


A Question of Future Prosperity

Developing a Heritage Fund in the Northwest Territories



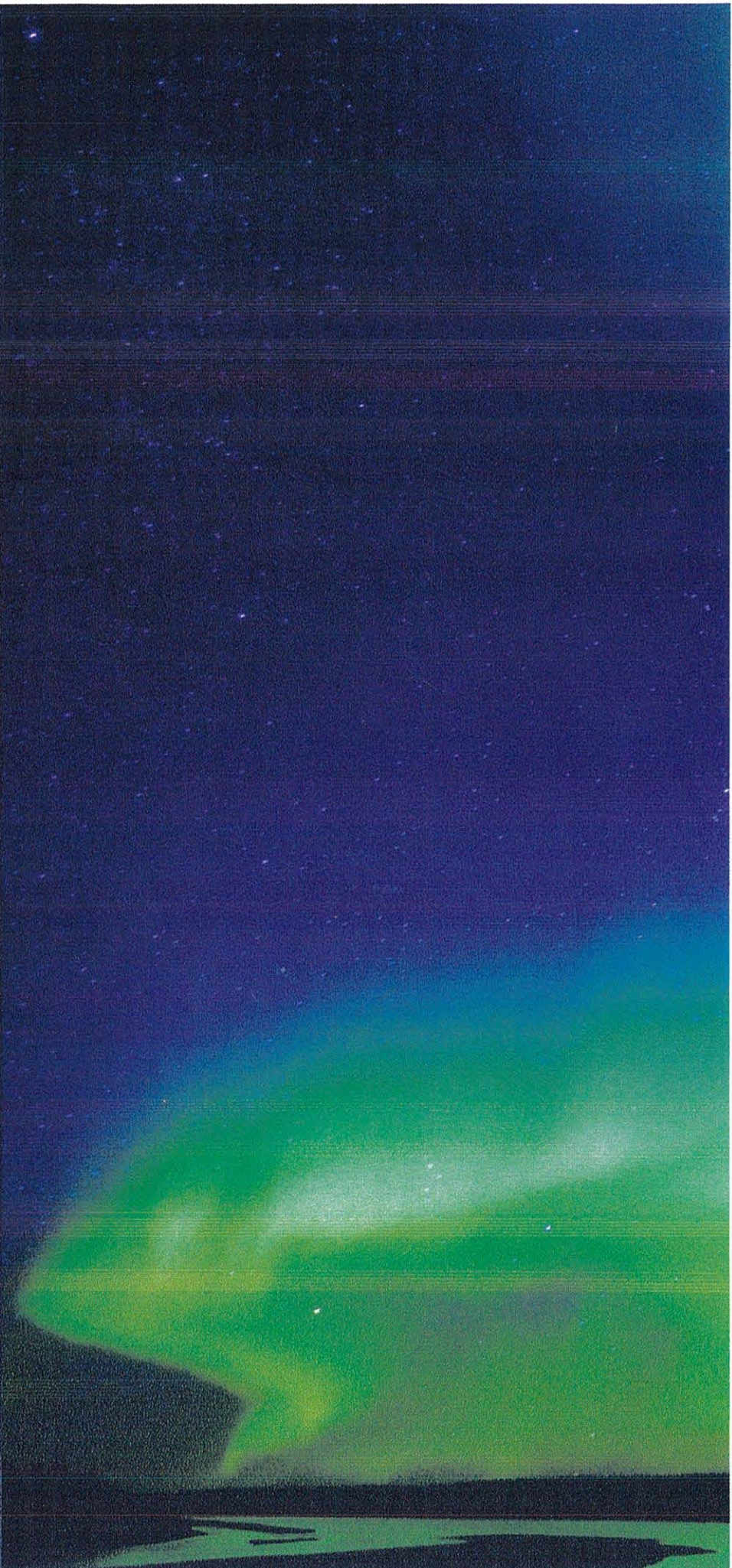
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We offer our sincere thanks to Action Canada for the incredible learning opportunity this fellowship provided us during 2013-2014. A significant step in our journey was the opportunity to engage with community members, industry representatives and governments in the NWT while researching on northern public policies. Early input from community members deepened our understanding of the complex issues shaping the non-renewable resource industry in the North. This learning experience would not have been possible without the generous contribution of participants in our interviews, the Northern Roundtable and the Vancouver Public Dialogue. We also wish to acknowledge reviewers who gave their time so generously to improve our report drafts:

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*“Each generation will reap
what the former generation has sown”*

Chinese Proverb

Executive Summary

Throughout the last century, Canada’s North has experienced dramatic boom-bust cycles of economic development, an outcome of reliance on single-industry natural resources. More recently, petroleum extraction and mining initiatives have defined these cycles.

