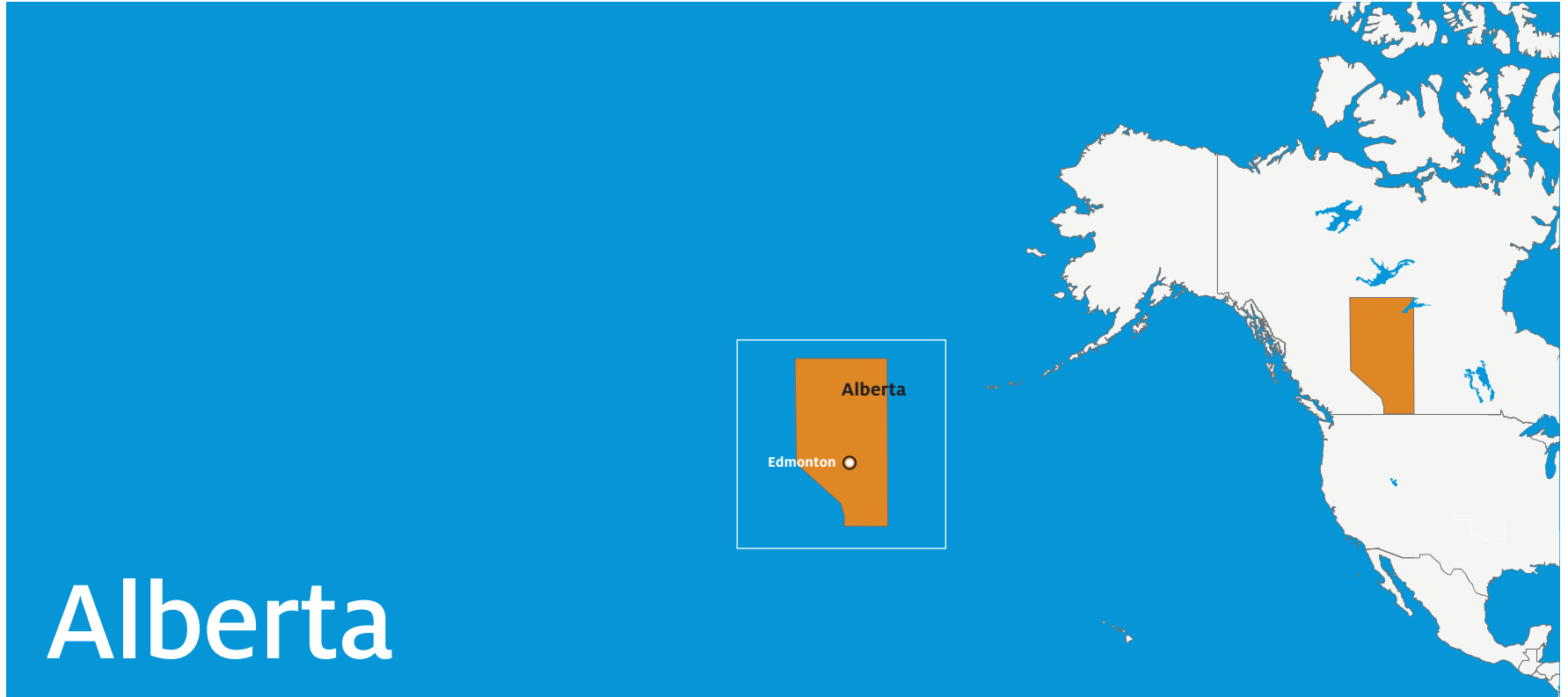


## Natural Resource Funds



# Alberta

## Alberta Heritage Savings Trust Fund and Contingency Account



**Market Value**

**Alberta Heritage Savings Trust Fund and Contingency Account**  
\$16.8 billion



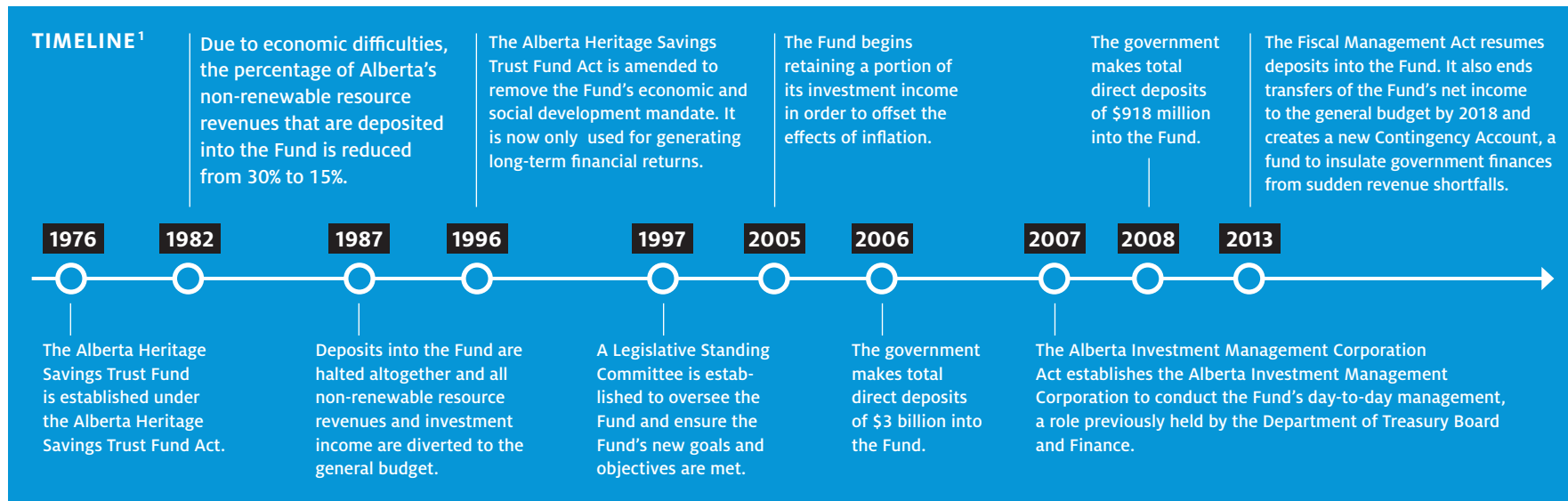
Good Governance Fundamentals	
Clear Deposit Rules	no
Clear Withdrawal Rules	yes
Clear Investment Rules	yes
Transparent	yes
Publicly Available Audits	yes
Effective Oversight	yes

**Fund Highlights**

- The Alberta Heritage Savings Trust Fund was established in 1976. The Contingency Account was established in 2013.
- The objective of the Alberta Heritage Savings Trust Fund is to save and invest non-renewable resource revenues for the future. The objective of the Contingency Account is to cover short-term fiscal deficits.
- Once the Contingency Account has reached at least \$5 billion, a set percentage of oil, gas and mining revenues is distributed among the Alberta Heritage Savings Trust Fund

and several other funds benefiting scientific research and education. How much goes to each fund is left to the Alberta Treasury Board’s discretion.

- The Alberta Heritage Savings Trust Fund’s objective is to earn an average annual real return of 4.5 percent.
- The Legislative Assembly has a standing committee tasked with reviewing fund performance.
- The Alberta Heritage Savings Trust Fund is exceedingly transparent, publishing details on specific investments.



### Fund Inception<sup>2</sup>

- The Alberta Heritage Savings Trust Fund was established in 1976 by the **Alberta Heritage Savings Trust Fund Act**.
- In 1996, the Alberta Heritage Savings Trust Fund Act was amended after a government survey of Albertans revealed that the public wanted it to be used as a future generations savings fund.
- The **Fiscal Management Act of 2013** created the Contingency Account as a stabilization fund.

