



# Eleven Years of Nothing: The Consequences of Failing to create a Saskatchewan Heritage Fund

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# About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action

Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. Donations to the CTF are not deductible as a charitable contribution. The CTF does not accept foreign funding.



# The lost years

Eleven years ago, the provincial government was told to start a heritage fund. The government failed to act and now the province is missing out on millions in interest income.

In 2013, former premier Brad Wall commissioned a report on heritage funds by former University of Saskatchewan president Peter MacKinnon. The report recommended the government should create a heritage fund.

“A permanent savings account in the form of a [heritage fund] could turn our one-time revenue from these resources into a lasting source of wealth for Saskatchewan people,” MacKinnon said.<sup>1</sup>

If the government had implemented a fund based on the 2013 report’s recommendations, the fund would contain about \$3.2 billion today and generate \$162 million in interest income annually. Instead, since 2013, the government kept spending and increased the provincial debt by 264 per cent.<sup>2</sup>

In the wake of the current surge in resource revenues, it is time for the government to stop wasting time and create a Saskatchewan Heritage Fund.

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1. <https://www.saskatchewan.ca/government/news-and-media/2013/november/12/mackinnon-proposes-saskatchewan-futures-fund>

2. <https://budget.saskatchewan.ca/pub/docs/budget-docs/22948-2024-25-budget-document-web.pdf>

# A Saskatchewan savings plan

The Saskatchewan government needs a plan to pay off the debt and save its non-renewable resource revenue.

When resource revenues are high, the provincial government spends. During tough times, the government continues to borrow. This drives up the debt and increases debt interest payments. This is not sustainable.

Resource revenues are notoriously volatile. The government of Saskatchewan needs a long-term plan to get off the resource revenue rollercoaster and save for the future.

Step one is a commitment to using resource revenues to pay down debt.

Step two is a non-renewable resource heritage fund. A heritage fund is an independent investment fund where the government deposits non-renewable resource revenues and invests them to earn interest income.

Saskatchewan had a heritage fund before. Former premier Allan Blakeney set it up in 1978 "to invest part of non-renewable resources revenues into income-producing assets to ensure that future generations can benefit from resource development in Saskatchewan."<sup>3</sup>

This fund lacked sufficient protections that allowed it to be raided by politicians who couldn't control their spending habits. The government shut down the fund in 1992.<sup>4</sup>

Every year the government fails to implement a concrete plan to pay down the debt and create a heritage fund with regular deposits, is another year of lost opportunity to save for the future.

This report shows the consequences of failing to implement a heritage fund a decade ago as per the recommendation of the MacKinnon report.

**The Canadian Taxpayers Federation is calling on the government of Saskatchewan to commit to paying down the debt and create a heritage fund.**

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3. <https://www.uregina.ca/arts/economics/assets/docs/pdf/papers/109.pdf>

4. <https://www.uregina.ca/arts/economics/assets/docs/pdf/papers/109.pdf>

# The plans

Mackinnon recommended one plan in his report. But there are many other successful examples the Saskatchewan government should consider when creating its own heritage fund. Projections charting the detailed debt repayment and principal growth of each plan are included in a more detailed breakdown below.

## The MacKinnon plan

The 2013 MacKinnon report recommended the creation of a heritage fund where the principal can not be spent.<sup>5</sup> MacKinnon also recommended capping resource revenues at the average they made up of the budget for the five previous years.

In the below scenario, deposits into the fund are based on capping resource revenues at 14 per cent of total revenues. This was the average amount that resource revenues made up of the total provincial budget during the decade after the report was published. A ten-year average was used in this report because it provides a less volatile resource revenue value for the government to work with, especially in light of the unprecedented economic impact of the COVID-19 pandemic.

