A FUTURES FUND FOR SASKATCHEWAN

A Report to Premier Brad Wall on the Saskatchewan Heritage Initiative

2013

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Executive Summary

The advantages that come with non-renewable resource wealth are accompanied by risks of excessive reliance, unsustainable spending committments, and waste.

Governments in jurisdictions that are beneficiaries of this wealth are wise to consider and plan how it will be used to secure the advantages while diminishing the risks. This has led many of them to create special funds to receive some or all of the revenues from non-renewable resources and to subject them to special saving and spending rules. There are more than sixty of these funds – commonly referred to as sovereign wealth funds – worldwide and the number has been increasing in recent years.

The experience and success of these funds is variable. Some illustrate careful stewardship; others do not. The Saskatchewan Heritage Initiative – an effort commissioned by Premier Brad Wall as part of the Government of Saskatchewan's Plan for Growth: Vision 2020 and Beyond – reviewed the terms of reference of these wealth funds and four were selected for consideration in detail. They include the short-lived Saskatchewan Heritage Fund (1978-1992), and the more enduring examples in Alberta, Alaska and Norway. Individual and group discussions and interviews were conducted with more than seventy people closely connected to these funds or otherwise knowledgeable about the issues they represent. The examples and discussions yielded lessons and advice that will be instructive if Saskatchewan decides once again to create a special fund for non-renewable resource revenues.

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This study leads to a recommendation to create a permanent Saskatchewan Futures Fund that allows for one-time resource revenues to become a lasting source of wealth, while stabilizing government use of these volatile revenues. A fund framework is developed drawing on the experience reviewed here and ten recommendations are presented for further consideration as the province reflects on ways of ensuring that its legacy of resource wealth is used wisely for present and future generations of our people.

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Introduction

The Saskatchewan Heritage Initiative was launched in the fall of 2012 as part of the Government of Saskatchewan's Plan for Growth: Vision 2020 and Beyond.

Looking to the future of our province, the Initiative was tasked with reviewing and reporting on efforts the government could undertake to safeguard the one-time revenues from our province's non-renewable resources in a manner that contributes to future growth and provides ongoing benefits to generations of Saskatchewan people. This report focuses on the merits of a savings and investment fund – a Saskatchewan Futures Fund – that offers the greatest opportunity to ensure the lasting value of our non-renewable resource bounty.

It is a propitious time for the Government of Saskatchewan to consider how our province might best utilize non-renewable resource revenues in the form of a futures fund. We can consider the possibility in a manner that is detached from the pressure of having to quickly decide all issues material to such a fund. We have an opportunity to systematically consider the many questions that experience elsewhere tells us must be addressed. However, if it is not too late to take a deliberate approach to the subject, it is not too early either. Our province is among the most favoured places on Earth in terms of non-renewable resources available now and in the foreseeable future. We have a responsibility as well as an opportunity to consider what this means to us and to those who come after us, and to prepare well for the future of all.

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Doing so requires that we recognize that natural resource revenue is volatile. It varies – sometimes greatly – from year to year and there are occasional dry spells and windfalls, which caution us not to become unduly dependent on it for the province's ongoing budget commitments. Most importantly, it comes from non-renewable, depleting resources and should be used for the benefit of future as well as present generations.

The discussion that follows will address critical issues, but it is appropriate to begin with consideration of the concept that underlies the main recommendation of this report. The concept is a futures fund—not a rainy day fund, a reserve to be tapped opportunistically, or a source of money to finance projects in Saskatchewan in the absence of capital and operating commitments to pay for them. It is a permanent fund for saving a portion of the revenues from non-renewable resources to be invested for the benefit of future as well as present residents of our province for generations to come, hopefully forever.

The creation of a Saskatchewan Futures Fund should be seen as an opportunity for asset conversion—from one-time non-renewable resources to on-going financial investments—and not as asset depletion. Our non-renewable resource wealth is inherently time limited and with each barrel of oil or tonne of potash removed from the ground our store of natural wealth is depleted. Today we use these revenues to grow our economy, pay down public debt, build vital infrastructure and fund public services like education and health care. Through a futures fund we have the opportunity to sustain and stabilize our use of this revenue by ensuring a portion of it is permanently saved and invested to grow and generate income over time.

For this purpose to be realized we must guard against temptation. History teaches us that readily available sources of large amounts of money are temptations for governments, advocates of special interests or projects, and others. Governments seek relief from budgetary pressures of the day, and there is no shortage of competing claims and ambitions. We owe it to our children and grandchildren, and to their children and grandchildren, to resist this temptation. We need to remind ourselves that our natural resources will not last forever and that provincial budgets should not be unduly dependent on them to fund the annual, ongoing expenditures of the province. Experience tells us that as markets change an overreliance on non-renewable resource revenues can lead to painful cuts and punishing debt accumulation.

This report is based on a literature review, a survey of existing sovereign wealth funds, and in-depth study of four of them: Saskatchewan (1978-1992), Alberta, Alaska and Norway. They were chosen for different reasons, including a variety of experience and success, size and influence, fiscal rules and policies.

A futures fund permanently saves a portion of non-renewable resource revenues to be invested for the growth and benefit of future as well as current generations.