### Fund Objectives

- Under the original Alberta Heritage Savings Trust Fund

Act, the Fund was established in order to save oil revenues for the future, strengthen and diversify the economy, and improve Albertans' quality of life.<sup>3</sup>

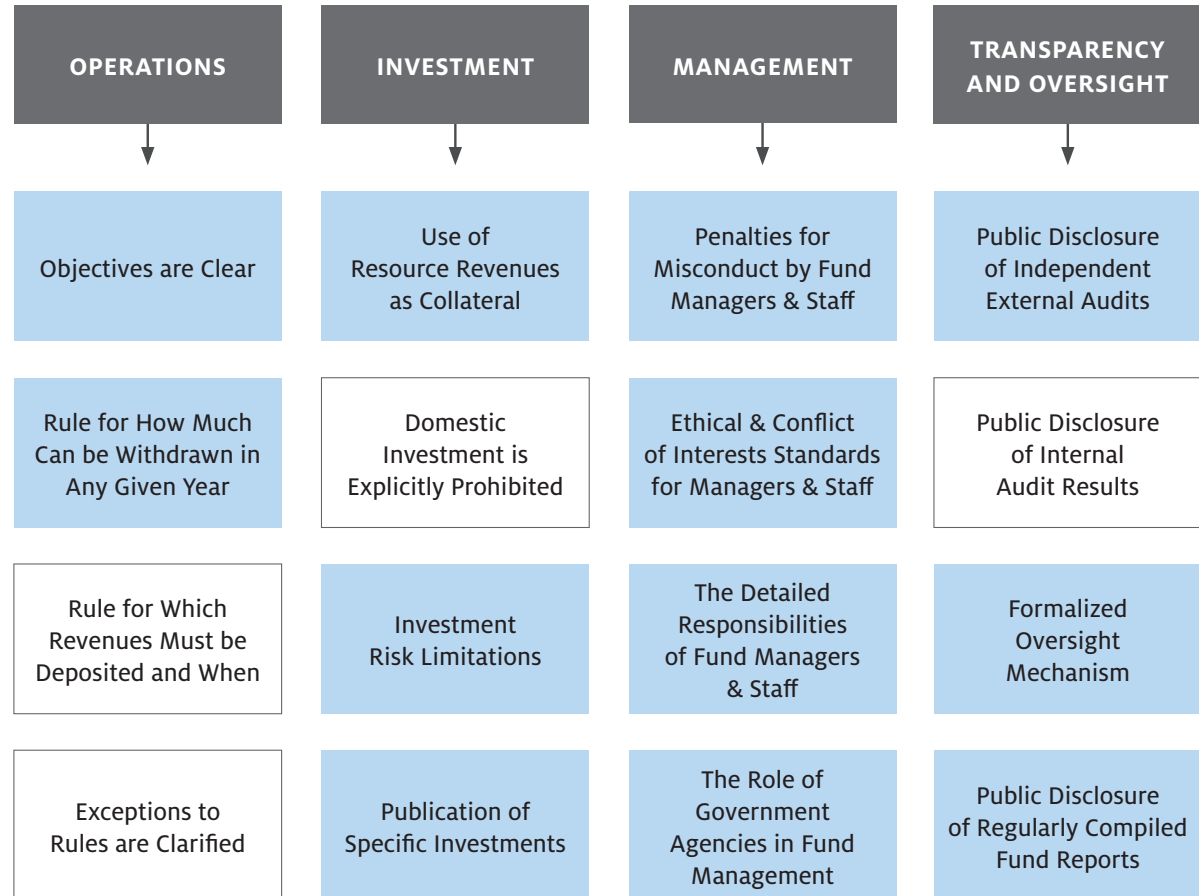
- With the amendment of the Alberta Heritage Savings Trust Fund Act in 1996, the Fund is no longer used by the government for economic and social development. The purpose of the Fund is now to "provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."<sup>4</sup>
- The purpose of the Contingency Account is to provide budget financing in those years where expenses exceed revenues.

