FRASER RESEARCH BULLETIN

October 2023

It's Time to Get Off the Resource Revenue Rollercoaster: Re-establishing the Alberta Sustainability Fund

Tegan Hill and Milagros Palacios

Summary

- Alberta's volatile resource revenues are fuelling its ongoing fiscal problem. The provincial government typically includes all resource revenue in its budget. When resource revenue is relatively high, the province enjoys budget surpluses but faces pressure to increase spending; when resource revenues drop, spending remains high and the province turns to deficits.
- Despite efforts to better manage Alberta's finances, the Smith government is largely repeating past mistakes by increasing spending during a period of relatively high resource revenue.
- In the 2022 mid-year update, the Smith government increased the plan for nominal program spending from Budget 2022 every year from 2022/23 through 2024/25 for a cumulative increase of $5.9 billion. In Budget 2023, the Smith government increased the plan further with a cumulative increase of $10.1 billion from 2022/23 through 2024/25 compared to the 2022 mid-year update.
- Rather than spend all of the resource revenue in years when it is relatively high, the Alberta government should use this opportunity to stabilize provincial finances over the long-term by re-introducing a rainy-day account based on the earlier Alberta Sustainability Fund (ASF).
- To do so, it would limit the resource revenue included the budget to a stable amount, thereby limiting the amount of money available for annual spending. Any resource revenue above the set stable amount would be automatically saved in the ASF to be withdrawn to maintain that stable amount in years with relatively low resource revenue. The government could implement the ASF while maintaining a balanced budget and without an annual reduction in nominal spending.
- Based on 2023 budget projections, with spending restraint, the provincial government could re-introduce an ASF worth $9.8 billion by 2025/26.

Introduction

Alberta has an ongoing fiscal problem, but the provincial government has an opportunity and the ability to fix it. Resource revenues, which include oil and gas royalties, are volatile, which has created instability in provincial finances for decades (Tombe, 2018; Kneebone and Wilkins, 2018; Hill, Emes, and Clemens, 2021). This volatility is challenging for the Alberta government because it normally includes all resource revenue in its annual budget. When resource revenue is relatively high, the provincial government typically enjoys surpluses and faces pressure to increase spending; when resource revenues drop, spending remains high and the province's finances turn to deficits.

In its first budget the Smith government had an opportunity to use surpluses, fuelled by a historic windfall in resource revenue, to reintroduce a rainy-day account and limit the amount of resource revenues it included in the annual budget to help avoid future deficits. Instead, the Smith government increased spending and let the province continue on its resource revenue rollercoaster.

With oil prices expected to be lower than originally forecast in Budget 2023, Alberta's budget could soon be back in a deficit position. Fortunately, the province still has time to stabilize its finances over the long term. To accomplish this, the Smith government needs to re-introduce the Alberta Sustainability Fund (ASF), a rainy-day account that limits the amount of resource revenue available for annual spending. When resource revenues are relatively high the province must save the excess revenue in the ASF, which it can then use to help avoid deficits when resource revenues are relatively low. This bulletin reviews Alberta's current fiscal position and compares the provincial government's fiscal plan in Budget 2023 to an alternative fiscal plan that incorporates the ASF.

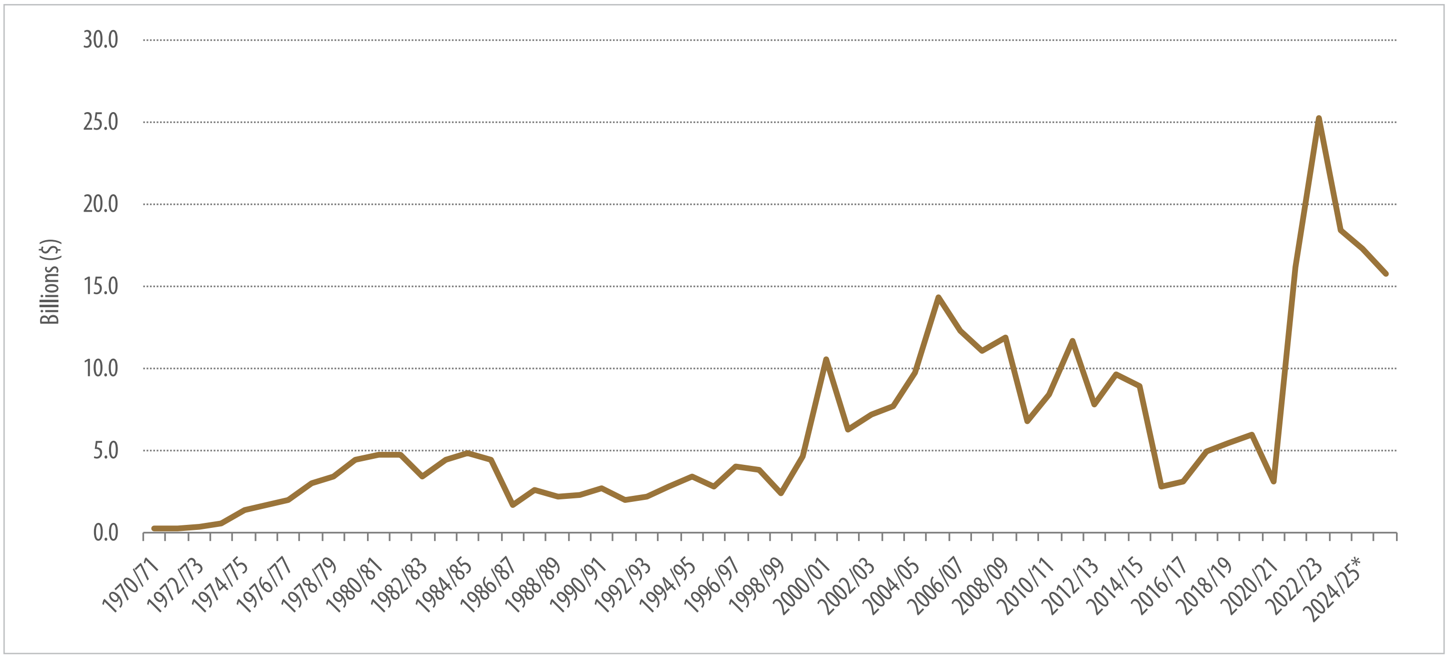
Alberta remains on the resource revenue rollercoaster: high resource revenue fuels increased spending

It's important to understand Alberta's current fiscal position and the extent to which the provincial government is repeating past mistakes. In recent years Alberta has experienced a resource revenue boom. Figure 1 shows nominal provincial resource revenue since 1970/71. For additional context, figure 2 shows nominal resource revenue as a share of total nominal provincial government revenue since 1970/71. As figure 1 illustrates, nominal resource revenue sharply increased from $3.1 billion in 2020/21 to $16.2 billion in 2021/22. It reached a nominal record high of $25.2 billion in 2022/23 and is projected to reach the second highest level in Alberta's history at $18.4 billion in 2023/24. Nominal resource revenue is projected to remain high in historical terms at a projected $17.3 billion in 2024/25 and $15.7 billion in 2025/26. Similarly, as figure 2 shows, as a share of total nominal provincial revenue, nominal resource revenue increased from 7.2 percent in 2020/21 to 23.7 percent in 2021/22. It accounted for 33.2 percent of total nominal provincial revenues in 2022/23 and is projected to account for nearly a quarter of all provincial government revenues from 2023/24 to 2025/26.