Mackinnon also noted in the report that whatever plan the government decided on, starting the fund as early as possible is paramount to its success.<sup>6</sup>

**If this modified MacKinnon plan had been implemented by the government in 2013, the fund would contain about \$3.2 billion dollars today and generate \$162 million in interest annually.**

## The Alaska plan

Alaska struck oil in the late 1960s. In 1977, the state government established the Alaska Permanent Fund. The fund was established after a referendum was passed to amend the state constitution to deposit 25 per cent of its non-renewable resource revenues into a fund. These deposits are protected and can not be spent by politicians. The fund currently contains more than \$100 billion. Some of the investment returns from the fund are also used to provide dividends to Alaskans. In 2023, each eligible Alaskan received \$1,312 from the dividend.<sup>8</sup>

**If the Saskatchewan government had implemented the Alaska plan in 2013, the heritage fund would contain about \$6.7 billion today and generate \$336 million in interest every year.**

## The Norway plan

The Norwegian government created its fund in 1990, two years before the Saskatchewan government shut down its first heritage fund.<sup>9</sup> The Norwegian government deposited the first revenue into the fund in 1996. Norway deposits 100 per cent of its oil revenues into its heritage fund. The government of Norway only invests money outside of Norway. This practice ensures diversification and stops the fund from being used for corporate welfare or politicians' pet projects. Today, the fund contains more than \$2.2 trillion.

**If the Saskatchewan government implemented the Norway plan in 2013, the heritage fund would contain about \$27 billion today and generate \$1.3 billion in interest every year.**

5. <https://www.saskatchewan.ca/government/news-and-media/2013/november/12/mackinnon-proposes-saskatchewan-futures-fund>

6. <https://www.saskatchewan.ca/government/news-and-media/2013/november/12/mackinnon-proposes-saskatchewan-futures-fund>

7. <https://apfc.org/history>

8. <https://pfd.alaska.gov/#:~:text=2023%20DIVIDEND%20AMOUNT,found%20on%20our%20Payments%20menu>

9. <https://www.nbim.no/en/the-fund/the-history/>

# Dealing with the debt

Before investing in any new fund, the Saskatchewan government must deal with the province's debt problem. By the end of this year, the debt is projected to be \$21.1 billion. The government would be in a much better position today if it had been more fiscally prudent in the past.

In the past, the government has only made sporadic payments on the debt when revenues were especially high. Paying down the mortgage whenever you get a bonus is good, but it's not sustainable. There needs to be a plan to pay off debt and deposit savings regularly.

## The Bare minimum

Since 2013, the government has increased spending by 46 per cent.<sup>10</sup> If the government had instead only increased spending by inflation from 2013 to the present, spending would have increased by 27 per cent. This smaller increase would have allowed smaller deficits and larger surpluses.

Overall, this results in similar deficits compared to real deficit years, but higher surpluses during years when revenue is high.<sup>11</sup>

If these higher surpluses were completely allocated to paying down the debt, at the start of this year the debt would be down to \$85 million. That's about \$21 billion less than current numbers for the end of 2024.

Lower debt means lower interest payments and a shorter horizon to pay off the rest of the debt.

The chart below highlights the debt repayment schedule that would have occurred if the government had only increased spending by inflation and subsequently applied any surplus strictly to debt repayment. This is compared to how the debt actually accumulated. If the government had only increased spending by the rate of inflation each year, the debt would be significantly lower today.

This debt repayment calculation is a conservative estimate as it does not consider the lower interest payments the government would have during that period because of the lower debt. It merely takes the higher surpluses and applies them to the debt.

This remaining debt highlights the consequences of the government failing to pay down the debt prior to 2013.

That doesn't mean the government should not commit to continue paying down the debt into the future with the goal of starting a heritage fund. The government spent its way into this hole, it must now do the hard work of digging itself out by reducing spending.