# Good Governance Standards and Gaps in Regulation

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

12/16

Good Governance Standards Met



Presence of Regulation
  Absence of Regulation

## Operational Laws, Rules and Policies

*Starting in 2013, regular deposits of non-renewable resource revenues into the Fund will resume. Deposit rules have been suspended since 1987.*

### Fund Deposit Rules

#### 1976-1982

- Fund deposit rules have changed a lot since the Fund was first established in 1976. Initially, 30 percent of non-renewable resource revenues were deposited into the Fund.<sup>5</sup> According to the Alberta Heritage Savings Trust Fund Act, non-renewable resource revenues include<sup>6</sup>
  - Money received under mineral agreements or contracts regarding the recovery, processing or sale of a mineral or mineral product, the development of mines or quarries, and royalties from any minerals recovered;<sup>7</sup>
  - Fees and bonuses paid in connection with the above mineral agreements or contracts;
  - Money from any sales of the government's share of royalties from a mineral; and
  - Money received in place of royalty payments if already agreed to under a contract.
- Income from investments are also considered part of the Fund.<sup>8</sup>

#### 1982-1987

- The percentage of non-renewable resource revenues deposited into the Fund was reduced to 15 percent in 1982 until deposits were suspended altogether in 1987.<sup>9</sup>

#### 1987-2013

- Since then, the only deposits into the Fund have been discrete amounts totaling \$3 billion in 2006 and \$918 million in 2008. Both were budget surpluses from previous years.<sup>10</sup>

#### 2013-

- With the Fiscal Management Act of 2013, deposits of non-renewable resource revenues will resume under the following rules each year:<sup>11</sup>
  - 5% of the first \$10 billion in non-renewable resource revenue;
  - 25% of the next \$5 billion above that; and
  - 50% of all non-renewable resource revenue in excess of \$15 billion.
- The 2013 budget adjusts the new deposit rule by depositing the first \$5 billion in resource revenue into a new Contingency Account for fiscal stabilization purposes. In subsequent years, all or some of any fiscal surpluses will be deposited into the Contingency Account.<sup>12</sup> The Alberta Treasury determines the portion of fiscal surpluses to be deposited into the Account. The size of the Contingency Fund cannot fall below \$5 billion.
- Once the Contingency Fund has reached \$5 billion, the deposit rules in the Fiscal Management Act of 2013 will apply. Non-renewable resource revenues will be distributed to the Alberta Heritage Savings Trust Fund as well as other provincial endowment funds, specifically the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund and the Alberta Heritage Scholarship Fund.<sup>13</sup> It is at the discretion of the Alberta Treasury Board to determine the allocation between the funds.<sup>14</sup>

*Starting in 2013, regular deposits of non-renewable resource revenues into the Fund will resume. Deposit rules have been suspended since 1987.*

### Fund Withdrawal Rules

#### Alberta Heritage Savings Trust Fund

- Since the Alberta Heritage Savings Trust Fund Act was amended in 1996 to prohibit the use of funds for economic and social development projects, only investment income has been withdrawn. Non-renewable resource revenues deposited into the Fund cannot be withdrawn.
- Investment income of the Fund is transferred to the general budget, also known as the General Revenue Fund, minus an amount that is retained in the Alberta Heritage Savings Trust Fund to offset inflation.<sup>15</sup>
- Under the Fiscal Management Act of 2013, the net income of the Fund will no longer be withdrawn after fiscal year 2017/2018 and will instead be retained in the Fund using a graduated process.<sup>16</sup> Although originally set to start in fiscal year 2015/2016, the government has decided to move the starting date up one year and will now be implemented as follows:<sup>17</sup>
  - 30% of net income or the amount needed for inflation-proofing, whichever is greater, is retained by 2014/2015;
  - 50% of net income or the amount needed for inflation-proofing, whichever is greater, is retained by 2014/2016; and
  - 100% of net income is retained by 2016/2017.