Historically during periods of relatively high resource revenues, Alberta governments tend to enjoy the surpluses and increase provincial spending. In fact, Ferede (2018a; 2018b) found that a $1 increase in real per-person resource revenue is associated with a 56-cent increase in program spending the following fiscal year, but a $1 reduction in resource revenue is not similarly followed by a reduction in program spending.

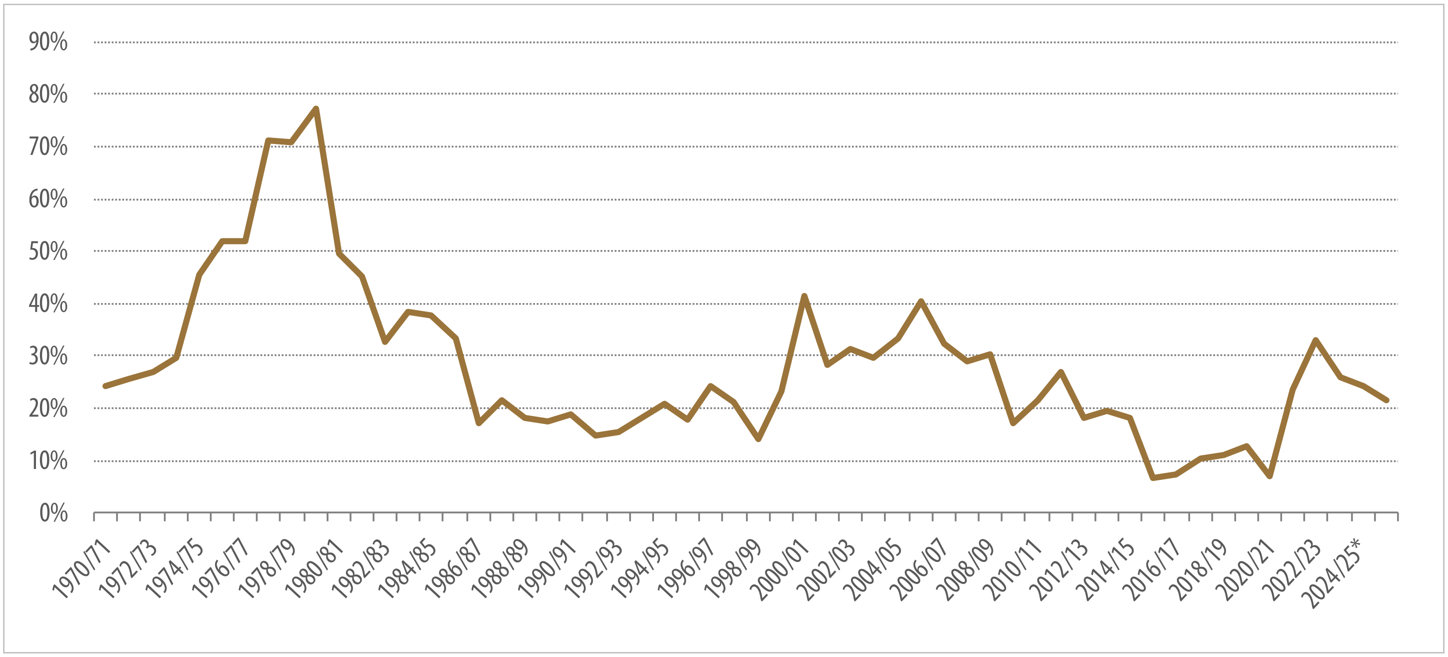
Largely as a result of the recent resource revenue windfall, Alberta moved from a budget deficit of $17.0 billion in 2020/21 to a surplus of $3.9 billion in 2021/22 and another surplus of $11.6 billion in 2022/23 (Alberta,

Figure 1: Resource Revenue from 1970/71 to 2025/26 (nominal $ billions)



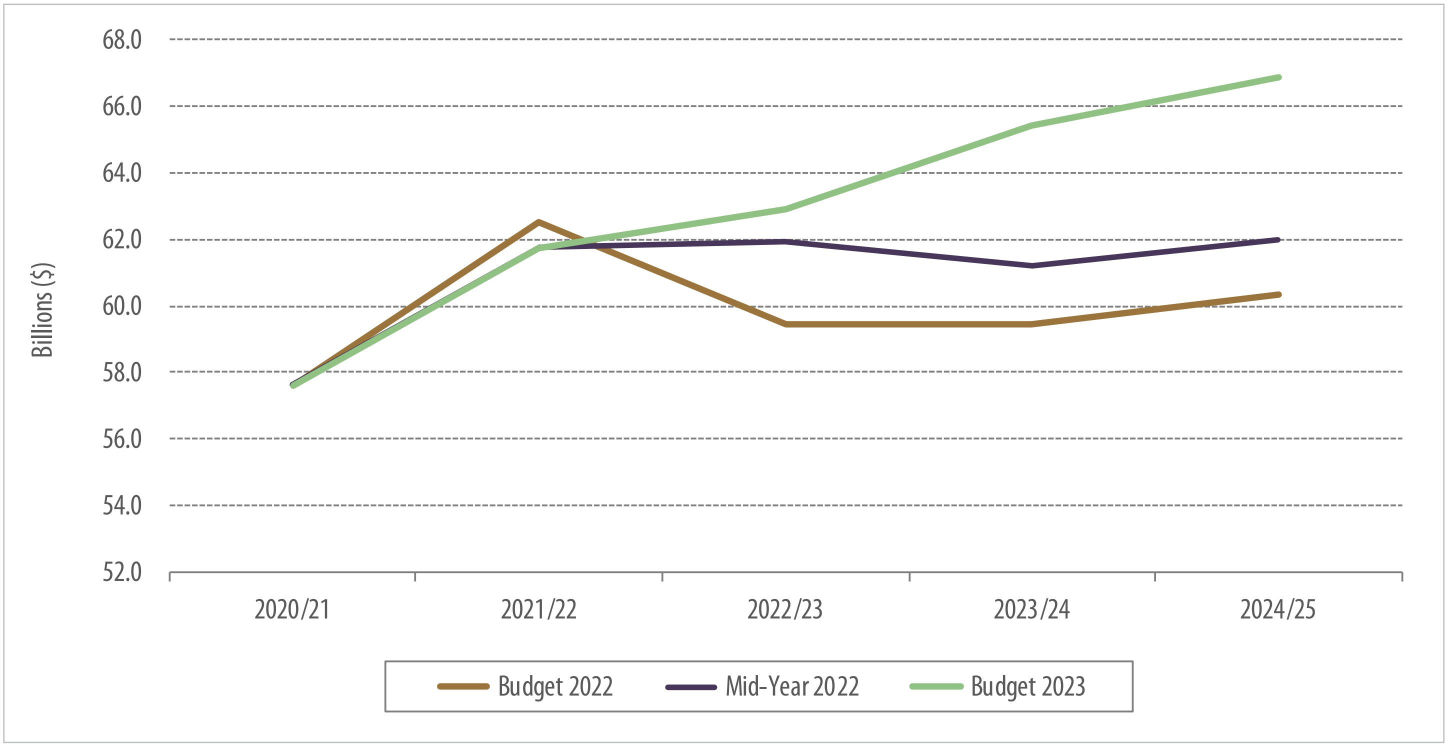
* Projections from 2023/24 onwards.
Sources: Alberta, 2021; 2023a; 2023b; 2023d.

Figure 2: Resource Revenue as a Share of Total Government Revenues from 1970/71 to 2025/26 (nominal $ billions)



* Projections from 2023/24 onwards.
Sources: Alberta, 2021; 2023a; 2023b; 2023d.

