

# Today's Resources, Tomorrow's Legacy:

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*Report on NWT Heritage Fund Public Consultation*

May 2010









## **Introduction**

On March 1, 2010, the Honourable J. Michael Miltenberger, Minister of Finance initiated a public consultation into the creation of a Heritage Fund to set aside income from resource development to fund long-term investments in infrastructure or financial assets that would allow NWT residents to receive long-term benefits from the development of the territory's resources. A paper, *Today's Resources, Tomorrow's Legacy: NWT Heritage Fund Public Consultation*, was released to help focus the discussions.

Eight submissions were received by the April 30, 2010 deadline; two from individual residents and six from organizations. A list of these parties' names appears in the Appendix to this report.

Broadly speaking, of the eight submissions, five were in favour of the establishment of a Heritage Fund, and two were against it and one was not in favour at this time. The specific contents of the submissions are examined more fully below but to preserve the authors' anonymity, no direct attribution is used.

## **Contents of the Submissions**

The basic question posed in the discussion paper was whether there should be a Heritage Fund. Also examined in the paper were options for the type of a Heritage Fund to help focus the discussion on how the funding process would work, how investments would be managed, conditions under which funds could be withdrawn from the Fund, as well as governance and results reporting.

The discussion paper presented two main options:

Option 1: Long-term savings fund, with no portion of the funds used for current expenditures or capital investment.

Option 2: (A) Savings fund, which would make investments either in infrastructure or in financial assets that will pay a future return to NWT residents.

(B) The creation of two separate funds, one of which would be used for investments in infrastructure and the other for the accumulation of long-term financial assets. The portion of funds that would go to each purpose could be specified in legislation.

Of the eight submissions, five supported the concept of a Heritage Fund, and three were opposed to the establishment of a Heritage Fund, at least at the present time, if only because their authors felt that the current and/or future costs associated with resource development outweighed the immediate benefits.

### In Support of a Heritage Fund

The major thrust of the message submitted by supporters of the concept of a Heritage Fund can be summarized succinctly with the words found in one of the submissions:

“Overall, [we believe] the Government of NWT is on the right track with pursuing a Heritage Fund.”

Reasons given for support of a Heritage Fund included the need for intergenerational equity, and the concern that resource extraction will end and will result in increased unemployment and out-migration and the inability to fund public service programs.

As one submission noted:

“This generation does not have the right to exhaust or use up all the physical capital of this territory without planning for future generations.”

The following presents comments and recommendations on specific issues raised in the discussion paper.

#### Question #1:

*What sources of revenue should be considered non-renewable resource revenues for the purpose of the Heritage Fund? Resource developments provide revenues to governments in the form of royalties, land fees, property taxes, corporate income taxes, commodity taxes, permits and licensing fees.*

#### Comments/Recommendations:

“A profits-based resource income tax and carbon pricing are two options for supplying revenue to a heritage fund for the NWT. A profits-based resource income tax would provide a revenue stream from resource extraction activities that are occurring now, even prior to devolution. A carbon pricing system can be structured to be equitable while also providing an incentive to reduce greenhouse gas emissions...”

“[We support] the dedication of income from all sources of revenue from the extraction of resources to the Heritage Fund. This would include the list stated in the Heritage Fund consultation report: royalties, land fees, property taxes, corporate income taxes, commodity taxes, permits and licensing fees. We would add other sources of income such as a resource tax, capital tax, carbon tax and income from cash bids. If all sources are not included, we will see a drifting of taxation towards sources that don't pay into the fund and away from ones that do.”

“...we feel that it is imperative that the GNWT looks at alternatives to capture the public's fair share of economic rent. Those alternatives should include a carbon tax or a natural resource income tax or a combination of the two....the revenues from these taxes [would go] into the heritage fund.”

Question #2:

*Do NWT residents want ALL the revenue from non-renewable resources, less offsets under Territorial Formula Financing arrangements to be included in the Heritage Fund?*

Comments/Recommendations:

“...we recommend that 30 to 50% of resource revenues be placed into [a Heritage Fund]... saving 30 to 50% of resource revenues in a heritage fund ensures that the financial wealth resulting from non-renewable resource developments is shared with future generations.”

“[W]e support establishing a ‘long-term savings fund with no portion of funds used for current expenditures or capital investment’. On the order of 30 to 50% of revenues from resource extraction should go into this fund.”