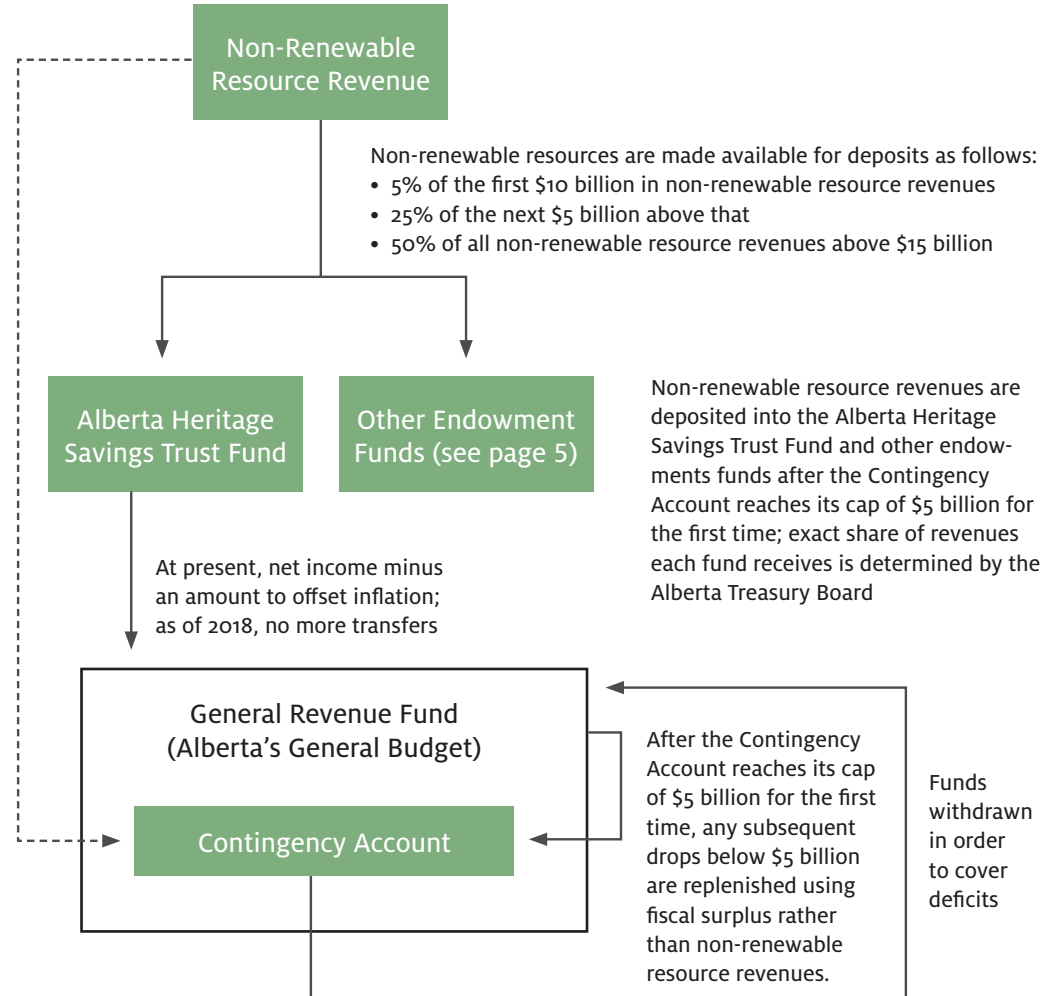
#### Contingency Account

At the end of the fiscal year, the government may draw down on the Contingency Fund if it ran a budget deficit. However the Account must be replenished to a minimum of \$5 billion when the government runs a budget surplus.