Figure 3: Program Spending 2020/21 to 2024/25, Various Fiscal Plans (nominal $ billions)



Sources: Alberta, 2022; 2023a; 2023b.

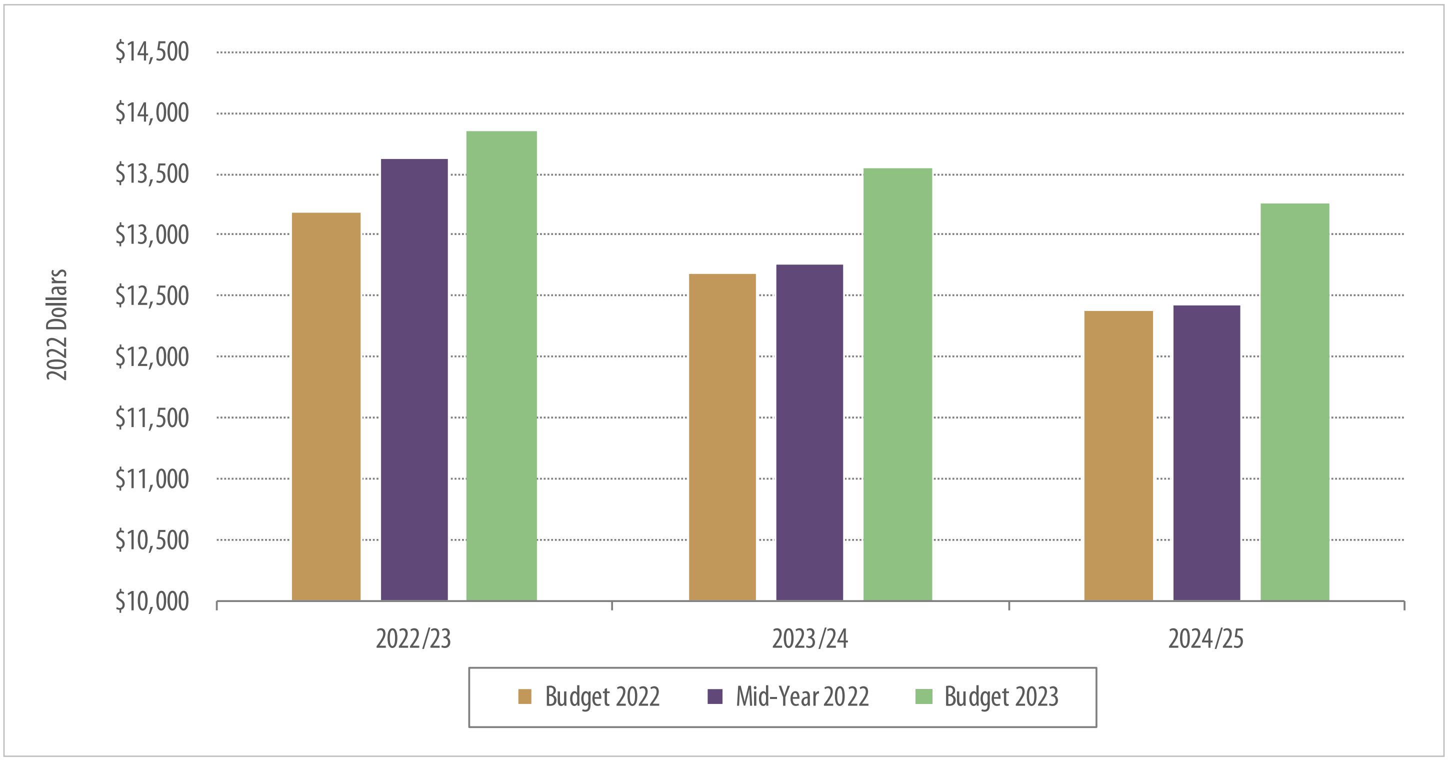
2023a; 2023b). Surpluses are projected to continue to 2025/26 (Alberta, 2023a). At the same time, the government plans to increase provincial spending.

Figure 3 shows the plans for program spending (total operating spending minus interest payments) in Budget 2022 (released February 2022), the 2022/23 Mid-Year Fiscal Update (released November 2022), and Budget 2023 (released February 2023), from 2020/21 to 2024/25. As the figure shows, when resource revenue spiked in 2021/22 (figure 1), program spending increased. According to the most recent data in Budget 2023, nominal program spending rose from $57.6 billion in 2020/21 to $61.7 billion in 2021/22—an increase of 7.2 percent. Once adjusted for inflation and population growth, real ($2022) program spending increased by 3.2 percent in 2021/22. In other words, the windfall in resource revenue led to an immediate increase in spending beyond what was needed to account for inflation and population growth.

As the relatively high resource revenues have continued, the provincial government has consistently planned to increase its spending. As figure 3 illustrates, in the 2022 mid-year update, compared to Budget 2022 under the Kenney government, the Smith government increased the plan for nominal program spending in every year from 2022/23 through 2024/25 for a cumulative increase of $5.9 billion. In Budget 2023, the Smith government further increased the plan for nominal program spending in every year from 2022/23 through 2024/25 with a cumulative increase of $10.1 billion compared to the plan three months earlier in 2022 mid-year update.

Figure 4 shows projected per-person inflation-adjusted program spending in each fiscal plan from

Figure 4: Per Person (Inflation-Adjusted) Program Spending from 2022/23 to 2023/24, Various Fiscal Plans



Notes:
• Population and inflation projections are taken from respective documents to reflect the governments expectations at that time.
• Projections from 2023/24 onwards.
Sources: Alberta, 2022; 2023a; 2023b.

2022/23 to 2024/25. In 2023/24, for example, real per-person spending increased from $12,681 in Budget 2022, to $12,757 in the 2022 mid-year plan, to $13,552 in Budget 2023. According to Budget 2023, inflation-adjusted per person program spending will be $795 higher (6.2 percent) in 2023/24 than was anticipated in the 2022 mid-year plan, and $871 higher (6.9 percent) than planned in Budget 2022.

According to Budget 2023, over the entire period from 2022/23 to 2024/25, after adjusting for inflation the Smith government will spend $2,401 more per person than planned in Budget 2022 and $1,857 more than planned in the 2022 mid-year.[1] To be clear though, Budget 2023 projects per-person inflation-adjusted program spending to decline annually from 2022/23 to 2024/25.[2] The key, however, is that per-person program spending,

1 There was a material increase in the government’s expectations for inflation and population growth in each plan. However, the vast majority of the increase in program spending cannot be explained these factors. For instance, if the plan for nominal program spending in Budget 2022 was adjusted solely for expectations for inflation and population growth in Budget 2023, cumulative real ($2022) program spending from 2022/23 to 2024/25 would be $908 higher per person, much less than the actual increase of $2,401 per person. Similarly, if the plan for nominal program spending in the 2022 mid-year was adjusted for expectations for inflation and population growth in Budget 2023, cumulative real ($2022) program spending from 2022/23 to 2024/25 would be $215 higher per person rather than the actual $1,857 per-person increase.

2 Specifically, in Budget 2023, inflation-adjusted per-person program spending is projected to decline by 2.1 percent in 2023/24, 2.1 percent in 2024/25, and 2.3 percent in 2025/26.

adjusted for inflation, is still higher than in the plans presented in 2022, including both the main budget and the fall update. Moreover, overall program spending compared to previous plans is increasing based largely on volatile and unreliable resource revenue.