Other resource-rich regions, both in Canada and around the world, are recognizing the socio-economic – and environmental – risks associated with long-term economic reliance on these mineral and petroleum resources which carry a finite availability. Increasingly, governments are identifying the need to protect some of the wealth generated in periods of growth, to both preserve its use for periods of decline, and for the benefit of future generations.

With Devolution, and the transfer of responsibilities from the Government of Canada, the Northwest Territories faces an important question. How can the territory invest sustainably over the long-term, for the benefit of its future generations? Through the Devolution Agreement, which comes into effect April 1, 2014, the Government of the Northwest Territories (GNWT) will be in a position to retain a percentage of its resource revenues. In preparation for this, the GNWT legislated the Heritage Fund Act in August of 2012. The Heritage Fund is being developed as a vehicle to transfer and save a portion of resource revenues, following other jurisdictions in Canada (such as Alberta) and elsewhere (Norway and Wyoming, USA).¹ These

funds are commonly referred to as “Sovereign Wealth Funds” or “Heritage Funds”.

While a range of options exists for investing in future generations; the GNWT has chosen to save a portion of the resource revenues in a Heritage Fund.² This report examines key considerations for the GNWT as it moves into the strategic planning phase of the Fund’s implementation. Exploring best practices in fund development and drawing lessons from other jurisdictions, this report offers recommendations intended to inform the implementation of the GNWT’s Heritage Fund within the context of the primary objective: savings. It also explores whether additional objectives should be considered.

This report further advocates that the viability and success of the NWT Heritage Fund depends on broad public support. Continued public outreach and consultation will be critical tools in achieving this support over the long-term.

Our Task Force proposes six key recommendations that explore how resource wealth can best be allocated to the Heritage Fund, to benefit the people of NWT, both for today and for the benefit of future generations.

Task Force Team

Jesika Briones - Toronto | Andre Dias -
Toronto | Sarah Daitch - Fort Smith
Julia Fan Li - Vancouver | Martin Lajoie -
Ottawa | Alyssa Schwann - Winnipeg

THE LESSONS OF HISTORY

In 1870, the British North American territory of Rupert's Land was sold to the new government of Canada. This territory included a vast area of much of what is now Canada's central prairie provinces, southern Nunavut, and parts of northern Ontario and Quebec. In the same year, the Hudson's Bay Company transferred the North-Western Territory to Canada. Despite the significant acquisition of new land in the North, Canada's primary objective was to encourage settlement and development in the western prairies.

This precipitated a marked decline in the North, furthered by a correlating downturn for northern private trading companies, and a lack of investment and development. Underdevelopment in combination with other factors, such as isolation from political decision making and a perceived endless supply of rich natural resources, has contributed to dramatic cycles of "boom" and "bust" for Northern Canada.³ Single-industry economies, including the whaling industry, fur trade, gold rush, and recent non-renewable natural resource initiatives, have defined these cycles.⁴ Periods of rapid economic growth, followed by even faster decline, are an outcome of the region's economic dependence on a few natural resources whose value and availability are prone to fluctuations. In the case of non-renewable natural resources, availability is finite and depletion inevitable.

A clear example of the risk of a single-industry economy is the abandoned mining town of Pine Point, NWT. The closure of the town's mine led to a parallel shutdown of its community. Today, all that remains are the outlines of the roads that once connected Pine Point's 1200 residents, and an altered landscape that neither yields minerals nor supports life.⁵

PROJECT FRAMEWORK & RESEARCH

In August of 2013, the authors of this report hosted a Northern Roundtable in Yellowknife, NWT, to discuss critical issues facing the natural resources industry within the NWT. Participants included natural resource management experts, non-profit organisations, Aboriginal government and community leaders, and elected leaders of the GNWT. The newly legislated Heritage Fund emerged as an area of developing public policy that could benefit from timely research. In November 2013, the authors facilitated a public dialogue to discuss the future potential of NWT's Heritage Fund in Vancouver, British Columbia. The session brought together natural resource wealth fund directors, sovereign wealth experts, and GNWT Members of Legislature, to understand best practices in fund management and discuss how case studies might inform the GNWT's development of the NWT Heritage Fund.