The report does not adopt one of these, or any of the other more than sixty wealth funds worldwide, as a model. It draws from the experience of others in proposing a framework for a Saskatchewan model. It does not attempt to answer all questions on the subject. The subject is complex and it would be presumptuous at this stage to offer a blueprint rather than a framework. There is more work to be done, but it is work that will be facilitated by a clear understanding of the concept, its purpose and issues, including institutional framework, investment policies, fiscal rules and transparency.

There is one additional subject appropriate for this introduction. It is obvious that the idea of a futures fund would be undermined by an ambiguous concept or flaws in its execution. It would also be compromised by fundamental or partisan differences about its merit and purpose. The successful creation of a futures fund, and its endurance over generations and centuries as distinct from political cycles, requires bi-partisan support and social consensus that it is the right thing to do. This report is offered in the hope and belief that this support and consensus can be achieved, and that if we get this right, the Saskatchewan Futures Fund will be to the lasting benefit of our province and its people—now, and long into the future.

This report was made possible by those familiar with the topic who made themselves available for conversations and advice. Their names are listed in Appendix A and I acknowledge a great debt of gratitude to them. I am grateful, as well, to Lindell Veitch of the Government of Saskatchewan Executive Council for his research and able collaboration; to Calvin Redlick for arranging my meetings in London, widely understood to be the globe’s wealth fund investment capital; and to the Premier and Executive Council of our province for the support necessary to prepare this report.

A Review of Resource Revenue Funds

The Saskatchewan Heritage Fund 1978

Our province has previous experience with a resource revenue fund. In 1978 the government established the Saskatchewan Heritage Fund to collect all of the government's non-renewable resource revenues to "provide a perpetual source of development and social capital for the people of Saskatchewan."[1] The enabling legislation[2] established a mandate for the fund that included three purposes: 1) protect and preserve resource revenues for future generations; 2) provide greater fiscal stability year to year by stabilizing the flow of resource revenues into government's general revenue fund; and 3) enhance legislative control over non-renewable resource revenue by making fund investments and expenditures subject to approval of the Legislative Assembly.[3] The fund was expected to be at once an economic development, futures, and fiscal stabilization fund.

The Saskatchewan Heritage Fund was launched with an initial deposit of $465 million. It was intended to take in 100 percent of annual resource revenues, including taxes and royalties on non-renewable resources. In addition, it was to retain investment earnings, interest revenue from loan investments, and dividends from equity investments in Crown corporations. But there were few formal controls on spending, and, by 1982, most of the fund's assets were committed to Crown corporation loans and assets. In a few short years in the 1970s and 1980s the already few controls on spending ended and the entire fund became a vehicle for the flow through of its assets into government's general revenues. This effectively ended the idea that it would at least in part be a futures fund that could be invested for the benefit of future generations. Growth in expenditures in the 1980s outpaced revenues, thereby further diminishing the importance of the fund and it was abolished in 1992.

The Alberta Heritage Fund

Established in 1976, the Alberta Heritage Fund had three objectives: savings, economic development and improving the quality of life for Albertans. It was to have two sources of revenue—thirty percent of the non-renewable resource revenue received by the Government of Alberta (later reduced to fifteen percent, and discontinued entirely in 1987) and a special contribution of $1.5 billion transferred from Alberta's General Revenue Fund. Monies from the fund were loaned to other provinces and used to fund capital projects, including excellent health science facilities at the Universities of Alberta and Calgary. In fact, since its inception the

As of December 31, 2012 the value of the Alberta Heritage Fund was $16.4 billion.

[1] "The Saskatchewan Heritage Fund: What It Means To You," Saskatchewan Department of Finance (1978): 1.

[2] The Heritage Fund (Saskatchewan) Act was passed in May 1978.

[3] "The Saskatchewan Heritage Fund: What It Means To You," Saskatchewan Department of Finance (1978): 3.

fund has added $34 billion in programing and captial funding to the government's general revenues. In a 1995 survey of the population, Albertans advised that the fund be kept for future generations, and that the focus should be on improving investment returns and long-term investments. This did not happen. "Of the $122.9 billion in natural resource revenue collected from 1977/78 to 2004/05, 91.4 per cent went into a combination of current consumption and debt repayment while 8.6 per cent was saved… ."[4]

Alberta's Heritage Fund management was entrusted to Alberta's Ministry of Treasury Board and Finance, which provides long-term strategy, develops investment policy and monitors investment performance. Performance of the fund is reported to Albertans quarterly by the Minister responsible for the Treasury Board, and an annual report is released within ninety days of fiscal year end. The fund's investments are managed by the Alberta Investment Management Corporation (AIMCo), a Crown corporation that provides independent investment management in accordance with the Statement of Investment Policies and Goals approved by the Minister of Treasury Board and Finance. AIMCo has an investment portfolio of about $70 billion, which comes from public sector pension plans and provincial endowment funds.

As of December 31, 2012, the value of the Alberta Heritage Fund was $16.4 billion. For the year 2012 it produced income of $964 million with $85 million in investment expenses. $714 million went to the General Revenue Fund, and $165 million was retained in the Fund for inflation proofing.

