

# A New Fiscal Framework for Alberta

by Tegan Hill and Joel Emes

Alberta's reliance on non-renewable resource revenue has fueled instability in provincial finances for decades. From 2021/22 to 2024/25, resource revenue is projected to average \$9.9 billion annually, roughly twice its annual average (\$4.9 billion) from 2017/18 to 2020/21. There is a real risk that the provincial government will rely on this rebound in resource revenue to paper over the province's big underlying fiscal problems and continue on the resource revenue "roller coaster". To truly fix Alberta's finances for the long-term, the province needs a fundamentally new path forward.

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As recently as the early 2000s, Alberta consistently ran surpluses and enjoyed a net financial asset position. At the same time, relatively high revenue from non-renewable resources ("resource revenue", hereafter) fueled unsustainable increases in spending. Since 2008/09, a combination of high spending and lower commodity prices has contributed to consistent deficits, which were exacerbated by the decline in oil prices in 2014 and the COVID-induced recession in 2020. In 2020/21, the deficit reached \$17.0 billion. Unfortunately, this cycle of public-finance boom and bust has repeated itself more than once.

The current provincial government expects to balance the budget before the end of what would be its second term in 2027; however, it has yet to present a detailed plan. To balance the budget while improving stability in provincial finances for the long term, the provincial government must go beyond spending reductions (and/or tax increases) and fundamentally change how it deals with resource revenue. As recommended in A New (Old) Fiscal Rule

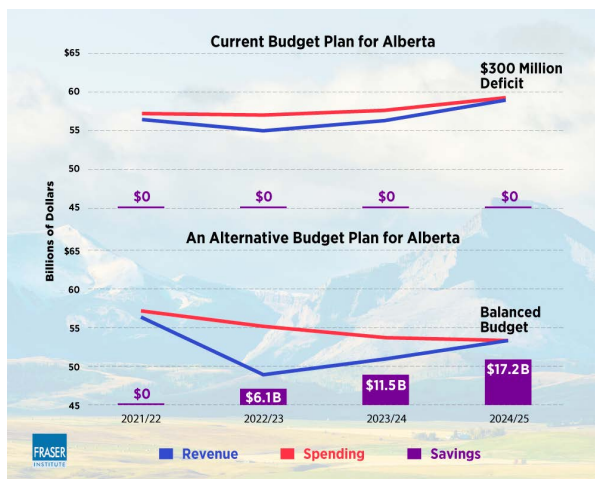
for Non-Renewable Resource Revenue in Alberta (Hill, Emes, and Clemens, 2021), re-establishing the Alberta Sustainability Fund (ASF) is a necessary first step.

Introduced in 2003, the ASF was one of the most effective policies the provincial government used to address the volatility of resource revenue in the budget. The ASF sets a stable amount of resource revenue that can be spent annually; when actual resource revenue is above the set amount, the excess is saved in the ASF and, when resource revenue is below the set amount, money is withdrawn from ASF to cover the shortfall. In the original ASF, the set amount was based in statutory law, which meant it was relatively easy for governments to drain and eventually, in 2013, eliminate the fund. The rule should instead be constitutional, which will make it more difficult for governments to change.

Hill, Emes, and Clemens (2021) recommend that the set amount be \$3.76 billion in 2022/23, adjusted for inflation

annually. The ASF balance is to be maintained at 2.9 times the set amount of \$3.76 billion, to ensure that sufficient funds are available during periods of low resource revenue to provide the required amount. According to projections, the ASF could be built up by 2023/24.

Assuming any “excess” resource revenue—beyond the set amount and that required to fund the ASF—is included in the budget, the provincial government could moderate growth in nominal program spending to 1.5% over three years to reach balance by 2024/25 while introducing the ASF. The plan would be a big step towards improving fiscal stability for the future, but would still rely somewhat on volatile resource revenue to reach balance. Moreover, the ASF does not prepare the province for a possible permanent decline in resource revenue, which has become increasingly likely given recent regulatory announcements by the federal government that will restrain, if not curtail, energy development in the province.

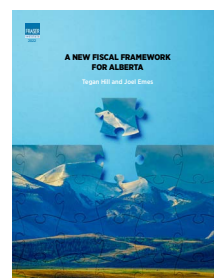


To achieve this, Alberta should also reintroduce contributions to the Heritage Fund. The Heritage Fund was created in 1976/77 to save a share of the province’s resource wealth for the future. The rules around the fund, however—including those requiring contributions—were statutory and therefore easily changed by governments. As a result, no resource revenue contributions have been made since 1986/87.

Contributing “excess” resource revenue to the Heritage Fund, instead of including it in the budget, would ensure Alberta is not relying on volatile resource revenue to reach balance. Hill, Emes, and Clemens (2021) recommend that 25% of all resource revenue should be earmarked for the Heritage Fund once excess resource revenues are sufficient to meet this set contribution rate, which according to projections would be in 2023/24. To balance the budget by 2024/25 while incorporating contributions to both the ASF and the Heritage Fund, nominal program spending must be reduced by 8.4% over three years, or 2.8% (on average) annually.

The plan would undoubtedly require sacrifice. However, it effectively gets Alberta off the resource revenue roller-coaster by better matching ongoing spending with ongoing revenues. Moreover, it prepares the province for the growing likelihood that resource revenue will permanently decline by requiring that a portion of one-time revenue be transformed into a financial asset, which will generate income for the future.

Without fundamentally changing how the government treats resource revenue, Alberta will remain on the resource revenue “roller coaster”. Balancing the budget while introducing a new fiscal framework, which includes requiring a share of resource revenue be saved in the Heritage Fund and a predictable level of resource revenue is supported by the ASF, would fix Alberta’s finances for the long term.



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