10. <https://budget.saskatchewan.ca/pub/docs/budget-docs/22948-2024-25-budget-document-web.pdf>

11. <https://publications.saskatchewan.ca/#/categories/893>



## Debt repayment under inflation only spending increases

| Debt           | Current Debt Projections | Debt With Inflation Only Spending Increases |
|----------------|--------------------------|---|
| 2013-14        | \$5,780,000,000          | \$5,191,134,000                             |
| 2014-15        | \$5,420,000,000          | \$5,222,480,800                             |
| 2015-16        | \$6,440,000,000          | \$5,878,929,659                             |
| 2016-17        | \$8,660,000,000          | \$6,730,497,224                             |
| 2017-18        | \$10,130,000,000         | \$7,437,593,043                             |
| 2018-19        | \$12,070,000,000         | \$8,075,701,854                             |
| 2019-20        | \$13,310,000,000         | \$8,609,262,305                             |
| 2020-21        | \$15,510,000,000         | \$9,636,234,303                             |
| 2021-22        | \$18,820,000,000         | \$7,438,308,453                             |
| 2022-23        | \$18,860,000,000         | \$4,214,365,969                             |
| 2023-24        | \$19,203,740,000         | \$85,630,277                                |
| <b>2024-25</b> | <b>\$21,063,100,000</b>  | <b>\$85,630,277</b>                         |

The charts on this page show the rate of debt repayment using three of the potential plans highlighted earlier in this report. Provincial government debt was more than \$5.7 billion in 2013-14, so that is the starting point for debt reduction in this analysis.<sup>12</sup>

This debt reduction plan only assumes that deposits that would otherwise go into the heritage fund would be used for debt repayment. This process could be accelerated through using any other surplus for debt repayment as well.

The MacKinnon plan would see the lowest amount of debt repaid because it had the lowest number of deposits over the last decade. The Alaska plan would see the debt fully paid off this year with a \$236 million surplus. The Norway plan would have seen the debt be fully paid off by the end of 2015. This means that all numbers highlighted below that are negative would instead be deposited into a Saskatchewan Heritage Fund.

Despite not fully paying off the debt, if Saskatchewan were implementing a MacKinnon-type plan, the province would still be much better off. As the debt would soon be paid off, and the government could start to build the heritage fund for the future.

## Debt reduction using the deposits of different plans

| Debt Reduction by Each Plan | Actual Debt             | Debt MacKinnon Plan    | Debt Alaska Plan      | Debt Norway Plan         |
|-----------------------------|-------------------------|------------------------|-----------------------|--------------------------|
| 2013-14                     | \$5,780,000,000         | \$5,203,280,000        | \$5,150,000,000       | \$3,260,000,000          |
| 2014-15                     | \$5,420,000,000         | \$4,500,330,000        | \$4,497,500,000       | \$650,000,000            |
| 2015-16                     | \$6,440,000,000         | \$4,500,330,000        | \$4,057,500,000       | -\$1,110,000,000         |
| 2016-17                     | \$8,660,000,000         | \$4,500,330,000        | \$3,732,500,000       | -\$2,410,000,000         |
| 2017-18                     | \$10,130,000,000        | \$4,500,330,000        | \$3,367,500,000       | -\$3,870,000,000         |
| 2018-19                     | \$12,070,000,000        | \$4,500,330,000        | \$2,932,500,000       | -\$5,610,000,000         |
| 2019-20                     | \$13,310,000,000        | \$4,500,330,000        | \$2,495,000,000       | -\$7,360,000,000         |
| 2020-21                     | \$15,510,000,000        | \$4,500,330,000        | \$2,217,500,000       | -\$8,470,000,000         |
| 2021-22                     | \$18,820,000,000        | \$4,137,610,000        | \$1,487,500,000       | -\$11,390,000,000        |
| 2022-23                     | \$18,860,000,000        | \$2,516,650,000        | \$362,500,000         | -\$15,890,000,000        |
| 2023-24                     | \$19,203,740,000        | \$2,516,650,000        | -\$235,850,000        | -\$18,283,400,000        |
| <b>2024-25</b>              | <b>\$19,203,740,000</b> | <b>\$2,516,650,000</b> | <b>-\$235,850,000</b> | <b>-\$18,283,400,000</b> |

12. <https://publications.saskatchewan.ca/#/categories/893>



## Missing out on millions

If the government had created a heritage fund 11 years ago, the province would be in a much better place today. The figures and tables below highlight the amount of money that a Saskatchewan Heritage Fund would have today, and how much interest income it would have earned, under the three different plans.<sup>13</sup>

For the sake of comparison, debt repayment is set aside in this projection. However, step one in setting up the province for a prosperous future and creating a successful heritage fund is paying down the debt.