The Alaska Permanent Fund

In 1969 the state of Alaska went into the oil business by auctioning off drilling rights on large tracts of its land at Prudhoe Bay. The $900 million realized from this lease sale was eight times Alaska's $112 million budget passed the previous year and its commitment to immediate use and consumption launched a debate about future use of non-renewable resource revenue. Seven years later a proposed amendment to the Alaska Constitution was put before voters in a state election. The amendment read:

> *At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.*

Alaskans voted 2-1 in favour of the amendment and in early 1977 the first deposit of oil revenues to the fund was made. In the early years after 1977, the question in debate was whether the Permanent Fund would be an economic development fund or an investment fund. The question is a fundamental one. If it is the former, the monies in the fund must be available on short notice to fuel the state's economy. This affects its investment policy (focus on short and medium term and on liquidity) and its governance (decisions on expenditure must be tied to economic development considerations as distinct from protecting and growing the principal for future as well as current generations).

The state's three quarters of a million residents receive an annual dividend that has been as high as $2,069 and as low as $331.29.

In 1980 the state legislature decided in favour of the investment fund concept. The Permanent Fund would be independently managed, and investments in Alaska, while not precluded, would only be made if risks and returns were comparable to investment opportunities elsewhere. Economic development would have to be funded from other sources. To manage the fund's investments, the state created the Alaska Permanent Fund Corporation with a six member Board of Trustees, four of whom are appointed to staggered four year terms by the state governor on the basis of their expertise in finance, investments, business and management. The other two are the state's Commissioner of Revenue and another cabinet member of the governor's choice. The Trustees appoint an executive director who, with

[4] Roger Gibbons and Robert Roach, Seizing Today and Tomorrow: An Investment Strategy for Alberta's Future, Canada West Foundation (2006): 6,7.

hired staff, manages and conducts the fund's business. Outside professionals are retained as needed.

The decision to protect the principal in the Alaska Permanent Fund left open the question of what to do with the earnings. The constitutional amendment passed in 1976 stipulated that the income would be deposited in the state's general fund unless otherwise provided by law. The idea of a permanent fund dividend was first suggested by University of Alaska economist Arlon Tussing and it was an idea shared by Alaska Governor Jay Hammond. He proposed that half of the Permanent Fund's earnings should be used to pay dividends to Alaskans and that dividend amounts would be linked to length of residency in the state. In 1980, as oil revenues reached levels unimagined only a few years earlier, the state legislature approved the dividend bill. But the feature that made the dividend so appealing to Governor Hammond and many others—dividend size linked to length of residency—did not survive. It was challenged on constitutional grounds and in 1982 the United States Supreme Court ruled that this feature violated the U.S. Constitution's guarantee of equal protection under the law. The dividend itself remained in place: each of the state's three quarters of a million residents receives a dividend in October of each year that has been as high as $2,069 (2008) and as low as $331.29 (1984).[5] The Permanent Fund itself now has assets in excess of $46 billion, which provides more revenue to Alaska than is generated from direct oil income.[6]

Norway's Government Pension Fund Global (GPFG)

Norway has about five million people who share considerable pride in claiming one of the world's most renowned sovereign wealth funds. Though not used for pension expenditures, the fund acquired its present name (formerly the Government Petroleum Fund) to highlight its role in supporting government savings. According to the Norwegian Ministry of Finance, "the GPFG was established in 1990 as a fiscal policy tool to underpin long-term considerations in the phasing in of petroleum revenues into the Norwegian economy."[7] It presently has assets valued at approximately $740 billion (USD) and the Ministry estimates its 2020 value to be as high as $1.1 Trillion (USD).

All state petroleum revenues, income related to petroleum activities and returns on fund investments are deposited into the GPFG. The outflow is regulated by Norway's fiscal policy guideline, which states that, over time, fund revenues shall correspond to the real return on the fund, estimated to be four percent. No fund investments are made in Norway:

With assets valued at over $740 billion, Norway has one of the world's largest sovereign wealth funds. It is estimated that its value could be as high as $1.1 trillion by 2020.

"The fund is invested abroad only. This ensures risk diversification and sound financial return,"[8] and helps shelter the domestic non-oil economy from fluctuations in oil revenue.

The fund is managed on behalf of the Norwegian Government by Norges Bank Investment Management, a division of the Norwegian Central Bank. Its current investments include equities (60 per cent), fixed income (35 per cent) and real estate (5 per cent). The fund's current portfolio includes investments in 270 Canadian companies.

Transparency is emphasized by all whose work is connected to the GPFG. The Department of Finance states:

> *The management of petroleum revenues in general and the Fund in particular is characterized by a high degree of transparency and*

[5] Gregg Erickson and Cliff Groh, "How the APF and PFD Operate" in Widerquist and Howard (eds.) Alaska's Permanent Fund Dividend: Examining its Suitability as a Model." New York: Palgrave McMillan: 43. Also see: "Dividend Amounts," Alaska Permanent Fund Dividend Corporation Website, http://www.apfc.org/home/Content/dividend/dividendamounts.cfm.
[6] Todd Moss (ed.), "The Governor's Solution: How Alaska's Oil Dividend Could Work in Iraq and Other Oil-Rich Countries." Washington, D.C.: Center for Global Development, 2012: 1.
[7] The Government Pension Fund Global. Norwegian Ministry of Finance, 2011.
[8] ibid.