Question #3:

*Should a portion of the Heritage Fund be available for investment in infrastructure that would provide long-term economic benefits to current and future NWT residents?*

Comments/Recommendations:

“[We do] not believe that the funds should be allocated to current spending or invested in infrastructure despite the fact that the GNWT has a large infrastructure deficit. Infrastructure investments may be capital assets but they are often accompanied by huge operational and maintenance costs.”

Question #4:

*Do NWT residents want some of the revenue to fund programs and services for current NWT residents?*

Comments/Recommendations:

“[We maintain] that allocating the funds to long term savings with no portion of the funds used for current expenditures or capital investment until a certain funding level is achieved, would best protect the interests of current and future residents.”

“The remainder [of from 50 to 70 per cent] of resource revenue could be placed into general revenues and be used to support investments in infrastructure and to fund vital programs and services for current NWT residents.”

Question #5:

*What amount should be allocated to financial investments and what amount for infrastructure investments?*

Comments/Recommendations:

“Option 1: Long-term saving fund is...the preferred option.” Option 2(A): because it proposes the possibility that all the funds be used for infrastructure is unpalatable...as it leaves no

financial asset for future generations. Option 2(B): which proposes a fund with segregated purposes, where a portion is dedicated to infrastructure investment and a portion dedicated to long-term financial investment could be palatable depending on the proportions suggested...[because small amounts of resource revenues] could easily get lost or disappear entirely in small infrastructure projects.”

“[We support] Option 1: a long-term savings fund, with no portion of the funds used for current expenditures or capital investment.”

“[W]e believe that a modified option two is the best option. In order to make non-renewable resource development ‘sustainable’, a portion of the funds directed to the heritage fund should be directed towards reducing the NWT’s dependency on fossil fuels. Investments in mini hydro, solar, and bio-mass energy would provide a lasting positive legacy for future generations.”

#### Question #6:

*Where should the income earned on fund investments go – back into the Fund or into the GNWT’s consolidated revenue fund (will assume that growth in the Heritage Fund is net of the general increase in prices)?*

#### Comments/Recommendations:

“Once [a] predetermined funding level is reached, income earned from the fund could be invested in infrastructure and to pay other expenses associated with the Fund much like the Alaska Permanent Fund.”

“Heritage and other long term funds should be designed to grow in value over time (to compensate for declining resource availability) and should be inflation-proofed so that they do not lose value.”

“The Norway experience demonstrates that a committed and long-term approach to revenue accumulation can lead to large interest gains.”

“Income earned on fund investment should inflation proof the fund, that is, invest more into the fund than the rate of inflation.”

#### Question #7:

*If the annual income is to be treated as GNWT revenue, what happens if the value of the fund decreases because of investment losses? Should losses be taken into account when determining annual income?*

#### Comments/Recommendations:

“If the value of the fund decreases because of investment losses, then losses would be compensated for by putting more income into the fund until the decrease is made up or amortized.”

“The income earned on fund investment and other revenues from resource extraction should be targeted towards increasing the NWT environmental, economic and social sustainability. This can be done through projects in infrastructure development aimed at energy

conservation and the development of renewable energy sources, community based economic diversification and resources to support long term social benefit such as the building of early childhood centers. Clear standards should be established for project approval and projects should be protected from political interference. Related performance measures should be established.”

Question #8:

*Who should oversee the Fund, review reports and approve business plans, approve investment strategy guidelines and investment strategies? Who should audit the Fund? Who should manage the Fund?*

Comments/Recommendations:

“Management of the fund...should be modelled on the Alberta Heritage Savings Trust Fund with the Auditor General of Canada serving as the Fund’s auditor.”

“Lessons from the Alaska fund include management of the fund by an independent third party, as well as gaining citizen buy-in.”

“This fund should be legislatively protected from premature withdrawal of its capital.”

“The Heritage Fund should be formed based on an Act passed by the Legislative Assembly. The Act should state the purpose of the fund and the legal basis for its operation. It should be managed by an arms-length agency that reports to the Legislative Assembly. It should be audited by the federal auditor general. Appointments to the group that manages the fund should reflect principles of gender equity, geographic representation of the NWT, a variety of experiences and backgrounds, and commitment to public service....There should be complete disclosure and public reporting on the performance of the fund at least annually.”

Question #9:

*What should the Fund’s goals, strategies and performance measures?*

Comments/Recommendations:

“The most successful heritage funds have clear and consistent accumulation and withdrawal rules, a diversified investment portfolio, protection against decline and inflation, and strong transparency, accountability and communication policies to build public confidence in the government’s fund management.”

“Norway’s ethical and environmental investment guidelines are important for transparency and accountability.”