# Operational Laws, Rules and Policies

## Flow of Funds

Funds first go to the Contingency Account before the Alberta Heritage Savings Trust Fund or other endowment funds until the Account reaches its cap of \$5 billion; no further deposits of non-renewable resource revenues are made after the Account reaches its cap for the first time



## Investment Laws, Rules and Policies

### Investment Authority

Under the Alberta Heritage Savings Trust Fund Act, ultimate responsibility for the Fund's investments lies with Alberta's President of Treasury Board and Minister of Finance. Responsibility for the day-to-day management of investments is held with the Alberta Investment Management Corporation, an external body established by the Alberta Investment Management Corporation Act to provide investment management services for the various provincial endowment funds.<sup>18</sup>

### Investment Objectives

The Fund's target asset allocation is expected to earn an annual real return of 4.5 percent on average over a five-year period, after expenses. Investment managers are expected to generate an additional average annual return of 1 percent for a total of 5.5 percent when the actual investments are made.<sup>19</sup>

### Investment Allocation

The policy target asset allocation is:<sup>20</sup>

- 20 percent money market and fixed income
- 30 percent inflation sensitive and alternative investments (includes real estate, infrastructure and private debt)
- 50 percent equities (42 percent global equities and 8 percent Canadian equities)

### Investment Strategy<sup>21</sup>

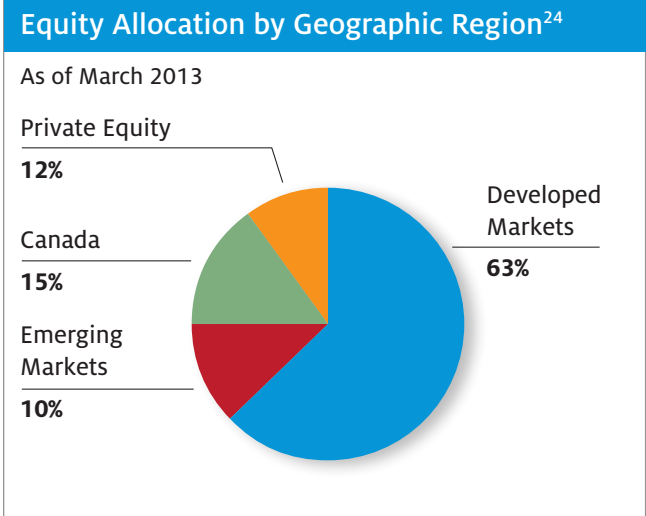
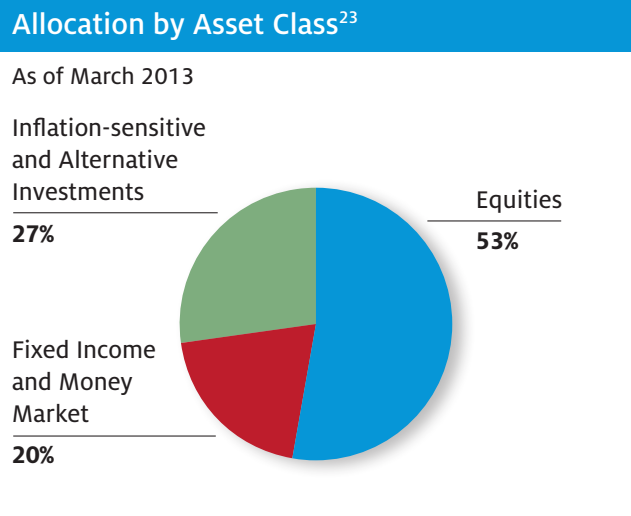
- The Fund invests long-term, balancing higher risk with higher expected returns.
- There are periodic reviews of investment policy, risk profile and asset allocations.
- Risk is managed at both the portfolio level and at the level of individual investments.
- Deviation from target asset allocation is allowed if it is able to improve rates of return in relation to risk.
- Investment managers may pursue active management by making choices to deviate from the policy portfolio in order to generate higher returns.
- The Fund is not allowed to make direct investments in companies in the tobacco industry.

