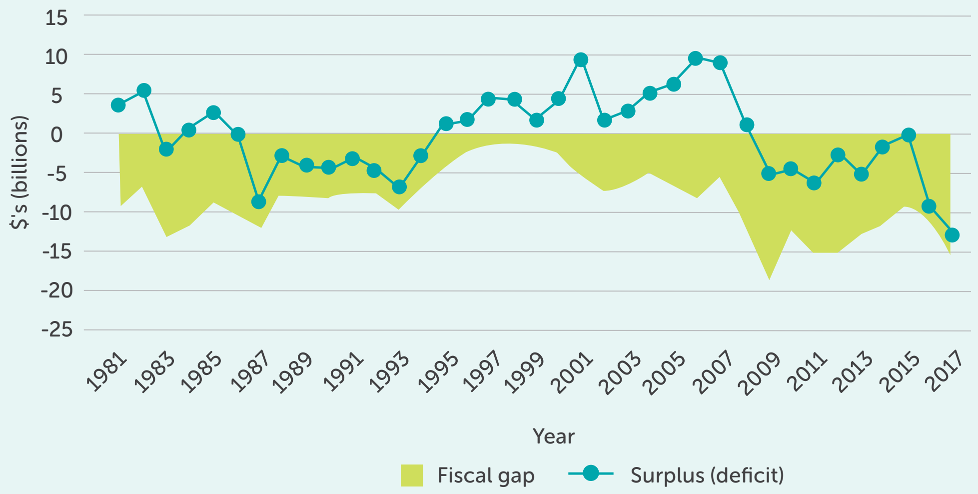
Another way to show this illusion is with the fiscal gap measure.

The fiscal gap, for this purpose, is what the surplus or deficit would be if oil and gas revenues are excluded from the calculation. In the absence of a long-term forecast, it has the benefit of being simple to calculate.

This indicator has been used by economists who study the fiscal risks of petroleum dependent states. It shows that Alberta's underlying financial condition has remained relatively constant over the last 35 years despite various changes to the fiscal structure.

Alberta's Fiscal Gap:
What the surplus or deficit would be if oil & gas revenues were excluded

Presented in 2017 dollars



Footnotes:

1. We have adjusted the amounts for inflation so they can be compared across time.
2. The analysis overstates the degree of variability in the gap across time because governments have not invested in infrastructure uniformly. From the 1980s to the early 1990s and from the mid-2000s on, the rate of infrastructure investment was higher than in the 1990s. If data was available to accurately spread these costs uniformly across the 35-year period the gap would look more uniform across the period.
3. Accounting for infrastructure expenditures has changed significantly over the 35-year period. To make the amounts as comparable as possible we adjusted the reported surpluses or deficits by adding back amortization expense and deducting capital asset purchases. Information was available to do this while attempting to restate older periods to current accounting policies was not. We were also not able to add in capital asset purchases made by schools, universities, colleges, and hospitals (SUCH) sector entities using non-Government of Alberta funds prior to them being consolidated. However this would not change any of the main findings from the analysis
4. Conceptually the fiscal gap should exclude all petroleum rents. Corporate taxes from oil and gas producers form part of the amount that government collects as economic rent on oil and gas development. The Government does not separately report the amount of corporate tax revenue from these producers but it is a significant portion of Alberta's corporate taxes. Thus the fiscal gap is even larger than depicted.

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Where do we go from here?

What does the fiscal gap mean for Albertans?

First, these oil and gas revenues are finite. The province will not be able to rely on them to fund programs and services and support the economy forever. The province may be able to rely on oil and gas for several more generations, or maybe only one more generation. Eventually the fiscal structure will need to be changed. There is no certain way to know by when.

By keeping a short-term view, the province risks not optimizing these remaining finite resources. Further, executing a softly-felt transition needs forethought and much lead time. Just as one needs to plan for retirement and a time when income from work will need to be replaced with income from savings, transitioning the fiscal structure from its reliance on oil and gas revenues needs a long-term plan and consistent monitoring of results to achieve that.