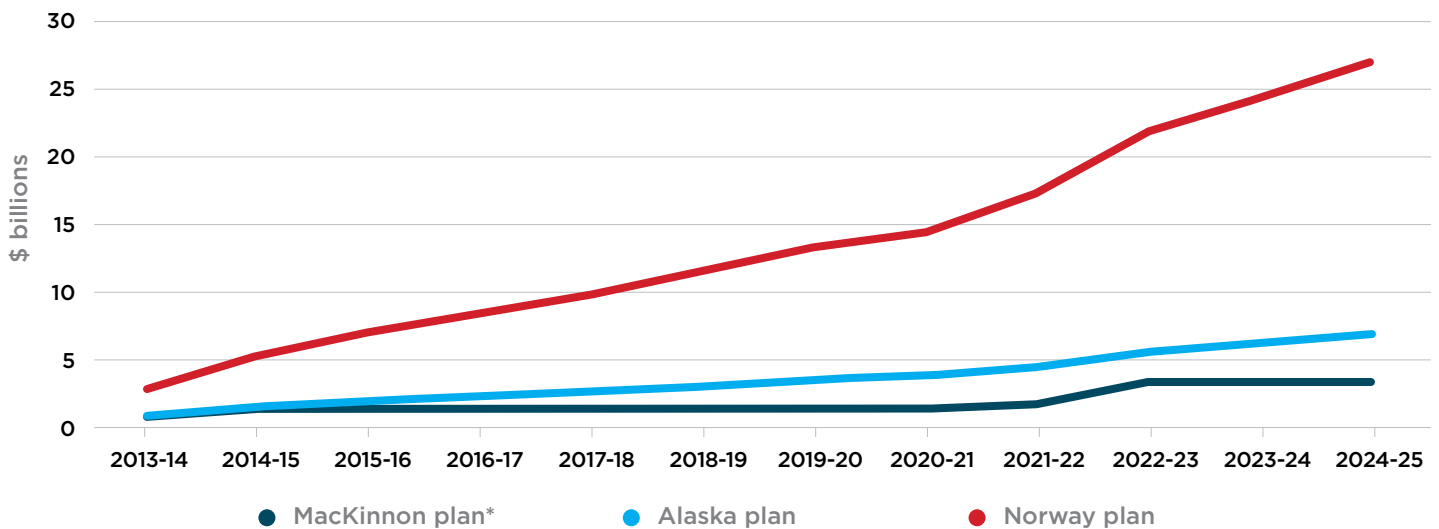
Each plan is calculated at a conservative five per cent return annually.<sup>14</sup> This forecast also assumes the interest income is completely spent each year without reinvestment. As highlighted by the MacKinnon report and the success of the Alaska and Norway plans, politicians must not be allowed to spend the principal of a heritage fund.

If the government had followed either of the three plans, the returns would be:

- The modified MacKinnon plan would see the fund reach \$3.2 billion this year. This would come from deposits in four different years where resources revenue made up 18, 19, 16, and 22 per cent of revenue respectively. This plan would have generated \$988 million in interest over the last 11 years.
- The Alaska plan would see the fund reach \$6.7 billion after 11 years. This would have generated \$2 billion in total interest income.
- The Norway plan would see the fund reach \$26.9 billion. This would have generated more than \$8 billion in interest over the last 11 years.

By capping resource revenues and dedicating the excess revenue to savings, Saskatchewan would have seen millions of dollars in interest flow into provincial coffers every year. Instead, the government spent new revenues as fast as they came in and kept increasing the debt. Saving resource revenue instead of spending it forces the government to reduce its reliance on resource revenue and provide lasting value through the income generated by the fund.