### Policy on In-State Investments:

Fund assets may be invested anywhere in Canada including Alberta.<sup>22</sup>



# Investment Laws, Rules and Policies



# Management and Accountability

## Management and internal accountability

*The Premier selects the President of Treasury Board and Minister of Finance.*

*The Standing Committee reviews the Fund's performance each year and reports to the Legislature on its findings.*

*The President of Treasury Board and Minister of Finance has ultimate responsibility for management of the Fund's investments.*

*The Department of Treasury Board and Finance develops the investment policies and guidelines for the Fund.*

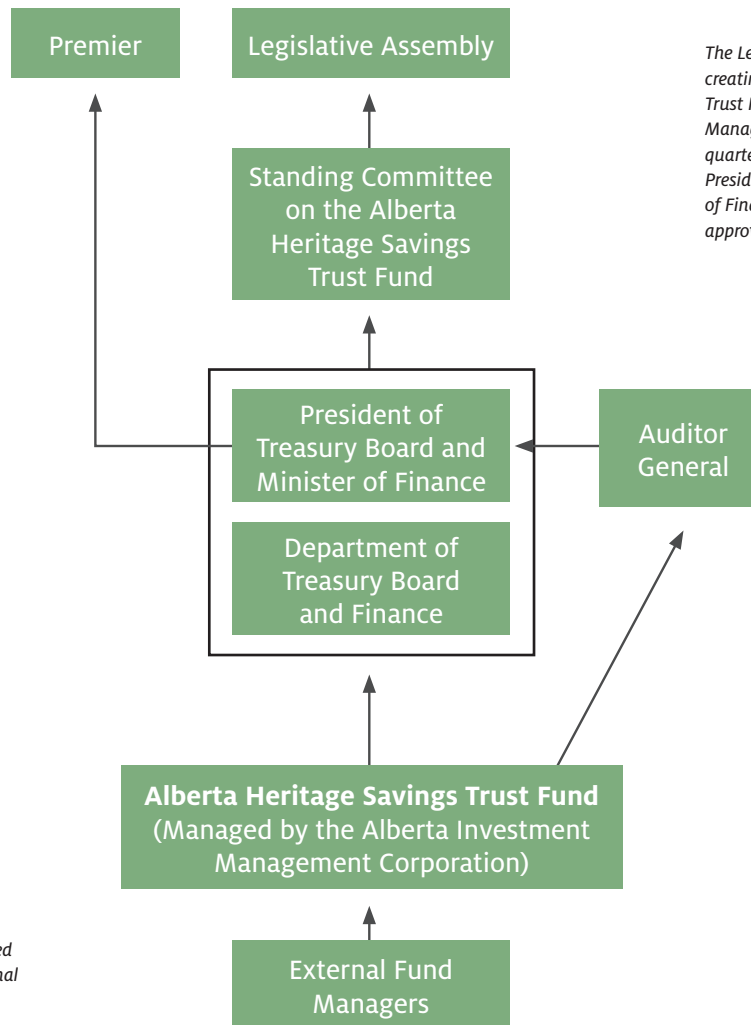
*The Alberta Investment Management Corporation handles day-to-day management of the Fund.*

*Although a majority of funds are managed internally, a portion is managed by external fund managers.*

## External accountability

*The Legislature passed the legislation creating the Alberta Heritage Savings Trust Fund and the Alberta Investment Management Corporation. It receives quarterly and annual reports from the President of Treasury Board and Minister of Finance after they are reviewed and approved by the Standing Committee.*

*The Auditor General audits the Fund, which is included in the President of Treasury Board and Minister of Finance's report to the Standing Committee. The Auditor General is selected by and can be dismissed by the Legislative Assembly.*



*A Legislative Standing Committee, with representatives from all major political parties, ensures compliance with the regulations governing the Fund and holds annual public meetings.*