“Alberta’s experience demonstrates the need for clear and definitive rules around revenue inputs and fund expenditures. It is clear that without such regulations, fund monies may be used for purposes other than the stated goals and the value of such funds may suffer accordingly.”

“This long term savings fund should be established with standards for maximizing returns from revenues while following ethical standards for investment.”

“Investments should be made outside of the NWT in order not to cause inflation of our economy.”

### Not in Favour of Heritage Fund or Support with Conditions

Those authors who are against a Heritage Fund had the following to say:

- Submission #1 –

“The best heritage fund we have is the natural gas in the ground in Inuvik. Let’s leave it where it is, since it is only increasing in value, and develop it at some point in the future when it can be used in the north for northerners rather than sending it down south for the southerners. This is the best investment we could make for the future. In today’s energy climate, natural gas is a precious fuel that could be used at any time, and is becoming more valuable. It’s the best bank account we have and it’s there already.”

- Submission #2 –

“Does implementation of the Heritage Fund, whilst ‘protecting the net revenues from resource development’ by having responsibility for levying/collecting them transferred from Federal to Territorial Government, also make appropriate allowance for cleanup/restoration costs for abandoned extraction sites & facilities? These have been a Federal responsibility for a long time now that receives a low level & quality of attention from them, resulting in extensive areas that remain in a blighted, polluted condition if the Federal Department responsible for their aftercare deems it sufficient to just walk away from them, or else if the price tag for the work is high, or the work found to be difficult. A current example would be the CANOL pipeline, blighted with asbestos contamination, for which the cleanup will be nobody’s picnic. Will the GNWT be any more capable of handling this aspect of non-renewable resource ‘extraction’? Those ‘vast treasures of non-renewable resources’ may turn out to be illusory if cleanup provisions are not well thought through & implemented.”

- Submission #3 –

“[We] respectfully [request] that the Government of the Northwest Territories place additional focus to bring closure to resource revenue sharing with the federal government, prior to formally establishing the framework for a Heritage Fund. [Moreover], [we] strongly [object] to the introduction of a new resource tax.”

### **Conclusion**

The submissions can be summarized as follows:

- Two submissions opposed to resource development at the present time, including one submission proposing leaving the resources in the ground as the ideal Heritage Fund.
- One submission stating approval in principle for a Heritage Fund but which considers developing a framework for a Heritage Fund to be premature until a resource-revenue-sharing agreement is reached with the federal government.

- A submission in favour of establishing a long-term savings Heritage Fund using 100 per cent of resource revenues until an unspecified, but large, target Fund size is achieved, at which point resource revenues could go towards infrastructure.
- A submission in favour of establishing a long-term savings Heritage Fund which places between 30 and 50 per cent of resource revenues into a Fund with the balance made available for spending on infrastructure or general programs. This submission also proposes funding the Heritage Fund in advance of a resource revenue sharing agreement with either a resource income tax or a carbon tax.
- A submission in support of a long-term savings of between 30 to 50 per cent of resource revenues (defined as royalties, land fees, property taxes, corporate income taxes, commodity taxes, permits and licensing fees) with no portion of these funds used for current expenditures or capital investment. The submission supports adding further sources of income including a resource tax, carbon tax and income from cash bids, stating that if all sources are not included, the tax structure will drift towards taxes that do not pay into the Fund. The Fund should be inflation-proofed and remaining income should be targeted towards investments in “increasing NWT environmental, economic and social sustainability”.
- A submission calling for a savings fund with a portion of the Heritage Funds directed to reducing the NWT’s dependency on fossil fuels through investments in hydro, solar and bio-mass energy. The submission was critical of the Heritage Fund paper for not providing an option that would leave the resources undeveloped and for not addressing the perceived low royalty rates in the NWT. The submission supported for the introduction of alternative measures for capturing economic rent such as a carbon tax or natural resource income tax if the federal government refuses to raise royalty amounts.
- A submission noting likely support based on past experience but which could not state a position without surveying its members.

### Next Steps

The results of the public discussions will be evaluated over the next few months and Cabinet direction sought with respect to the type of Fund; how much of the Net Fiscal Benefit should be invested in the Fund; who would administer the Fund; what the definition of income should be for purposes of the Fund; and to what ends the Fund’s income might be applied. Following that proposals for legislation will be developed by Fall 2010.

## APPENDIX

### List of Submissions

#### Individuals

1. Dwayne Wohlgemuth
2. Michael Morse

#### Organizations

3. Union of Northern Workers
4. NWT Chamber of Commerce
5. Pembina Institute
6. Alternatives North
7. Ecology North
8. Canadian Federation of Independent Business