### Value of a Saskatchewan heritage fund under different plans



13. All amounts for calculations are found in the provincial [public accounts](#).

14. Over the last decade the [Alaska Permanent Fund](#) saw an average annual return of 9.2 per cent.

| Total Deposits by Year | MacKinnon Plan*        | Alaska Plan            | Norway Plan             |
|------------------------|------------------------|------------------------|-------------------------|
| 2013-14                | \$501,480,000          | \$630,000,000          | \$2,520,000,000         |
| 2014-15                | \$1,143,220,000        | \$1,282,500,000        | \$5,130,000,000         |
| 2015-16                | \$1,143,220,000        | \$1,722,500,000        | \$6,890,000,000         |
| 2016-17                | \$1,143,220,000        | \$2,047,500,000        | \$8,190,000,000         |
| 2017-18                | \$1,143,220,000        | \$2,412,500,000        | \$9,650,000,000         |
| 2018-19                | \$1,143,220,000        | \$2,847,500,000        | \$11,390,000,000        |
| 2019-20                | \$1,143,220,000        | \$3,285,000,000        | \$13,140,000,000        |
| 2020-21                | \$1,143,220,000        | \$3,562,500,000        | \$14,250,000,000        |
| 2021-22                | \$1,524,180,000        | \$4,292,500,000        | \$17,170,000,000        |
| 2022-23                | \$3,241,020,000        | \$5,442,500,000        | \$21,770,000,000        |
| 2023-24                | \$3,241,020,000        | \$6,054,787,750        | \$24,219,151,000        |
| 2024-25                | \$3,241,020,000        | \$6,726,362,750        | \$26,905,451,000        |
| <b>Total</b>           | <b>\$3,241,020,000</b> | <b>\$6,726,362,750</b> | <b>\$26,905,451,000</b> |

| Returns by Year                 | Mackinnon Plan*      | Alaska Plan            | Norway Plan            |
|---------------------------------|----------------------|------------------------|------------------------|
| 2013-14                         | \$25,074,000         | \$31,500,000           | \$126,000,000          |
| 2014-15                         | \$57,161,000         | \$64,125,000           | \$256,500,000          |
| 2015-16                         | \$57,161,000         | \$86,125,000           | \$344,500,000          |
| 2016-17                         | \$57,161,000         | \$102,375,000          | \$409,500,000          |
| 2017-18                         | \$57,161,000         | \$120,625,000          | \$482,500,000          |
| 2018-19                         | \$57,161,000         | \$142,375,000          | \$569,500,000          |
| 2019-20                         | \$57,161,000         | \$164,250,000          | \$657,000,000          |
| 2020-21                         | \$57,161,000         | \$178,125,000          | \$712,500,000          |
| 2021-22                         | \$76,209,000         | \$214,625,000          | \$858,500,000          |
| 2022-23                         | \$162,051,000        | \$272,125,000          | \$1,088,500,000        |
| 2023-24                         | \$162,051,000        | \$302,739,388          | \$1,210,957,550        |
| 2024-25                         | \$162,051,000        | \$336,318,138          | \$1,345,272,550        |
| <b>Total Interest Generated</b> | <b>\$987,563,000</b> | <b>\$2,015,307,525</b> | <b>\$8,061,230,100</b> |

## Conclusion

The need for a heritage fund in Saskatchewan is clear.

Every year the province waits to commit to paying down the debt and creating a heritage fund is another wasted opportunity. The provincial government owes it to the Saskatchewanians of today to be prudent with its spending. It owes it to future generations to allow them to benefit from the province's wealth of natural resources.

Instead of investing in the province's future, the government has increased the provincial debt by more than 264 per cent since 2013. If the government was debt free in 2013 and followed a plan similar to what was laid out by MacKinnon, the Saskatchewan Heritage Fund would contain \$3.2 billion and generate millions in interest. If the government had at least committed to paying down the debt using MacKinnon's plan, the debt would be reduced to \$2.5 billion, paving the way for a future Saskatchewan Heritage Fund.

The provincial government has already let more than a decade pass without action. And with multiple successful examples of heritage funds being implemented around the globe, there is no time left to procrastinate. Saskatchewan needs to pay down the debt and create a heritage fund.