It's important to acknowledge that the provincial government used some of its surpluses to pay down debt and save money in the Heritage Fund (Alberta, 2023c). Specifically, the Alberta government retired $13.2 billion in outstanding provincial debt in 2022/23, and it earmarked $1.4 billion for debt repayment in 2023/24 (Alberta 2023a; 2023b). Additionally, it deposited $753 million into the Heritage Fund in 2022/23 (Alberta, 2023b). Using the surpluses to pay down debt and add savings to the Heritage Fund, which also reduces net debt (total debt minus financial assets), are both reasonable uses for Alberta's surpluses, each with their own advantages.[3] The main problem with these approaches, however, is that they do not address a core problem with Alberta's budgets: volatile resource revenues, which have consistently led the province to run deficits and accumulate debt when those revenues decline.

Based on current commodity prices, resource revenues may be significantly lower than forecast in Budget 2023. For perspective, Budget 2023 projected oil prices would average US$79.00 per barrel (WTI) in 2023/24. Oil prices averaged US$74.00 per barrel (WTI) from April 1, 2023, to June 28, 2023 (Johnson, 2023), and updated estimates suggest they may average US$76 per barrel (WTI) over the next year (Roach, 2023).[4] To maintain a balanced budget, Alberta needs oil prices to be US$75 per barrel (WTI) on average (Tombe, 2023a). Clearly, with elevated spending and with oil prices lower than originally forecast, Alberta is at risk of returning to a budget deficit this fiscal year (2023/24).

The Alberta government says it will address this budget volatility through the new "fiscal framework" as outlined in *Bill 10: Financial Statutes Amendment Act, 2023*, which was passed on March 23, 2023. The new framework mandates balanced budgets (except when there's an unexpected disaster or sharp decline in revenue, including oil and gas revenue) and limits annual increases in operating spending to the rate of population growth and inflation. It also set rules for the use of future surpluses—at least 50 percent of any surplus must go towards paying off debt with the remaining deposited in a new "Alberta Fund" to be used to either pay down debt, save in the Heritage Fund, or spend on one-time initiatives.

While a thorough analysis of the new fiscal framework is beyond the scope of this paper, it has clear shortcomings. For instance, none of the associated fiscal rules directly address the main issue of volatile resource revenue in the province's annual budget, and the specifics of the framework mean that in many cases it will fail to prevent deficits. The provincial government is permitted to run a deficit under a number of circumstances, including an unexpected fall in revenue. As Bill 10 states, "the projected expense for a fiscal year may exceed the projected revenue if the projected revenue for the fiscal year is at least $1,000,000,000 less than the projected revenue for the previous fiscal year as set out in the Q3 fiscal outlook for that fiscal year." Perhaps most significantly, the framework is based in statutory law, which means the Alberta government (i.e., the Alberta legislature) can unilaterally ignore, amend, or eliminate it at any time.[5]

3 For more information, see Tombe (2023b).

4 At the time of this writing, Budget 2023 contained the latest available fiscal data. It should be noted, however, that the government has since released its first quarter update, which officially reduced the government's oil price estimate from US$79 per barrel (WTI) in 2023/24 to US$75 per barrel (WTI). At this point, higher personal and corporate income taxes have offset the decline in resource revenue.

5 For more information, see Hill, Emes, and Clemens (2021).

Despite efforts to better manage Alberta's finances, the Smith government is repeating past mistakes by increasing spending when resource revenues are relatively high and continuing to include nearly all resource revenue in the annual budget.

An alternative plan that stabilizes provincial finances: Re-establish the Alberta Sustainability Fund

Despite lower oil prices, it is not too late to stabilize Alberta's finances for the long term. To accomplish this, the provincial government can re-introduce a rainy-day account based on the previous Alberta Sustainability Fund (ASF). This section explains how the ASF functions and illustrates how it could be implemented today.[6]

Originally introduced in 2003, the ASF was one of the provincial government's most effective mechanisms for addressing resource revenue volatility in the budget. It began by determining a stable amount of resource revenue that could be included in the budget annually (it settled on $3.5 billion at the time) (*Fiscal Statutes Amendment Act*, 2003, SA 2003, c. 2) to limit the amount of money, based on resource revenue, available for spending. Restricting the amount of resource revenue included in the budget tempers the pressure for governments to increase spending during periods of relatively high resource revenue to levels that are unsustainable (without incurring deficits) when resource revenues ultimately decline. Any resource revenue over the stable, pre-determined amount that is to be allocated to the budget is automatically saved in the ASF. When resource revenue drops below that pre-determined amount, the government can withdraw funds from the ASF to cover the shortfall, thus stabilizing the provincial budget over the longer term. In this way, savings deposited into the ASF when resource revenues are relatively high help support the budget when resource revenues are relatively low, thereby helping to avoid deficits.

As it did with the previous ASF, the provincial government would also set a required balance for the ASF to ensure that sufficient funds are available to meet the stable resource revenue amount included in the budget during periods of relatively low resource revenue. In other words, the provincial government would determine the amount of savings the ASF requires such that funds accumulated during periods of relatively high resource revenues will be sufficient to fund that pre-determined amount during periods of relatively low resource revenue. Once sufficiently funded, any excess resource revenue should be deposited in the Heritage Fund for long-term savings, thereby ensuring that resource revenue in the budget continues to be limited to the stable amount.[7]

To understand how the ASF would function, it's useful to consider an example based on current fiscal projections. The government would begin by setting a stable amount of resource revenue to be included in the budget. In the previous Alberta Sustainability Fund, the provincial government calculated the stable amount by averaging resource revenue for the 20-year period from 1981/82 to 2001/02, excluding an unprecedented spike in resource revenue in 2000/01 (Alberta, 2003). This is one approach but there are a number of other reasonable alternatives.[8] In this example, the stable amount is calculated by averaging historical resource revenues over the past two decades from 2003/04 to 2022/23, which works out to $9.3 billion in 2023/24. Adjusted for inflation, the

6 Other jurisdictions have successfully saved resource revenues to help mitigate resource revenue volatility in the budget. For more information, see Murphy and Clemens (2013) and Hill, Emes and Lafleur (2021).

7 For information on how the Heritage Fund can be reformed to ensure long-term savings, thereby transforming a share of resource revenue into a financial asset that generates a permanent stream of earnings overtime, see Hill, Emes and Lafleur (2021).

8 As noted in Hill, Emes, and Clemens (2021), the principle is more important than the specific amount.

Table 1: Alberta's Projected Fiscal Summary, Budget (nominal $ millions)

	2022/23	2023/24	2024/25	2025/26
Revenue				
Resource Revenue	25,242	18,361	17,284	15,742
Other Revenue	50,878	52,292	54,440	56,866
Total Revenue	76,120	70,653	71,724	72,608
Spending				
Program Spending	61,650	65,434	66,882	68,136
Debt Interest Costs	2,829	2,848	2,805	3,103
Total Spending	64,479	68,282	69,687	71,239
Surplus/−Deficit	11,641	2,371	2,037	1,369
Alberta Sustainability Fund				
Contributions	0	0	0	0
Balance	0	0	0	0
Heritage Fund				
Contributions	753	0	0	0
Balance	18,980	20,000	21,300	22,800
Debt Repayment	13,200	1,400	0	0

Sources: Alberta, 2023a; 2023b.

stable amount for the budget would increase to $9.5 billion in 2024/25 and $9.8 billion in 2025/26.