Research has additionally included an extensive literature review of Heritage and Sovereign Wealth Funds. The authors have also engaged with individuals and groups, through interviews and consultations, to gain varied perspectives on the non-renewable resource industry and Sovereign Wealth Funds, including: fund experts, members of the non-renewable resource industry, the GNWT, federal and local government officials, Aboriginal government, academics in the NWT and other parts of Canada, non-profit organizations, representatives from Norway's Ministry of Finance, and leading financial journalists.

ROADMAP:

TOWARDS AN NWT HERITAGE FUND

Bill 10: Northwest Territories Heritage Fund Act came into effect on August 1, 2012.⁶ Heritage Fund regulations were passed outlining the investment objectives of the Fund.

By September 2013, the NWT Heritage Fund balance stood at \$501,497.⁷ The GNWT now faces several implementation decisions that will impact the Fund's long-term success. To assist with these deliberations, particularly on the issue of how much the GNWT should put into the Heritage Fund,⁸ the NWT Minister of Finance hosted seven public consultations sessions in 2013.

The authors of this report have also engaged with the GNWT to identify issues that will have an impact on the long-term success of the Heritage Fund. The purpose of this report is to provide key recommendations for consideration during the early implementation of the NWT's Heritage Fund.

This report is divided into two parts

PART 1: CURRENT FINANCIAL SNAPSHOT

i - Outlines the current fiscal position of the NWT and the Heritage Fund's status.

PART 2: BUILDING FOR THE FUTURE: ANALYSIS AND KEY RECOMMENDATIONS

i - Fund Objectives: Saving, Spending and Fiscal Stabilisation. Examines considerations to take into account when deciding on the Fund's precise purpose and amounts allocated to the fund.

ii - Optimizing Governance. Explores best practices in managing and operating the fund.

iii - Strategic Policy for the Fund. Outlines choices for policy objectives to determine appropriate investments.

iv - Enabling Future Prosperity: The Role of the Public. Highlights the important role played by the citizens of the NWT in the process of developing the fund over the long-term.

Part 1 - Current Financial Snapshot

i - A Heritage Fund in the NWT

WHAT IS A HERITAGE FUND?

The term 'Heritage Fund' is generally used to describe funds whose primary objective is to save money for future generations. Heritage Funds are established in areas that have significant natural resource wealth with government revenues from taxation and royalties derived from them.

Though an engine for the current economy, irreplaceable non-renewable natural resources will not be available to future generations. Consequently, there is a recognizable need for a means to preserve some monetary benefits – and harness alternative sources of revenue before resource exhaustion. A Heritage Fund can serve the purpose of saving for the future.

OVERVIEW OF THE NWT: TERRITORIAL FINANCING

Territorial Expenditures and Funding

The operating budget of the GNWT in the 2012-2013 fiscal period was \$1.4 billion.⁹ Both the costs of providing services and costs of living are high in the NWT, given its vast geographic region and low population density.¹⁰

The primary source of funding for the three territorial governments is provided through an annual unconditional transfer from the federal government, known as Territorial Formula Financing (TFF). Though the Federal-Provincial Fiscal Arrangements Act does not specify how funds are to be used, the formula reflects the principle that territories should be able to provide residents with public programs and services comparable to those offered by provincial governments, at comparable levels of taxation. In 2013-2014, the TFF transfer to

the GNWT was \$1.121 billion, or about 75% of its revenue; the remaining approximately 25% of revenues are collected from taxes and fees.¹¹

Devolution and the Impact on NWT Resource Revenues

In 2013, the NWT experienced weak regional economic performance as the financing and pricing environment was tight for the non-renewable resource industry.¹² However, the next five years offer stronger prospects for mining – and the whole economy – as new mines begin production, and the Ekati and Diavik diamond mines continue operation. Economic growth in the NWT is expected to rise by 1.3% in 2014, 2.5% in 2015, and 7.9% in 2016, driven largely by resource development.¹³

Sixteen months after Devolution begins, on April 1, 2014, resource revenues will begin flowing into the GNWT. For the first time, the GNWT will collect royalties and other resource revenues on public lands: 50% of resource revenues will be retained (the other 50% will be transferred to the Federal Government) – or up to a cap of 5% of the Gross Expenditure Base of the TFF. This equates to a maximum of approximately \$70 million (2013), an amount which will fluctuate annually.¹⁴ Though corporate income taxes flowing from non-renewable resource revenues are not included in this figure, they could potentially become a viable source of revenue in the future. The fiscal strategy for Devolution includes an agreement to share a quarter of the GNWT's retained resources with Aboriginal Governments who have signed on to the Resource Revenue Sharing deal, established between GNWT and NWT Aboriginal Governments.¹⁵

The NWT Heritage Fund: Current Status

Legislation allowing for the establishment of

a NWT Heritage Fund was passed in 2012, based on the framework of the Alberta Heritage Fund.¹⁶ During the recent public consultations, NWT's Ministry of Finance proposed that 5% of resource revenues be placed into the fund, or approximately \$2.25 million (as of 2013),¹⁷ while 95% would be earmarked for infrastructure investment and servicing the GNWT debt.¹⁸ A final decision on the allocations from NWT legislators is pending, expected to be defined in the 2014 GNWT budget.