> *disclosure of information. This helps build public support for a sound management of petroleum revenues, and reduces the risk of poor governance. The Ministry reports to Parliament on all important matters related to the fund, such as the size of petroleum revenues and the Fund; the outlook for fiscal sustainability; changes to the investment strategy; the fund's performance, risk and costs. The Ministry publishes advice and reports received from Norges Bank and external advisors. Norges Bank publishes annual and quarterly reports on the operational management of the Fund, as well as an annual listing of all investments.*[9]

In summary, Norway is a country of modest size with one of the world's largest sovereign wealth funds that is protected by a set of rules and policies designed to ensure its sustainability, independence in operational matters, and accountability to the people of Norway. Investment proceeds averaging four percent of a fund of this size—returns in 2011-2012 were $15.2 billion (USD)—are a large and vital part of the Norwegian economy, and the use of those returns is an important element of the public debate about the kind of country Norwegians have and hope to build.

[9] ibid.

Analysis

The preceding summaries, and advice from experts and other knowledgeable people named in Appendix A, yield important guidance in any discussion of the architecture of wealth funds.

Purpose of the Fund

Clarity of purpose is essential. Saskatchewan's Heritage Fund was short lived and Alberta's was less successful than it might have been in part because this clarity was absent. If there are too many purposes, or if purposes are in conflict with one another, a wealth fund is compromised from the outset. So, the first task in fund development is to establish precisely what kind of fund is intended. Both Alaska and Norway did this with greater success than did Alberta or Saskatchewan. As well, both Alaska and Norway established savings funds in which resource revenue deposits were to be protected for the future with investment revenues available for year-to-year spending.

Governance of the Fund

Governance has become a top of mind concern in organizations of all kinds in both public and private sectors. Once there is clarity around fund purpose, question two is what governance structure will best serve that purpose. Advice received in the course of this study was repetitive in emphasizing the importance of 'getting it right' from the outset. If it is determined by government that a savings and investment fund is the preferred alternative for Saskatchewan, best practice in investment fund governance should be the guide. This would involve creation of an entity, separate from government, with the requisite expertise and freedom to pursue investment opportunities that will best serve the fund's mandate while adhering to accountability requirements essential to public confidence and support from government and the general public.

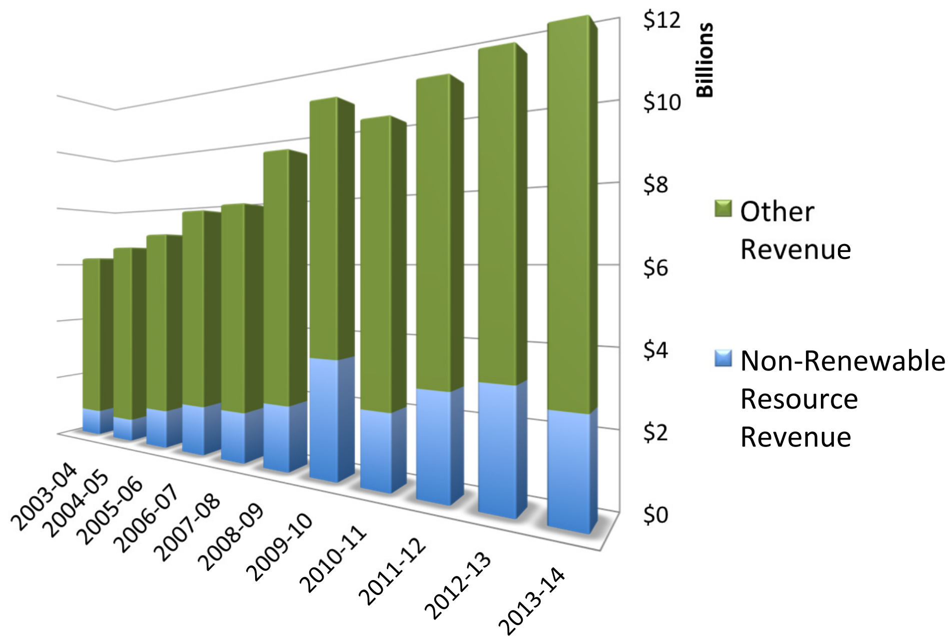
Fund Ins and Outs

Two of the fundamental questions in fund design relate to inputs and outputs. What assets are saved in the fund? And what happens to the investment revenues it produces? We see different answers to these questions in the funds summarized above. The 1978 Saskatchewan Fund was to take in all of the government's non-renewable resource revenue, the Alberta Fund was to take in an initial investment from Alberta's General Revenue Fund and thirty percent of the Alberta Government's annual non-renewable resource revenues, the Alaska Fund takes in at least twenty-five percent of these revenues, and the Norwegian Fund takes in all state petroleum revenues.

The matter of inputs is more complicated where there is an existing dependence on non-renewable resource revenue in year-to-year operating budgets (see Chart 1).