The second step is to determine the required balance for the ASF. The previous sustainability fund calculated its required balance by estimating the dollar amount of resource revenue that would be needed to protect against two consecutive years of low resource revenue, or one year of weak resource revenue and a major disaster (Alberta, 2003). Similar to the stable amount, there are a number of reasonable approaches to determine the required balance for the ASF. One option is to match the stable amount and adjust for inflation annually. If we take that approach here, that is equal to $9.3 billion in 2023/24, which would be more than enough to cover Alberta’s largest cumulative decline in resource revenue over the last two decades—a total of $6.9 billion in 2014/15 and 2015/16 combined.

Arguably, the biggest obstacle to reintroducing the ASF is that it would require an immediate reduction in spending because it limits the amount of resource revenue in the budget.[9] This is a benefit of the ASF; it forces governments to more closely align ongoing spending with relatively

9 Based on the scenario outlined thus far, to fully reintroduce the ASF in 2023/24 while maintaining a balanced budget, total nominal spending would decline by 4.4 percent from $64.5 billion in 2022/23 to $61.6 billion in 2023/24. This reflects a decline in total nominal revenue from $76.1 billion in 2022/23 to $61.6 billion in 2023/24 due to the drop-in resource revenue once the ASF is activated. Specifically, resource revenue in the budget would be limited to $9.3 billion in 2023/24, compared to the unlimited amount ($25.2 billion) that was included in 2022/23.

Table 2: Alberta's projected fiscal summary, alternative plan, nominal ($) millions

	2022/23	2023/24	2024/25	2025/26
Revenue				
Resource Revenue	25,242	14,013	11,934	9,757
Other Revenue	50,878	52,292	54,440	56,866
Total Revenue	76,120	66,305	66,374	66,623
Spending		2.9%	0.2%	-0.1%
Program Spending	61,650	63,457	63,569	63,520
Debt Interest Costs	2,829	2,848	2,805	3,103
Total Spending	64,479	66,305	66,374	66,623
Surplus/–Deficit	11,641	0	0	0
Alberta Sustainability Fund				
Contributions	0	4,348	5,350	60
Balance	0	4,348	9,698	9,757
Heritage Fund				
Contributions	753	0	0	5,925
Balance	18,980	20,000	21,300	28,725
Debt Repayment	13,200	1,400	0	0

Sources: Alberta, 2023a; calculations by authors.

stable ongoing revenue. However, a sharp reduction in spending may not be practical for a number of reasons. Accordingly, the "alternative" fiscal plan presented here meets three goals: (1) it maintains a balanced budget, (2) it fully re-introduces the ASF by 2025/26, and (3) it avoids a reduction in total nominal spending year over year.

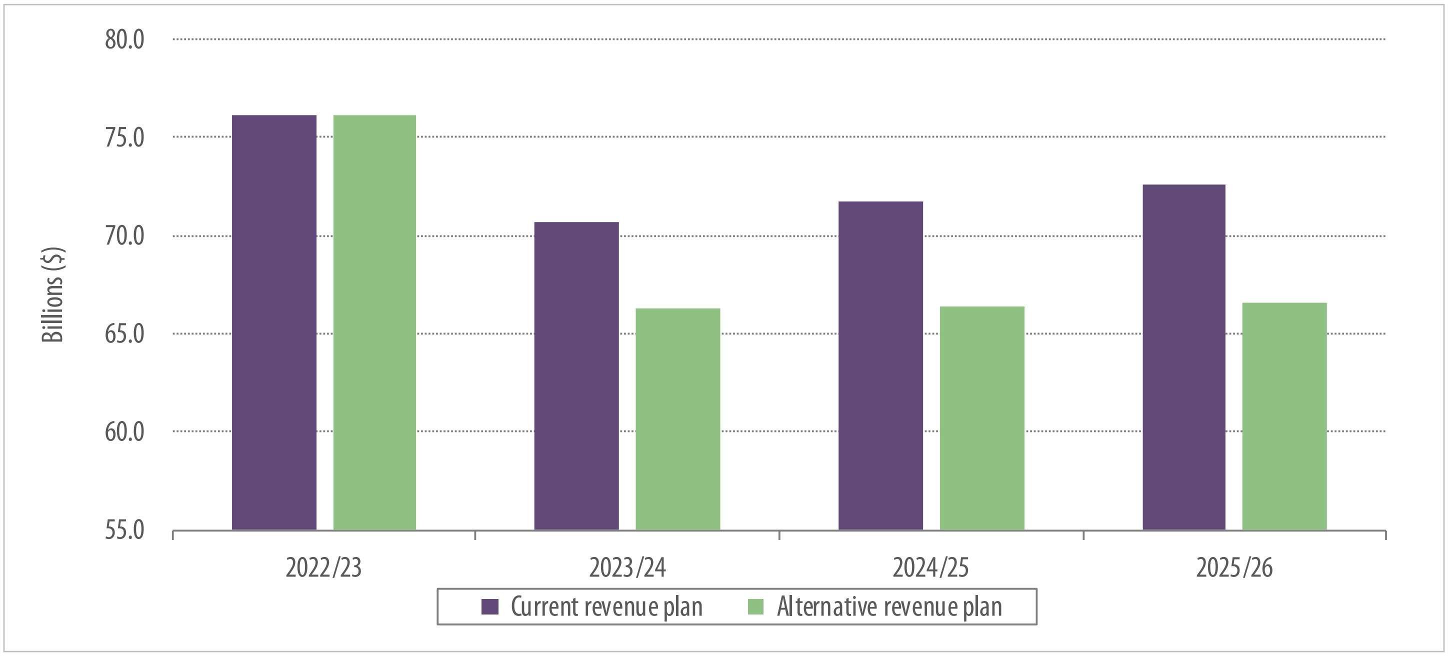
Recall that the target stable resource revenue amount in this scenario is $9.3 billion in 2023/24. Adjusted for inflation, the stable resource revenue amount for the budget increases to $9.5 billion in 2024/25 and $9.8 billion in 2025/26. In this incremental approach, however, the goal is to fully reintroduce the ASF by 2025/26 with a stable amount and fund balance of $9.8 billion.

To avoid a relatively sharp reduction in total nominal spending, the provincial government could start with a resource revenue amount higher than the target and incrementally reduce it until it reaches the stable amount in 2025/26. For instance, the provincial government could start with a stable resource revenue amount of $14.0 billion in 2023/24, decreasing it to $11.9 billion in 2024/25, and reaching $9.8 billion by 2025/26.[10]

Table 1 summarizes the current fiscal plan using numbers from Budget 2023. Table 2 shows the alternative fiscal plan incorporating the ASF as described. For simplicity, these calculations make no changes to debt interest costs. Moreover, any additional deposits to the

10 $14.0 billion is 1.5 times the target stable amount of $9.3 billion in 2023/24 and $11.9 billion is 1.25 times the stable amount of $9.5 billion in 2024/25.

Figure 5a: Total Revenue, Current and Alternative Plan (nominal $ billions)



Sources: Alberta, 2023a; calculations by authors.

Figure 5b: Total Spending, Current and Alternative Plan (nominal $ billions)

Sources: Alberta, 2023a; calculations by authors..

Heritage Fund in the alternative scenario are simply added to the projected Heritage Fund balance as per Budget 2023 and no additional earnings from the Heritage Fund are included in the annual provincial budget. Figures 5a and 5b illustrate total nominal revenue and total nominal spending from 2022/23 to 2025/26 in each plan.

To understand the impact of the ASF it is useful to first focus on the revenue side of the calculations. According to Budget 2023, total nominal revenue will be $70.7 billion in 2023/24, including $18.4 billion in resource revenue (table 1). In the alternative fiscal plan, total nominal revenue for the budget is reduced to $66.3 billion, which reflects the lower amount of resource revenue ($14.0 billion) to be included in the budget (table 2). The remaining $4.3 billion in resource revenue is saved in the ASF (table 2).