Part 2 - Building for the Future: Analysis and Key Recommendations

i - Fund Objectives: Savings, Spending and Fiscal Stabilisation

TYPES OF FUNDS AND THEIR POTENTIAL UTILITY IN THE NWT

Heritage Funds may be established to achieve more than one objective, although greater annual deposits, i.e., beyond 5% may be required. Currently, the GNWT has identified savings as the primary objective of the fund, with proposed 5% of resource revenues to be contributed annually. Figure 1 below illustrates the comparative predicted size of the NWT Heritage Fund in twenty years, showing a potential range of contributions from 5% to 100% of the resource revenues, based on an annual average royalty of \$54 million (maximum possible), if the fund achieves a 5% rate of return.

The Case for Savings

Savings Funds, including the fund established by the GNWT, are intended to create an endowment for the benefit of future generations. For countries rich in natural resources, Savings Funds transfer

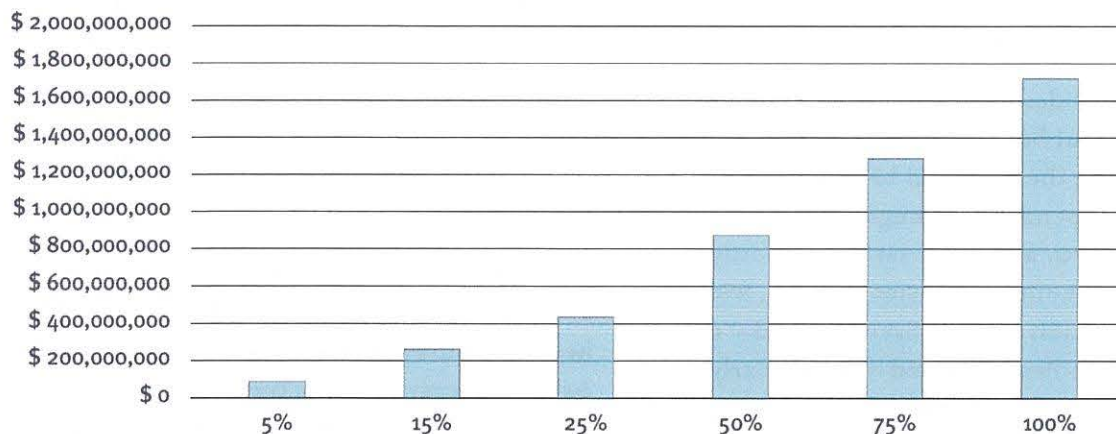


Figure 1: Predicted Size of NWT Heritage Fund in 20 years if annual average royalties are 54 million and the fund achieves a 5% rate of return

non-renewable assets into a diversified portfolio of international financial assets to provide for long-term objectives.

A Savings Fund will ensure that a reasonable portion of the territory's irreplaceable natural resource wealth benefits future generations, through fostering long-term socio-economic development. How much the NWT saves will be partially dependent on its ability to generate alternative sources of tax revenue. If the territory can diversify its economy and increase its revenues through taxation, the government may be inclined to save less of its resource revenue. However, if these other sources of revenue are not available, it may be wise to save a significant portion of natural resource revenues, and use the interest as government perpetual income.

In addition to the Heritage Fund, two other targets for investment have been proposed: debt repayment and investment in infrastructure.¹⁹ The debate on what percentage should be allocated to each target has received considerable attention.²⁰

There are four commonly stated concerns about the use of a Heritage Fund for saving purposes:²¹

1. The money is required today. Compared to the rest of Canada, the NWT faces a number of immediate challenges, including infrastructure deficit, insufficient access to healthcare, and gaps in education. Given these pressing needs, what are the benefits of saving now?
2. Paying down debt should be the first priority. If the interest on public debt is greater than the returns generated by a Heritage Fund, does it make sense to save at this time?
3. Why save for future generations? Future generations will benefit now from spending on public services, such as infrastructure, so there is no need to reserve savings for their future benefit.
4. Governments cannot be trusted to save. Governments will not be able to resist raiding the Fund.