In Saskatchewan our dependence on non-renewable resource revenue is growing having gone from a low of about 8 per cent in the early 1990s to a peak of over 30 per cent in 2009. Our current dependence on non-renewable resource revenue averages over twenty percent of our annual budgets, a fact which presents both a risk and a constraint. The risk lies in the utilization of revenues from depleting natural resource wealth for core spending requirements that will continue: health, education and other programs and activities for which we look to our government for continuing funding. The constraint for present

Chart 1: Non-renewable Resource Revenue as a Portion of Total Revenue



purposes is that this is a reality that affects inputs. We cannot commit all non-renewable resource revenues to a futures fund without requiring compensatory taxation or other revenue measures to support existing spending commitments. What we can do, however, is decide that Saskatchewan will not become more dependent than it already is on this source of revenue for ongoing budget requirements.

With respect to outputs, it is important to remember that the key idea behind a futures fund is to substitute asset conversion for asset depletion. The conversion of natural resource wealth to investment wealth results in a revenue stream that will be there ten and 100 years from now. The extent of that wealth may be unpredictable, but its existence should be assured. Moreover, the conversion of non-renewable resources to stocks, bonds, and other investments provides government with a more diverse and sustainable revenue stream based on a long-term investment portfolio comprised of global financial assets.

It is possible to be prescriptive about the uses to which investment revenues should be put, though we should be cautious about doing so. In the first place, we cannot at this time anticipate their size. But even if we could foresee amounts, we cannot anticipate the needs and priorities of governments decades or generations from now. We can hope and even advise in the matter, particularly in the short term, but we should avoid prescription.

Alaska was prescriptive to the extent of providing that much of the Permanent Fund's earnings are to be used to pay dividends to the state's residents. The Permanent Fund dividend remains controversial to this day, and while the details are beyond the scope of this report, it can be said that other jurisdictions would be unwise to embark on a dividend program without thoroughly studying the Alaska experience. Administration of the program is complex and its social rationale is uncertain, but the dividend now is an entitlement and, in that sense, it creates individual stakes in the Permanent Fund that contribute to broad support for its continuance.

Investment Mandate and Policy

It was learned during the consultation phase of this initiative that the Canada Pension Plan Investment Board is globally respected for the quality of its management and governance. Its senior managers commented on the importance of a statutory mandate to guide investment policy. Such a mandate provides clarity in fund management: it is public; it has the force of law; and it is an important touchstone in determining benchmarks and assessing performance. With it in place, it is up to the CEO and staff to run the day-to-day business of the fund and to the Board of Directors to oversee it. This includes determining the asset mix, hiring staff or retaining external expertise, and developing a responsible investment policy. The latter two of these require further comment.

Both Alaska (Alaska Permanent Fund Corporation) and Norway (Norges Bank Investment Management) have considerable in-house professional staff, though they do rely as well on external consultants and advisors. In the early years of a Saskatchewan Futures Fund, there would be an even greater reliance on external expertise: the size of the fund is unlikely to justify a large in-house capacity. This could change as the fund grows, but for as long as external consultants and advisors are necessary they should be hired exclusively on a competitive basis that takes account of their experience in advising or managing comparable funds.

Another issue that merits comment is that of ethical investing. Norway's fund has an in-house Council on Ethics, with a supporting secretariat that devotes considerable attention to the issue. Of course the usual questions arise about who is to be the judge on what constitutes an ethical (or unethical) investment. Beyond obvious cases (for Norway, manufacturers of land mines and cluster bombs) there is room for debate which should take place within fund management and advice as part of a responsible investment policy.

Public Support

To this point we have considered the issues that can strengthen or weaken the design of wealth funds. But even if those issues are addressed well, the public policy context can undermine a fund. In Alaska, for example, it is widely acknowledged that the state handled some important matters effectively. The investment policy of developing a savings fund for future generations rather than an economic development fund is one of them. Another is keeping the fund distinct from the regular budget of the state. A third is the separate entity—the corporation—which is widely seen to be doing a good job managing the fund. But, Alaska is heavily dependent on oil. In addition to creating the Permanent Fund, oil revenues have supported a state policy that sees public spending per resident double the U.S. average with no personal state income or sales tax.[10]

And oil revenues are beginning to fall off. In the absence of new sources of petroleum wealth, the state faces hard choices within the next decade: substantial state budget cuts; a reintroduction of state income tax combined with other new taxes or tax increases; or increasing reliance on the earnings of the Permanent Fund, earnings that are presently committed elsewhere including the dividend program. On a worst case scenario it is fair to ask whether even the capital in the Permanent Fund would continue to be inviolable. Hopefully the worst case or even a bad case scenario will not come to pass.

Whatever lies ahead for Alaska, Norway, Alberta or other jurisdictions that benefit from wealth funds, it is worth repeating that the viability and success of these funds depends on broad public support for them. Alaska enjoys that support partly because of the dividend program; Norway enjoys the support as a point of national pride, notwithstanding that it has no such program.

The engagement of both government and opposition or other parties in establishing and monitoring the fund; and best practices in governance and accountability are crucial to developing and sustaining the broad support necessary for these funds to be successful.

[10] Scott Goldsmith, "Oil Pumps Alaska's Economy to Twice the Size - But What's Ahead? University of Alaska Research Summary No.17. February, 2011. See also Scott Goldsmith, "What Drives the Alaska Economy?" University of Alaska Research Summary No. 13. December, 2008.