As table 1 shows, according to Budget 2023 total nominal revenue will be $71.7 billion in 2024/25, including $17.3 billion in resource revenue. In the alternative fiscal plan, total nominal revenue is reduced to $66.4 billion, which reflects the lower amount of resource revenue ($11.9 billion) to be included in the budget (table 2). The remaining $5.4 billion in resource revenue is saved in the ASF.

Finally, according to Budget 2023, total nominal revenue will be $72.6 billion in 2025/26, including $15.7 billion in resource revenue. As table 2 shows, in the alternative fiscal plan total nominal revenue is $66.6 billion. This reflects the lower amount of resource revenue included in the budget ($9.8 billion), which is now at the target stable amount. In 2025/26, the ASF reaches its target balance of $9.8 billion, which means there is an excess of $5.9 billion deposited into the Heritage Fund.

The next step is to review the spending plan. As table 1 reveals, according to Budget 2023 total nominal spending will be $68.3 billion in 2023/24. In the alternative fiscal plan, total nominal spending is reduced to $66.3 billion (table 2), a reduction of 2.9 percent compared to the budget plan. According to Budget 2023, total nominal spending will be $69.7 billion in 2024/25 and $71.2 billion in 2025/26. In the alternative fiscal plan, total nominal spending is $66.4 billion in 2024/25 and $66.6 billion in 2025/26. Relative to the budget plan, this represents a decline in spending of 4.8 percent and 6.5 percent, respectively.

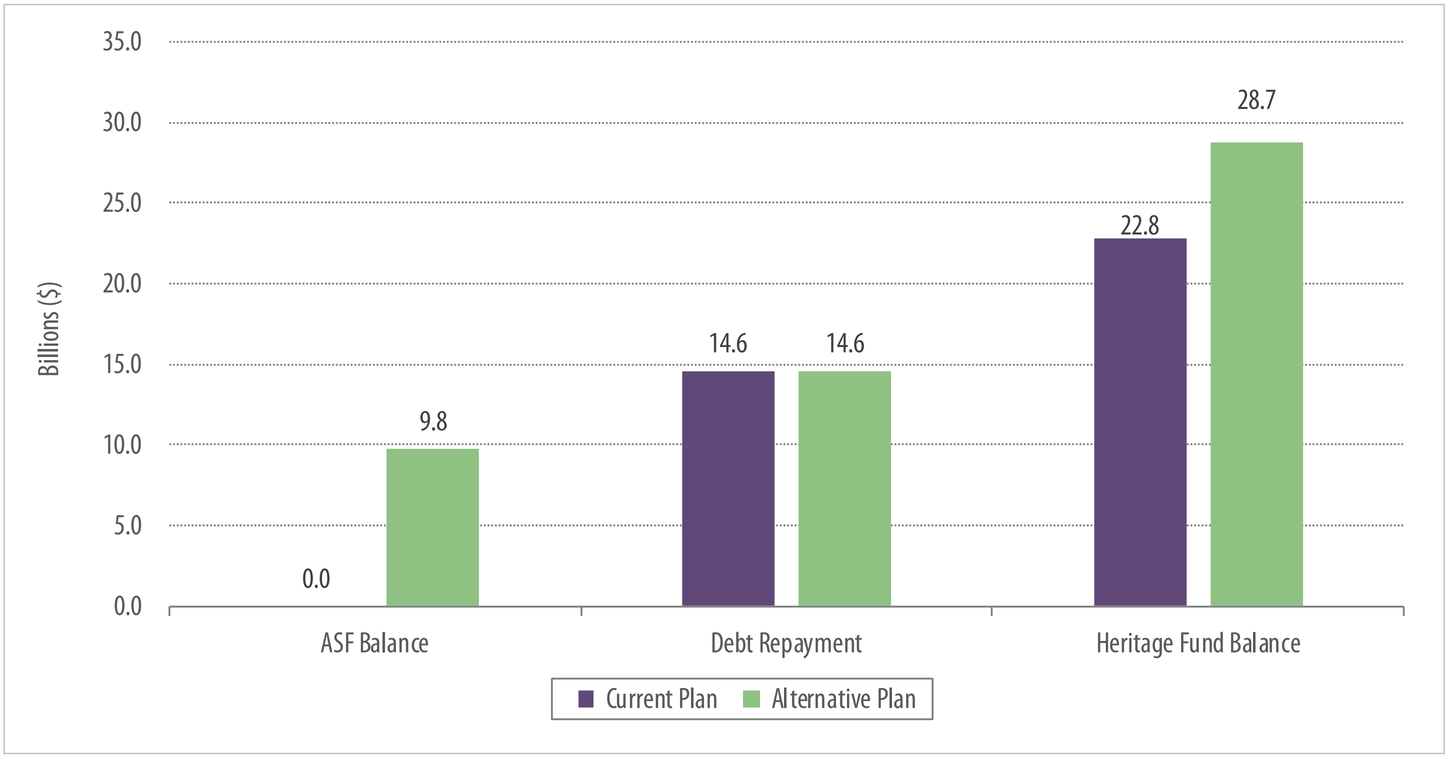
Critically, though nominal spending will be lower than the provincial government had planned in its budget, there is no reduction in nominal spending from 2022/23 to 2025/26 (see table 2). In fact, total nominal spending continues to increase but at a slower annual pace. Over the entire period, the government's current plan calls for total nominal spending to increase by 10.5 percent from 2022/23 to 2025/26 compared to our alternative plan, which sees spending increase by 3.3 percent. As table 2 shows, in the alternative plan total nominal spending is effectively frozen from 2023/24 to 2025/26.[11]

While it is beyond the scope of this paper, the decision to restrain government spending overall should also act as a catalyst for a review of spending across the entire government. Examples of such broad reviews include British Columbia's Core Services Review under the Campbell government in the early 2000s and the federal government's Program Review under the Chrétien in the mid-1990s. Both initiatives led to prioritization and rationalization in government spending by eliminating underperforming programs and other spending that was not delivering results.

Figure 6 shows the ASF balance, total debt repayment, and the Heritage Fund balance in nominal terms by 2025/26. The alternative fiscal plan shows that with

11 Specifically, total nominal spending increases by 0.1 percent in 2024/25 and 0.4 percent in 2025/26, for a total increase of 0.5 percent. In the government's current plan, total nominal spending increases by 2.1 percent in 2024/25 and 2.2 percent in 2025/26, for a total increase of 4.3 percent.