## Oversight and Safeguards

### Oversight Mechanisms

- The **Legislative Standing Committee of the Alberta Heritage Savings Trust Fund**, which contains representatives from all parties of the Legislature, conducts annual reviews of the Fund's performance, ensuring compliance with the regulations governing the Fund. The Standing Committee is required by law to hold annual public meetings.
- The **Legislative Standing Committee on Public Accounts** reviews Alberta's public finances and holds public meetings with the Ministry of Treasury Board and Finance to discuss budget issues, including management of the Contingency Account.
- The Department of Treasury Board and Finance performs a **periodic review of investment methodology**.
- Fund finances are subject to a **regular external audit** by the Auditor General. However, the Auditor General is selected and dismissed by the Legislative Assembly, which is controlled by governing party.
- Deposits into Alberta's various endowment funds are **approved by the Legislature**.

### Common Oversight Mechanisms or Safeguards Not Present in Alberta

- There is **little regular monitoring** by citizens or civil society organizations.

## Transparency Laws, Rules and Policies

**There is public disclosure of the following:**

When or how often Fund reports are published and made publicly available	yes	
Which individuals or organizations are responsible for publishing Fund reports	yes	
Size of the Fund(s)	yes	
Deposit and withdrawal amounts	yes	
Returns on investments	yes	
Detailed asset allocation – geographic location	yes	
Detailed asset allocation – asset class	yes	
Detailed asset allocation – specific assets	yes	
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules	yes	

## **Annex:** List of Applicable Laws

### **Alberta Heritage Savings Trust Fund Act (including amendments)**

<http://www.qp.alberta.ca/documents/Acts/A23.pdf>

### **Alberta Investment Management Corporation Act**

<http://www.qp.alberta.ca/documents/Acts/A26p5.pdf>

### **Fiscal Management Act**

<http://www.qp.alberta.ca/documents/Acts/F14p5.pdf>

### **Financial Administration Act**

<http://www.qp.alberta.ca/documents/Acts/F12.pdf>

### **Mines and Minerals Act**

<http://www.qp.alberta.ca/documents/Acts/M17.pdf>

1. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 4-5. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>
2. <http://www.finance.alberta.ca/business/ahstf/history.html>
3. <http://www.finance.alberta.ca/business/ahstf/history.html>
4. Alberta Heritage Savings Trust Fund Act 2013 Preamble, Alberta Queen's Printer 2013. Available at: <http://www.qp.alberta.ca/documents/Acts/A23.pdf>
5. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 4. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>
6. Alberta Heritage Savings Trust Fund Act 1996 Section 1 (d), Alberta Queen's Printer 2013. Available at: [http://www.trusts.it/admincp/UploadedPDF/201106231544040.sCANAL\\_AlbertaHeritageSavTrust\\_2007.pdf](http://www.trusts.it/admincp/UploadedPDF/201106231544040.sCANAL_AlbertaHeritageSavTrust_2007.pdf)
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9. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 4. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>
10. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 20. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>
11. Fiscal Management Act 2013 Section 3 (2), Alberta Queen's Printer 2013. Available at: <http://www.qp.alberta.ca/documents/Acts/F14p5.pdf>
12. Budget 2013: Responsible Change, Fiscal Framework and Savings Plan p. 54. Available at: <http://www.finance.alberta.ca/publications/budget/budget2013/fiscal-plan-savings-plan.pdf>
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17. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 5. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>
18. <http://www.finance.alberta.ca/business/ahstf/faqs.html>
19. Alberta Heritage Savings Trust Fund Statement of Investment Policy and Goals 2011 p. 8. Available at: <http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf>
20. Alberta Heritage Savings Trust Fund Statement of Investment Policy and Goals 2011 p. 9. Available at: <http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf>
21. Alberta Heritage Savings Trust Fund Statement of Investment Policy and Goals 2011 p. 5. Available at: <http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf>
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24. Alberta Heritage Savings Trust Fund Annual Report 2012-2013 p. 14. Available at: <http://www.finance.alberta.ca/business/ahstf/annual-reports/2013/Heritage-Fund-2012-13-Annual-Report.pdf>