Annotated Recommendations

1. Establish a Permanent Fund

The Government of Saskatchewan establish a permanent fund to be known as the Saskatchewan Futures Fund for which it is legislated that the principal is unexpendable.

Annotation: This is the core recommendation of this report. If accepted it would establish clearly that the Fund is to be a permanent, inter-generational savings and investment fund.

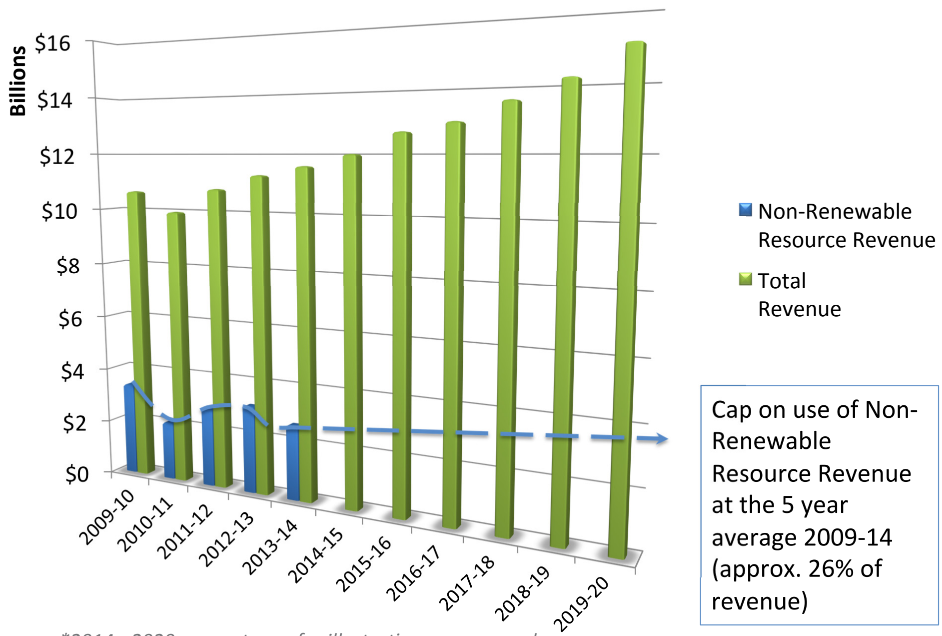
2. Cap Reliance on Non-renewable Resource Revenues

The Government of Saskatchewan establish a cap on reliance on non-renewable resource revenues for all purposes other than deposits in the Futures Fund. This can be done by freezing the use of non-renewable resource revenues in the budget at the average of the five previous provincial budgets (2009 to 2014), which is approximately 26 per cent (See Chart 2).

This cap would stipulate that government's use of non-renewable resource revenue beyond 2014 would not make up more than 26 per cent of the provincial budget, thereby maintaining our use of these revenues at current levels. All non-renewable resource revenues in excess of this cap shall be committed in accordance with recommendation 10.

Annotation: It would not be possible for the province to commit all non-renewable resource revenues to the Saskatchewan Futures Fund without adopting revenue measures to compensate for the existing dependence of the budget on those revenues. It is possible, however, for the province to determine that its budget will not become more dependent on non-renewable resource revenues than it is at present, and to commit all such revenues in excess of amounts presently required for this purpose to the Fund.

Chart 2: Cap Reliance on Non-renewable Resources*



*2014 - 2020 amounts are for illustrative purposes only.

3. Establish a Corporate Entity

The Saskatchewan Futures Fund shall be a body corporate established under the laws of Saskatchewan, wholly owned by the Government of Saskatchewan with a board of seven directors, a majority of whom must be residents of Saskatchewan. Board members shall be appointed solely on the basis of their suitability and qualifications for Futures Fund board governance. The initial Board of Directors shall be appointed by the province's Minister of Finance. Successors to the original directors shall be appointed jointly by the Minister of Finance and the Board of the Saskatchewan Futures Fund. Board appointments shall be for a term of four years, renewable twice with a maximum term of twelve years.

Annotation: This recommendation would give effect to the Fund as an entity separate from government whose internal organization has the capacity to participate competitively in the wealth fund investment world. At the same time it is intended, along with recommendation 9, to express the vital role of government in the ownership of the Fund, the appointment of its directors and ensuring accountability to the legislature and people of the province.

4. Select a Chief Executive Officer

The Fund shall have a chief executive officer. The first and all subsequent chief executive officers for the Saskatchewan Futures Fund shall be appointed by the Fund's Board of Directors. All other employees of the Fund shall be hired by the chief executive officer.

Annotation: This recommendation would set out the steps necessary to establish the Fund as a corporation and appoint the initial Board of Directors who select a CEO.

5. Head Office in Saskatchewan

The head office of the Saskatchewan Futures Fund shall be in Saskatchewan at a location to be determined by the Board of Directors.

Annotation: Other than stipulating that the Fund's head office shall be in Saskatchewan, it is not necessary to be prescriptive about where in Saskatchewan the head office shall be located. This recommendation would give that task to the Fund's first Board of Directors.

6. Establish a Statutory Investment Mandate

The investment purpose of the Saskatchewan Futures Fund shall be established by public statute. All investment decisions for the fund shall be approved by the Board of Directors with the professional advice of its employees or others retained to advise on investment matters.