Figure 6: Total Debt Repayment, ASF and Heritage Fund Balance as of March 31, 2026, Current and Alternative Fiscal Plan (nominal $ billions)

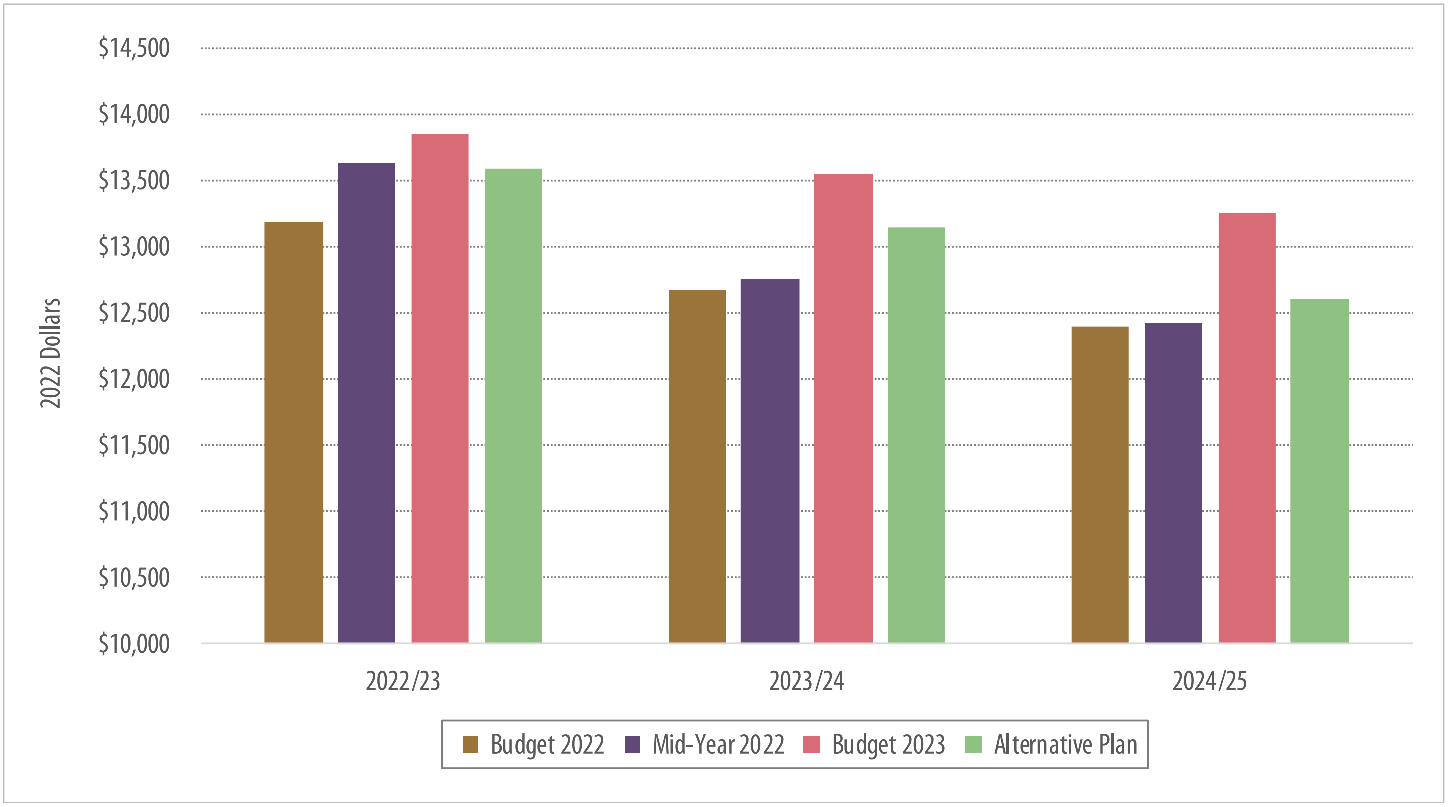


Sources: Alberta, 2023a; calculations by authors..

spending restraint, Alberta could have a rainy-day account worth nearly $10 billion by 2025/26. In that year, the ASF would be fully implemented—the target stable resource revenue amount would be in place and the ASF would have reached its required balance ($9.8 billion). From this point, the fund would continue to operate and stabilize resource revenue in the budget into the future. In other words, if actual resource revenue falls below the stable target amount, $9.8 billion in funds would be available to maintain the stable amount of resource revenue in the budget and help avoid a deficit. If actual resource revenue is above the stable amount, any excess would be saved in the ASF up to the required balance, and any resource revenue beyond that amount would be deposited in the Heritage Fund. There is no difference in debt repayment between the two scenarios. However, an additional $5.9 billion would be saved in the Heritage Fund under the alternative scenario because the ASF reaches its required balance in 2025/26. That deposit would bring the Heritage Fund balance to $28.7 billion in 2025/26 compared to $22.8 billion in the current fiscal plan. At the same time, the alternative fiscal plan maintains a balanced budget while still avoiding a year-over-year decrease in total nominal spending.

The ASF does not come without costs. In the alternative scenario, there would be a larger reduction in per-person inflation-adjusted program spending

Figure 7: Per Person (Inflation-Adjusted) Program Spending from 2022/23 to 2024/25, Various Fiscal Plans



Notes:
- Population and inflation projections are taken from respective documents to reflect the governments expectations at that time.
- Projections from 2023/24 onwards

Sources: Alberta, 2022; 2023a; 2023b; calculations by authors..

than originally planned. Recall that in Budget 2023 inflation-adjusted per person program spending was projected to decline by 2.1 percent in 2023/24, 2.1 percent in 2024/25, and 2.3 percent in 2025/26. As figure 7 illustrates, in the alternative fiscal plan inflation-adjusted per person program spending will decline by 3.3 percent in 2023/24, 4.1 percent in 2024/25, and 4.2 percent in 2025/26. However, these cuts are necessary to get Alberta off the resource revenue rollercoaster by better aligning ongoing spending with ongoing stable revenues, including a more stable level of resource revenue.

The alternative plan presented here also comes with risks. To avoid a significant decrease in nominal spending in 2023/24, the alternative plan takes an incremental three-year approach to fully implement the fund. However, the longer the time frame, the greater the chance that unexpected changes in economic and/or political factors will impede the goal of a fully operational ASF. However, the provincial government can take measures to hold itself—and future governments—accountable, namely, by introducing constitutional fiscal rules around the fund's operation.[12]

The explanation above illustrates one way that the ASF could be implemented, but there are many alternatives. The key is for the government to set a stable amount of resource revenue to be included in the budget, and then save any excess during periods of relatively high resource revenue in a fund to be drawn upon to maintain the stable amount during times of relatively low resource revenue. If designed correctly, such a fund will reduce resource revenue volatility in the budget and mitigate the boom-and-bust cycle that has created instability in the province's finances for decades.

Conclusion

With oil prices expected to be lower than originally forecast, Alberta could soon find itself once again running a budget deficit. However, Alberta still has an opportunity to get off the resource revenue rollercoaster. To accomplish this, the provincial government must re-establish a rainy-day account based on the previous Alberta Sustainability Fund. The fund, which could be implemented while maintaining a balanced budget and without any annual reduction in nominal spending, would limit the resource revenue allocated to the budget and automatically save any excess above a set stable amount in the ASF to be withdrawn when resource revenue is below the stable amount. By limiting spending and stabilizing resource revenue in the budget, the ASF would ultimately help prevent future deficits.

12 A major issue with the original ASF, which ultimately led to its termination, was that it was based in statutory law, which the Alberta legislature could change unilaterally. Specifically, after the ASF was introduced in 2003, the stable amount was routinely increased and by 2007 nearly all resource revenue was used for annual spending. Due to a lack of robust fiscal rules around its operation, the ASF was eventually drained and eliminated entirely in 2013 (Morton and McDonald, 2015). As Hill, Emes, and Clemens (2021) explain, a constitutional rule is more robust than a statutory rule, so this time, the fund and its related rules should be made constitutional to make it more difficult for future governments to ignore or even eliminate. Under section 43 of the *Constitution Act, 1982*, Alberta can introduce a constitutional amendment that affects the province only with support from the federal government. The provincial government would first present the rule to Albertans by way of a referendum, as is required by law in the province. Assuming Albertans support the amendment, the provincial government would then pass legislation recognizing the result of the referendum. Alberta's government would then ask the federal government (that is, the House of Commons and the Senate) to pass the same resolution recognizing the will of Albertans to impose such a rule. To reverse the rule or otherwise ignore its requirements would mean a future Alberta government would have to seek approval by means of a provincial referendum, pass provincial legislation, and request that the federal government approve the legislation. Though constitutional rules should be introduced cautiously and judiciously, Alberta does have an option to impose more stringent rules on itself to limit the allocation of resource revenue to the budget, reintroduce the ASF, and ultimately stabilize provincial finances for the long-term. For more information, see Hill, Emes, and Clemens (2021).