These concerns should be carefully weighed. Current infrastructure needs and paying down the debt may –or may not– be more critical targets requiring immediate spending. Sound revenue management is needed to ensure that the correct balance is struck between saving natural resource revenues for future

generations, and spending current revenues on projects with long-term benefits.

Norway provides an oft-emulated example of a successful Sovereign Wealth Fund, highlighting the potential benefits of both saving and spending. Though oil production began in 1970, a plan for savings was only established twenty years later in 1990, with the implementation of their Savings Fund – the Government Pension Fund-Global. Early on, a decision was made to invest in urgent spending needs, such as education, social services, and infrastructure, with the position that oil wealth should be used to develop a qualitatively better society with more equality.²² Transfers to the fund began in 1996, following these primary investments.²³

The Case for Fiscal Stabilisation

Stabilization Funds are set up by countries, rich in natural resources, to insulate the budget and economy from volatile commodity prices; Stabilization Funds are linked to the financing of government operations. The funds build up assets during the years of greater fiscal revenues in order to prepare for leaner years.

Though the NWT economy relies on a fluctuating natural resource sector, the TFF provides a certain guarantee of stabilization. However, there remains a need for stabilization within the budget and economy. Rapid increases in revenues during booms should be balanced with an objective to spend wisely. A Stabilization Fund could further benefit the GNWT by smoothing, or financing, potential fiscal deficits while balancing the impacts of surpluses, counteracting boom-bust cycles.

Considerations when Allocating Resources:

Sterilization

Linked to stabilization, is the concept of sterilization; an important factor in fostering

less dependency on fluctuating natural resource revenues in budgetary planning. Revenues from non-renewable resources are a volatile source of income for governments. Boom-bust cycles can lead to both poor investment decisions when spending increases, and harmful cuts when revenues decrease. During boom times, natural resource extraction can lead to a reliance on a non-diversified economy with heavy pressures on a specialized labour market. As an economy becomes increasingly dependent on non-renewable resource industries and revenues, inflationary pressures can result in higher living costs, as evidenced in Northern Canada, although issues such as limited road access have also affected the costs. The natural resource sector may then also compete with other sectors e.g., for land, workforce, and goods and services, and will be willing to pay high prices for them. This places other sectors at a significant disadvantage, as many of them are unable to remain competitive or viable with inflated costs.²⁴

One method the GNWT could use to address this challenge is through sterilization mechanisms: ensuring that a large portion of the revenues collected do not directly make their way into the local economy. With a Heritage Fund, the GNWT could hold back some of the natural resource gains from current expenditures and earmark for future spending. Creating policy incentives to diversify the economic base of the NWT will further mitigate the risks associated with the natural non-renewable resource sector.

RECOMMENDATION:

1. Establish clear fund objectives which achieve a dual objective of savings and stabilization. Allocate more than 5% of annual resource royalties to the Heritage Fund.

Though the NWT has established a Savings Fund, a fund with multiple objectives, i.e., savings and stabilization, should be considered.²⁵ There is an arguable need for the GNWT to prioritize setting aside money to stabilize the GNWT budget from fluctuations in its budget income. Wyoming provides an internationally-recognized example, of the benefit of establishing fund objectives for stabilization and savings. The Permanent Wyoming Mineral Trust Fund is a Savings Fund to maximize long-term investment returns. It also acts as a Stabilization Fund, smoothing volatile mineral revenues that can be used in the state budget.²⁶

ii- Optimizing Governance

FUND GOVERNANCE

Best Practices

The rules pertaining to how a fund is managed are critical to its long-term success. Research into best practices indicates that there are three key factors in developing a successful Heritage Fund, ensuring strong internal controls from the beginning. First, establish clear fund objectives; second, define clear operational rules for the fund in line with these objectives; and third, develop a clear and robust governance and oversight structure.

A defining principle of a successful Sovereign Wealth Fund is a sound governance framework containing a clear division of roles and responsibilities.²⁷ Through establishing a strong governance structure that has independent oversight of the Heritage Fund, and a clear division of responsibilities, a robust system of checks and balances can be ensured.

Authority should be provided to governing bodies to exercise objective, independent, and effective judgment, in order to prevent the

use of the Heritage Fund for political goals that are not aligned with public interest. The Government, the fund owner, should provide oversight to determine fund objectives – such as broad policy purposes and investment mandate. However, operational and political separation should be maintained in order to limit political interference into investment decisions of the Fund.