The investment purpose of the Saskatchewan Futures Fund shall be a legislated mandate to achieve a maximum rate of return over the long-term without undue risk of loss, taking into account that the Fund is a permanent fund, with unexpendable capital, for the lasting benefit of the people and Province of Saskatchewan.

Annotation: This recommendation would give effect to the advice received that it is desirable in the interest of clarity to establish the investment mandate of the Fund by public statute. This legislative mandate directs the Fund to 1) maximize investment returns, 2) without undue risk of loss, and 3) with reference to the long term nature of the Fund. It accords to the Fund the opportunity to determine its investment policies and asset mix with the long term in mind.

7. Scope of Investments

Investments may be made worldwide, including in the province of Saskatchewan, provided that investments within the province are neither privileged nor preferred in whole or in part for that reason.

Annotation: We have seen that the Norwegian fund precludes investments in Norway and that while the Alaska fund does not follow this example, Permanent Fund investments in that state are not preferred or privileged. These are important reminders that the two funds are not economic development funds. On the principle that investments should be made to maximize returns subject to the statutory mandate of the Saskatchewan Futures Fund, this recommendation, if accepted, would follow the Alaska example.

8. Uses of Fund Income

Investment returns shall be split between operating expenses and inflation proofing with all remaining income deposited annually in the Province's general revenue fund for such purposes as the Government of Saskatchewan may determine. Unallocated investment returns shall be reinvested in the Saskatchewan Futures Fund.

Annotation: This recommendation is consistent with the permanent nature of the Fund by avoiding being prescriptive about the purposes for which investment returns should be committed. This decision should rest with the government of the day, whether the day is in the near or distant future. As well, setting aside a portion of the investment returns of the Fund for inflation proofing will help to ensure the continued growth of the Fund at least at the rate of inflation.

9. Auditing and Public Reporting

The Saskatchewan Futures Fund shall be audited in accordance with best practices by professional auditors appointed by the Board of Directors.

The Saskatchewan Futures Fund shall report annually on the fiscal and operational status of the Fund to the legislature of the Province of Saskatchewan with quarterly updates provided to the public on fund assets and performance. A new or existing Standing Committee of the Legislature, with membership from all parties represented in the Assembly, shall review the report and provide commentary as it deems appropriate. Annual reports and committee proceedings shall be made public.

Annotation: This recommendation, if accepted, would implement two features that are essential to the success of the Saskatchewan Futures Fund. First, annual reports and quarterly performance updates will help to ensure both accountability and transparency in the Fund's operations and investments. Second, a review of reports by a legislative committee including members of the government and Official Opposition will assist in creating bipartisan support for the Fund.

10. Timeline for Establishing the Fund

The Saskatchewan Futures Fund be established at the earliest possible date compatible with the Saskatchewan Plan for Growth. The cap on reliance on non-renewable resource revenues in the province's budget should come into effect in 2014. Given the priority on debt reduction in the Plan for Growth:

- one option could be that non-renewable resource revenues in excess of the cap be committed to elimination of the debt and thereafter to the Saskatchewan Futures Fund;
- another option might see 50 percent of non-renewable resource revenues in excess of the cap committed to debt reduction until the debt is retired, with the remaining 50 percent committed to the Fund; or
- a third option could be a 2014 budget allocation of $100,000,000 to launch the fund.

Whatever option is chosen, high priority should be given to the early establishment of the fund.

Annotation: The experience of other jurisdictions tells us that it is difficult to predict the flow of revenues into savings and investment funds and their eventual size. We have to start somewhere, and if this report is viewed with favour by the government and people of Saskatchewan, it is proposed that there be an early beginning to the establishment of the Saskatchewan Futures Fund. This recommendation, if accepted, would stimulate the necessary legislation, initial appointments and investments required to create a fund.

Appendix A: Interview and Discussion Participants

NAME		TITLE	ORGANIZATION
Aarnes	Dag	Director	Confederation of Norwegian Enterprise
Achee	Laura	Director of Communications	Alaska Permanent Fund Corporation
Agerup	Mette	Assistant Director General	Olje-og energidepartementet / Ministry of Petroleum and Energy Norway
Allan	Justin	Head of Institutional Investor Relations	Her Majesty's Treasury, UK Government
Ascah	Bob	Director	Institute for Public Economics, University of Alberta
Babineau	Rod	Manager Portfolio Research	Alberta Treasury Board and Finance
Bernard	Jean-Thomas	Chair of Electricity Economics/Visiting Scholar	Université Laval / University of Ottawa
Bisson	Richard	President	Nomura Asset Management U.K. Limited
Brandon	William	Deputy Director	Financial Regulations and Market Services, Her Majesty's Treasury, UK Government
Brett	John	Global Head of Distribution	Aberdeen Asset Management
Brockman	Joanne	Executive Director	Ministry of Finance, Government of Saskatchewan
Brubakk	Petter	Executive Director for Economic and Industrial Policy	Confederation of Norwegian Enterprise