References

Alberta (2021). 2021/22 Historic Royalty Summary Revenue Workbook [Excel]. Historical Royalty Revenue. Government of Alberta. <https://open.alberta.ca/opendata/historical-royaltyrevenue>, as of July 14, 2023.

Alberta (2003). Highlights. *Alberta 2003 Budget: Making Alberta Even Better*. Government of Alberta. <https://open.alberta.ca/publications/budget-2003-making-alberta-even-better>, as of August 26, 2023.

Alberta (2022). *Budget 2022. Fiscal Plan: Moving Forward 2022-25*. Government of Alberta. <https://open.alberta.ca/publications/budget-2022>, as of August 26, 2023.

Alberta (2023a). *Budget 2023. Fiscal Plan: Securing Alberta's Future 2023-26*. Government of Alberta. <https://www.alberta.ca/budget-documents.aspx>, as of August 26, 2023.

Alberta (2023b). *2022-23 Final Results: Year-end Report*. Government of Alberta. <https://www.alberta.ca/government-and-ministry-annual-reports.aspx#22-23>, as of August 26, 2023.

Alberta (2023c). Heritage Savings Trust Fund. Government of Alberta. <https://www.alberta.ca/heritage-savings-trust-fund.aspx >, as of August 26, 2023.

Alberta (2023d). *Royalty Summary Revenue Workbook 2021/22*. Historical Royalty Revenue. Government of Alberta. <https://open.alberta.ca/opendata/historical-royalty-revenue>, as of August 26, 2023.

Ferede, Ergete (2018a). *Alberta's Fiscal Responses to Fluctuations in Non-Renewable-Resource Revenue*. SPP Briefing Paper 11, 24. School of Public Policy, University of Calgary. <https://www.policyschool.ca/wp-content/uploads/2018/09/NRR-Ferede.pdf>, as of August 26, 2023.

Ferede, Ergete (2018b). *The Long-Term Consequences of Fiscal Responses to Resource Revenue Fluctuations.* Fiscal Policy Trends (September). School of Public Policy, University of Calgary. < https://www.policyschool.ca/wp-content/uploads/2018/09/Fiscal-Trends-NRR-Ferede-final.pdf >, as of May 11, 2021.

Fiscal Statutes Amendment Act, 2003, SA 2003, c 2. <https://www.canlii.org/en/ab/laws/astat/sa-2003-c-2/latest/sa-2003-c-2.html>, as of August 26, 2023.

Hill, Tegan, Joel Emes, and Jason Clemens (2021). *A New (Old) Fiscal Rule for Non-renewable Resource Revenue in Alberta.* The Fraser Institute. <www.fraserinstitute.org/sites/default/files/new-old-fiscal-rule-for-non-renewable-resource-revenue-in-alberta.pdf>, as of August 26, 2023.

Hill, Tegan, Joel Emes, and Steve Lafleur (2021). *Repairing Alberta's Heritage Fund for the Long Term.* <https://www.fraserinstitute.org/sites/default/files/repairing-albertas-heritage-fund.pdf>, as of August 26, 2023.

Johnson, Lisa (2023, June 28). Alberta to Release Year-End Fiscal Numbers Thursday Amid Weaker Oil Prices. *Edmonton Journal*. <https://edmontonjournal.com/news/local-news/alberta-to-release-year-end-fiscal-numbers-thursday-amid-weaker-oil-prices>, as of August 26, 2023.

Kneebone, Ronald D., and Margarita Wilkins (2018). *50 Years of Government of Alberta Budgeting*. SPP Briefing Paper 11, 26. School of Public Policy, University of Calgary. <https://journalhosting.ucalgary.ca/index.php/sppp/article/view/53364/42968>, as of August 26, 2023.

Morton, Ted, and Meredith McDonald (2015). *The Siren Song of Economic Diversification: Alberta's Legacy of Loss*. SPP Research Paper 8, 13 (March). School of Public Policy, University of Calgary. <https://www.policyschool.ca/wp-content/uploads/2016/03/siren-song-economic-diversification-morton-mcdonald.pdf>, as of August 26, 2023.

Murphy, Robert P., and Jason Clemens (2013). *Reforming Alberta's Heritage Fund: Lessons from Alaska and Norway*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/reforming-albertas-heritage-fund.pdf>, as of August 26, 2023.

Roach, Rob (2023, June 28). Oil Prices a Little Wobbly Lately, But Still on Two Feet. *The Owl*. ATB Economics. <https://www.atb.com/company/insights/the-owl/oil-prices-june-2023/>, as of August 26, 2023.

Tombe, Trevor (2018). *Alberta's Long-Term Fiscal Future*. SPP Research Paper 11, 31 (November). School of Public Policy, University of Calgary. <https://www.policyschool.ca/wp-content/uploads/2018/11/AB-Fiscal-Future-Tombe.pdf>, as of August 26, 2023.

Tombe, Trevor (2023a, March 1). Alberta’s Bumpy Ride Only Gets Bumpier with Danielle Smith’s Budget. CBC. <https://www.cbc.ca/news/canada/calgary/opinion-trevor-tombe-alberta-budget-2023-1.6764355>, as of August 26, 2023.

Tombe, Trevor (2023b). Paid in Full, Again? Using Alberta’s Windfall Revenues to Eliminate Provincial Debt. In Tegan Hill (ed.), *Don’t Spend Away the Windfall: Better Options for Alberta’s Unexpected Revenues* (Fraser Institute): 1–10. <https://www.fraserinstitute.org/sites/default/files/dont-spend-away-the-windfall-better-options-for-alberta-revenues.pdf>, as of August 26, 2023.

Tegan Hill

Tegan Hill is Associate Director of Alberta Policy at the Fraser Institute. She holds a Bachelor of Economics and a Master’s Degree in Public Policy from the University of Calgary. Ms. Hill’s articles have appeared in major Canadian newspapers including the *Globe and Mail, National Post,* and *Ottawa Citizen*. She specializes in government spending, taxation, and debt.

Milagros Palacios

Milagros Palacios is the Director for the Addington Centre for Measurement at the Fraser Institute. She holds a B.S. in Industrial Engineering from the Pontifical Catholic University of Peru and a M.Sc. in Economics from the University of Concepcion, Chile. Ms. Palacios has studied public policy involving taxation, government finances, investment, productivity, labour markets, and charitable giving, for nearly 10 years. Since joining the Institute, Ms. Palacios has authored or coauthored over 150 comprehensive research studies, 150 commentaries and four books. Her recent commentaries have appeared in major Canadian newspapers such as the *National Post, Toronto Sun, Windsor Star,* and *Vancouver Sun.*

Acknowledgments

As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Trustees of the Fraser Institute, the staff, or supporters.

ISSN 2291-8620

Media queries: For media enquiries, please contact our communications department via e-mail:
communications@fraserinstitute.org;
telephone: 604.714.4582.

Support the Institute: call 1.800.665.3558, ext. 574
or e-mail: development@fraserinstitute.org

Visit our **website**: www.fraserinstitute.org