Second, the size of the fiscal gap relative to the total budget indicates the degree of risk that when prices inevitably fall below the last peak, the province will have to borrow money, defer or reduce programs and services, or raise taxes. While none of these three options are wanted, they all stem from the fiscal gap.

Third, the fiscal gap does not just indicate a funding shortfall or excess of spending over stable revenues. Like a ratchet that tightens when pulled in one direction but does not loosen in the other, high revenue volatility can widen the fiscal gap both when oil and gas prices are high and low. When prices are high spending increases and tax cuts appear affordable. When prices are low one or both appear necessary to bolster the economy. In as far as this behavior has been observed many times over in petroleum reliant states, the fiscal gap foretells that piecemeal fixes will be undone by future volatility and the binge, borrow, and belt tightening behavior that economic dependence on petroleum incents.

For these three reasons, Albertans should focus on the fiscal gap. Alberta's governments should be accountable for the degree to which their actions increase or decrease the fiscal gap. In the short run, increasing or decreasing the fiscal gap is a better measure of fiscal stewardship than the annual surplus or deficit.

How does long-term fiscal reporting help deal with these risks?

Building and maintaining public support for preserving government long-term financial condition in both booms and busts is necessary. Strong institutions, processes supported by organizations, legislation, and culture also help ensure that over time governments adhere to long-term fiscal goals. They do this by keeping these goals fresh in the public's mind and providing continuity in measuring and reporting on progress towards meeting them.

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In our research we noted that Norway, an industrialized petroleum producer with about five million people, has implemented such mechanisms to mitigate these risks. The fiscal gap is the main tool used by Norway to guide their long-term fiscal plan.

Norway's budget also includes a long-term (40 years) projection of resource revenues. By showing the eventual decline in these revenues, this forecast helps maintain public support for keeping to a long-term fiscal plan. It also shows how funding will be replaced with earnings on the resource revenues saved. Budgetary control is also helped by weighing decisions to change spending or taxation levels against the fiscal gap and long-term forecast.

Explaining through long-term reports and supplementary white papers how saving also serves to protect not only social programs but also long-term economic resilience also helped. When oil and gas prices spike, saving rather than spending buffers the economy from inflationary pressures that can hurt economic competitiveness and diversification.

Norway chose to save its resource revenues as a strategy to buffer the budget and economy from oil price volatility to protect the economy and the budget.

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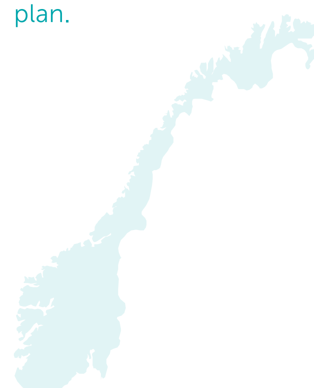

What choices do Albertans face in the long run?

In the short to medium term Alberta can mitigate the risks associated with the fiscal gap on public programs by incurring debt.

The fiscal gap means that at some point the difference between what Alberta spends on public programs and services, and how it funds them will have to be reconciled.

Income taxes are normally a government's main source of funding. In Alberta these taxes fund less than one third of total spending. They are less than the cost of healthcare alone.

This means the remaining pillars – spending, taxation, or investing will need to be used. For instance, income taxes are normally a government's main source of funding. In Alberta these taxes fund less than one third of total spending. They are less than the cost of healthcare alone.

In 2007-2008 the province had net financial assets of $35 billion. By 2017 this balance had decreased by $44 billion resulting in net debt of $9 billion.

Net debt

Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government.

When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.

A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.

Budget 2018 forecasted further deficits of $31 billion over the subsequent four years. Also by 2021 the province forecasted borrowing $73 billion to fund operations and build infrastructure.

Surpluses are required to pay back debt.