Deposit and Withdrawal Rules

Establishing clear deposit and withdrawal rules are critical. For instance, the GNWT's legislation has set a 20-year minimum deposit amount during which withdrawals from the fund are not permitted. Robust legislation can further strengthen governance; the establishment of minimum deposit amounts, outlining the timing of deposits, combined with strict withdrawal rules will support a fund's long-term success. Without these elements, the fund's capacity as a tool to generate wealth for future generations is limited.

Alberta's Heritage and Savings Fund demonstrates the risk when fund rules can be ignored, particularly if they are not clearly established, or if exceptions allow for significant departures from the rules.²⁸ As there were no rules governing minimum resource revenue deposits into Alberta's Fund, regular contributions to the Alberta Fund were suspended from 1987 until 2005 and minimum required contribution deposit rules were established only in 2013.²⁹ Enacting strong deposit, withdrawal, and investment rules will help mitigate potential risks.

Operational Management

The NWT Heritage Fund is currently managed by the GNWT Department of Finance. GNWT Legislation reads that the Financial Management Board is authorized

to act as trustee of the Fund.³⁰ The Financial Management Board, composed of Cabinet Ministers and Chaired by the Minister of Finance, is responsible for monitoring the performance of the Heritage Fund and, on an annual basis, for directing and supervising the Secretary of the Financial Management Board. The Secretary, a member of the public service, is responsible for carrying the administration and maintenance of the Heritage Fund as directed by the Board.

The current structure of the Heritage Fund's governance omits an independent layer of oversight and lacks third party separation from the government. However, best practice in fund management suggests that a separate operational management entity, with full delegation to manage investments under a strict mandate, be appointed. Given the small amount of revenues deposited into the Fund to date (February 2014), a separate independent oversight entity may be costly to implement at this time. In the longer term, an oversight body – a Supervisory Council – should be established to meet the growing size and importance of the fund, as royalties accumulate in the fund. In the more immediate term, a minimum of two additional independent observer members should be appointed in order to provide independent assurance: one to the Financial Management Board and one to the Secretariat.

RECOMMENDATIONS:

2. Set up a statutory framework for deposit and withdrawal rules.

A framework regulating what goes in and out of the fund will help assure the preservation of wealth over the long-term. Alberta's Heritage and Savings Fund demonstrates the risk that a fund can fall far short of its potential as an engine for growth without consistent deposit rules in place.

3. Appoint a Supervisory Council to manage the Heritage Fund.

When the NWT Heritage Fund reaches a larger endowment, and as part of the mandated 10-year review of the Fund, it is recommended that the Secretariat of the Fund be expanded to form a Supervisory Council. The Supervisory Council would provide independent expert finance directors, and be composed equally of representatives of various government authorities, legislators, Aboriginal Governments, financial experts, academics, and civil society. This Supervisory Council would replace the Secretary of the Financial Management Board and report directly to the Minister of Finance. Successful funds are not only an outcome of good fiscal policy; they are facilitated by robust internal controls, supervision, public oversight, and transparency.

iii - Strategic Policy for the Fund

FUND POLICY

Investment Policy

A defined investment policy will demonstrate the commitment to a disciplined investment plan and practices for the GNWT's Heritage Fund. A set of benchmarks that correspond with the asset classes allowed in the strategic asset allocation, i.e., investment strategy, should be established in order to assess fund performance. Risk profile, investment horizon (i.e., short- or long-term), and characteristics of different asset classes should be considered. The strategic asset allocation sets certain strict investment parameters and should be low-risk for the first few years, and then subject to reexamination.³¹

A long-term approach to revenue accumulation, with a long-term investment horizon, may be especially appropriate in the NWT, given its sensitive environmental context, the desire for