NAME		TITLE	ORGANIZATION
Burns	Mike	Executive Director	Alaska Permanent Fund Corporation
Butler	John	Senior Vice President	Canadian Pension Plan Investment Board
Cowie	Matthew	Head of Global Markets	Her Majesty's Treasury, UK Government
Crowley	Brian Lee	Managing Director	Macdonald-Laurier Institute
Eckstein	Jeremy	Managing director of Research and Co-founder	Artbanc
Edwards	Murray	President	Edco Financial Holdings Ltd., Alberta
Eisler	Dale	Assistant Deputy Minister	Natural Resources Canada
Erickson	Gregg	Principal	Erikson and Associates, Alaska
Fletcher	David	CEO	Odey Asset Management
From	Bjørn Geir	Investment Director	Finansdepartementet / Ministry of Finance Norway
Goldsmith	Scott	Professor Emeritus	Institute of Social & Economic Research, University of Alaska Anchorage
Gordon	Elaine	Head of Institutional Business	Artemis Investment Management
Groh	Clifford	Lawyer	Law Office of Clifford J. Groh, II, Alaska
Hamilton	Julie	Professor	University of Alaska Southeast - Juneau
Hansen	Christian	Senior Trade Commissioner	Embassy of Canada, Oslo
Haverstock	Rae	Assistant Deputy Minister	Ministry of Finance, Government of Saskatchewan
Hernes	Bjorn Petter	Public Affairs Officer	Embassy of Canada, Oslo
Holden	Mike	Senior Economist	Canada West Foundation

NAME		TITLE	ORGANIZATION
Holden	Steinar	Professor	Department of Economics, University of Oslo
Isman	Clare	Deputy Minister	Ministry of Finance, Government of Saskatchewan
Jameson-Till	Fiona	Institutional and Consultant Relations	Odey Asset Management
Jones	Dylan	President/CEO	Canada West Foundation
Landon	Stuart	Professor	Department of Economics, University of Alberta
Li	Hangbo	Head of Global Financial Markets	Bank of China
Loewy	Rob	Senior Relationship Manager	Bank of China
Lund	Eli	Executive Head of Secretariat	Council on Ethics, Norwegian Pension Fund Global
Macza	Denise	Assistant Deputy Minister	Ministry of Finance, Government of Saskatchewan
Manning	Brian	Interim President and CEO	SaskBuilds
Marchaldon	Greg	Canada Research Chair in Public Policy and Economic History	Johnson-Shoyama Graduate School of Public Policy
Marshall	Jim	Senior Policy Fellow	Johnson-Shoyama Graduate School of Public Policy
Matheson	Rod	Assistant Deputy Minister	Alberta Treasury Board and Finance
McClellan	Shirley	Distinguished Scholar in Residence	University of Alberta
McGregor	Kirk	Associate Deputy Minister	Ministry of Finance, Government of Saskatchewan

NAME		TITLE	ORGANIZATION
Meert	Michel	Senior Investment Consultant	Towers Watson
Mehlum	Halvor	Professor	Department of Economics, University of Oslo
Meyer	Inger	First Secretary	Royal Norwegian Embassy, Ottawa
Moen	Doug	Deputy Minister to the Premier	Executive Council, Government of Saskatchewan
Mork	Knut	Chief Economist for Norway	Handelsbanken
Perrins	Dan	Director, Outreach and Training	Johnson-Shoyama Graduate School of Public Policy
Plourde	André	Dean	Faculty of Public Affairs, Carleton University
Raja	Noareen	Associate Sovereign Group	J.P. Morgan Asset Management
Ramm	Hans	Manager	Ramm Energy Partner, Oslo
Rasmussen	Ken	Associate Director	Johnson-Shoyama Graduate School of Public Policy
Redlick	Calvin	Advisor	Wyvern Partners
Roach	Rob	VP Research	Canada West Foundation
Rochussen	Gavin	CEO	J O Hambro Asset Management
Rodell	Angela	Deputy Commissioner	Alaska Department of Revenue
Rødseth	Asbjørn	Professor	Department of Economics, University of Oslo
Sandher	Jaswinder	Head of Debt Capital Markets	Bank of China
Shaw	Mike	Policy Fellow	Johnson-Shoyama Graduate School of Public Policy

NAME		TITLE	ORGANIZATION
Smith	Connie	Professor	Department of Economics, University of Alberta
Storeng	Ola	Economics Editor	Aftenposten, Oslo
Storesletten	Kjetil	Professor	Department of Economics, University of Oslo
Taraldsen	Bjørn	Senior Advisor	Governance Office, External Relations, Norges Bank Investment Management
Thomson	Patrick	Managing Director and Global Head of Sovereigns	J.P. Morgan Asset Management
Tyndall	Marc	Co-founder and Partner	Artemis Investment Management
Urwin	Roger	Senior Consultant for Sovereign Wealth Funds	Towers Watson
Valverde	Pablo	Advisor	Council on Ethics, Norwegian Pension Fund Global
Wallin	Pamela	Senator	Senate of Canada
Wilson	Stuart	Professor	Department of Economics, University of Regina
Winterbourne	John	Trade Commissioner	Embassy of Canada, Oslo
Wiseman	Mark	President/CEO	Canadian Pension Plan Investment Board
Wouters	Wayne	Clerk of the Privy Council	Government of Canada
Wright	John	President/CEO	Canadian Institute for Health Information
Zhang	Lihui	Professor	Johnson-Shoyama Graduate School of Public Policy