A surplus of $3 billion per year every year for 25 years would be needed to pay off the debt expected to be accumulated by 2021. The surplus would need to be even more, approximately another $1 to 2 billion per year, to be able to replace and add infrastructure without increasing debt further.

Long-term reporting on financial condition can not only help Albertans see what is on the horizon but also the hazards and opportunities that lie ahead.

With this knowledge, choices will not necessarily be easier but the future could be.

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Appendix A – Summary of Long-term Fiscal Reporting of Selected Governments

Jurisdiction	Title of report	Legislation	Frequency of report	Time horizon	Main projection	Scenarios in main projection	Supplementary indicators
Canada (Finance Canada)	Update of Long-term Economic and Fiscal Projections	No	Annually	40 years	• Budgetary balance to GDP • Debt to GDP	• Prior year • Current year • Bottom 4 individual forecasts • Top 4 individual forecasts	
Canada Parliamentary Budget Office	Fiscal Sustainability Report	Yes	Annually	75 years	• Fiscal gap	• Projected on a no policy change basis	• Net debt • Major transfers to individuals • Major federal transfers to provinces
Canada (Ontario)	Ontario's Long-Term Report on the Economy	Yes	Within two years after each provincial election	20 years	• Net debt	• Projected on a no policy change basis	• Health spending per capita by age group
Australia	Intergenerational Report	Yes	At least every 5 years	40 years	• Underlying cash balance • Spending • Primary balance • Net debt • Net financial worth	• Previous policy • Current policy • Proposed policy	• Government spending in key areas • Gross debt • Net interest payments
Australia – New South Wales	Intergenerational Report	Yes	Every 5 years	40 years	• Fiscal gap	• Projected on a no policy change basis	• Net debt as a share of Gross State Product • Net interest expense as a share of revenue • Composition of the fiscal gap • Age related expense growth

Jurisdiction	Title of report	Legislation	Frequency of report	Time horizon	Main projection	Scenarios in main projection	Supplementary indicators
Australia (Queensland)	Economic and Fiscal Challenges: Interim Results of Medium-Term Modeling	No	Ad hoc – in response to the 2013 Independent Queensland Commission of Audit report	10 years	• Fiscal balance (surplus/ deficit)	• With fiscal repair (current policy) • Without fiscal repair (previous policy)	• Gross debt • Debt to revenue ratio • Non-financial borrowings per capita
New Zealand	Statement on New Zealand's' Long-Term Fiscal Position	Yes	At least every 4 years	At least 40 years	• Net debt a.Primary expenses to GDP b.Primary balances to GDP	• Historical spending patterns • Stabilize net-debt at 20% of GDP	• Improved social outcomes • PV of primary fiscal deficit
Norway	Long-term Perspectives on the Norwegian Economy	No	Every 4 to 5 years	40 years	• Financing gap	• Baseline • Demography	
U.K. (Office for Budget Responsibility)	Fiscal Sustainability Report	Yes	Annually	50 years	• Fiscal gap (A) • Net debt (B)	(A) Fiscal gap –both scenarios projected target debt-to-GDP ratios of 20, 40 and 60% in 50 years: • Central • Gradual progress (B) Net debt • Central • Constant primary balance	• Non-interest spending and receipt projections • Healthcare spending • Primary balance • Net debt • Interest payments • Inter-temporal budget gap
U.S.A. (Department of Treasury)	Statements of Long-Term Fiscal Projections, Financial Report of the United States Government	Yes	Annually	75 years	• Non-interest spending less receipts	• Projected on the basis of current policy	• Receipts and non-interest spending

Appendix B

Sources we used to understand the fiscal gap and challenges faced by petroleum dependent governments

- Humphreys, Sachs, and Stiglitz (editors). *Escaping the Resource Curse.* Columbia University Press, 2007.
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- Ross, M. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton University Press, 2012.
- Karl, T. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California, 1997.
- Chalk, N. *Fiscal Sustainability with Non-Renewable Resources*. International Monetary Fund, 1998.

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