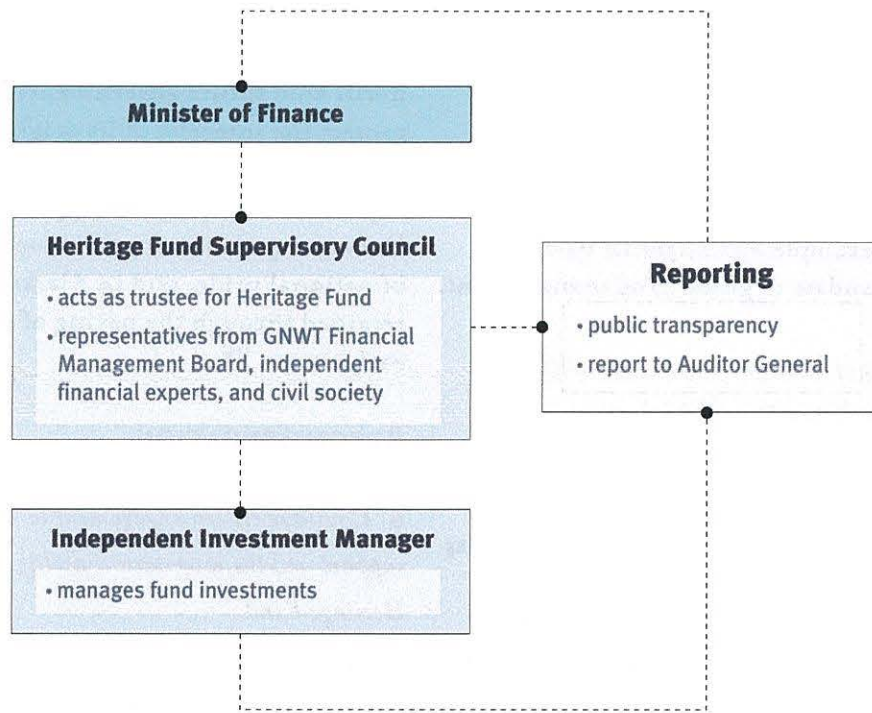


Figure 2: Proposed Structure of the GNWT Heritage Fund Governance

long-term population growth, and the need to diversify the economy. Conservation of financial resources and reducing risk should be reflected in early investment strategies.

Transparency and Oversight

Under the current structure of auditing and reporting, the Heritage Fund will be reported in a separate financial statement, but will not be audited separately from the rest of the GNWT budget. In the case of future consideration for the Heritage Fund (as illustrated in Figure 2), it is suggested that an internal audit would be reported back to the Ministry of Finance and the Legislative Assembly, while an external audit would be reported to the Supervisory Council, who could use the report to generate asset allocation recommendations to the Minister of Finance and Legislative Assembly. Both audits would be publicly available on a government website. Quarterly internal and annual external audits from the investment manager are critical

for assessing compliance with governance and investment rules, and making recommendations to improve the fund’s effectiveness.

Publicly accessible documentation would give assurances to the people of NWT that resource revenues are being used effectively and responsibly. Transparency further ensures “fiscal policy consistency, more efficient public financial management, and can help prevent fiscal crises. It can also improve the private investment climate and help build trust between the government and the public”.³²

RECOMMENDATIONS:

4. Develop a robust investment mandate.

When the investment mandate is public, backed by law, and shapes benchmarks and assessment of fund performance, it enables guidance on the asset mix and responsible investment policies, among other areas.³³ The experience of the Canada Pension Plan Investment

Board, globally respected for the quality of its management and governance, is illustrative in defining the importance of an investment mandate for a fund. The GNWT should consider this example and establish its own investment mandate to guide fund management.

5. Establish strong Fund governance, including transparency mechanisms.

To engrain transparency within the management of the NWT Heritage Fund, regular public reporting (through online access and other forums such as public meetings, in easily digestible formats) should include the following: fund size, fund managers, significant fund activities and transactions, deposit and withdrawal amounts, returns on investments, types of assets permitted for investments and types of assets invested in. This can help build confidence amongst the people of the NWT that resource revenues are being used effectively and responsibly.

iv- Enabling Future Prosperity: The Role of the Public

THE ROLE OF THE PUBLIC

A Heritage Fund will be a new concept to most residents of the NWT. Although the GNWT has held public consultations on the Heritage Fund in 2013, ongoing public education and engagement will be important in order to promote public awareness. Continued communication can help equip residents with the skills and knowledge to act as independent overseers to benefit the Fund and its future. Public oversight, beyond the independent body of the Supervisory Council, can be an important force that can help ensure the government follows its own rules and principles to meet the Heritage Fund's objectives. The more the public understands and supports the long-term objectives of the Fund, the more

it will hold future governments to account to protect the integrity of its original purpose. The viability and success of these funds depends on the public's support for them, e.g., Norway enjoys broad public support as a point of national pride, and in Alaska, support is retained through the paying of dividends to each citizen.³⁴

RECOMMENDATION:

6. Continue citizen engagement to ensure public support and the long-term viability and success of the Heritage Fund.

Citizen consultations and engagement should continue over the long-term through vehicles such as information seminars, youth-targeted webinars, workshops for civil society groups, annual mail-outs on Fund holdings, and a transparent and publicly-accessible online repository of Heritage Fund information. The viability and success of a Heritage Fund is strengthened by broad public support.

Conclusion: Conditions for Tomorrow's Prosperity

On April 1st, 2014, the citizens of the NWT will gain greater control over their lands and resources for the first time. As non-renewable resources are developed in the territory, one of the GNWT's priorities is to save for future generations. This report contends that the future success of the legislated Heritage Fund in the NWT will depend on strong governance, broad public support and an effective system of checks and balances to ensure the prosperity of the NWT today and tomorrow.

Summary of Key Recommendations:

1. Establish clear fund objectives which achieve a dual objective of savings and stabilization. Allocate more than 5% of annual resource royalties to the Heritage Fund.

The NWT should consider developing a Heritage Fund that addresses savings, and fiscal stabilisation objectives, while fund deposit amounts should allow for important spending on projects of long-term benefit, including infrastructure.

2. Set up a statutory framework for deposit and withdrawal rules.

Robust legislation is needed for successful management of the fund and to limit internal and external risks, such as successive governments ignoring the fund's objectives or rules.

3. Appoint a Supervisory Council to manage the Heritage Fund.

Effective management and organizational structures are key determinants of good fund

operation. The Supervisory Council should have independent oversight of the Heritage Fund, to ensure a robust system of both checks and balances and clear division of responsibilities.

4. Develop a robust investment mandate.

The goal of the portfolio should be clear; a defined investment policy will demonstrate the commitment to a disciplined investment plan and practices.

5. Establish strong Fund governance, including transparency mechanisms.

Ensure appropriate and regular annual and quarterly reporting, internally to the government and externally to the public.

6. Continue citizen engagement to ensure public support and the long-term viability and success of the Heritage Fund.

The more the public understands and supports the long-term objectives of the fund, the more they will hold both current and future governments to account.

Participants in the Northern Public Roundtable, Yellowknife



front row l-r

Andre Dias - Action Canada | Tom Hoefer - Yellowknife Chamber of Commerce | Mary Tapsell - GNWT | Mark Heyck - Mayor City of Yellowknife | Julia Fan-Li - Action Canada | Sarah Daitch - Action Canada | Jesika Briones - Action Canada

middle row l-r

Alyssa Schwann - Action Canada | Martin Lajoie - Action Canada | Dennis Bevington - MP Western Arctic Constituency | Bob Bromley - GNWT | Rick Meyers - Mining Association of Canada | Kevin O'Reilly - Alternative North

back row l-r

Zabey Nevitt - Mackenzie Valley Land and Water Board | Todd Slack - Yellowknife's Dene First Nations | Michael Miltenberger - Minister of Finance GNWT | James Tolley - GNWT | Kelley Mahoney - GNWT | Mark Cliffe-Phillips - Wek'eezhii Land and Water Board | Missing: Mitch Bloom, CanNor

Comparing Wealth Funds

Fund	Fund Inception	Fund Objective	Deposit Rules	Withdrawal Rules	Investment Rules	Management	Transparency, Oversight & Audits
Permanent Wyoming Mineral Trust Fund – 6.3 billion	The Permanent Wyoming Mineral Trust Fund was established in 1975 under Wyoming State Constitution, after being approved by ballot by Wyoming's voters the previous year.	Savings: created to maximize long-term investment returns. Stabilization: Acts to smooth volatile mineral revenues that can be used in the state budget.	1.5 – 2.5 percent severance tax on oil, gas, and mineral extraction is deposited into the Fund.	Investment income from the Fund is transferred to the State's General Fund where it can be used to finance budget expenditures. The principal cannot be withdrawn unless authorized through a constitutional amendment. Excess funds are transferred once General Fund spends what is allowed under Wyoming's Spending Policy Amount (SPA), (set at 5 percent of the Trust Fund's average annual market value over the preceding 5 years). Anything in excess is transferred to the Permanent Wyoming Mineral Trust Fund Reserve Account.	Equity investments cannot constitute more than 55 percent of total investments. No more than 1.5 percent of the Fund's book value may be invested in any one corporation's stock. • Avoids making investments that could support terrorism or human rights violations.	The Governor, State Auditor and other officials sit on the State Loan and Investment Board, the Fund's ultimate authority. The State Treasurer manages day-to-day operations. • The Fund is overseen by a volunteer multi-stakeholder advisory committee, as well as by an external auditor, the media, civil society and the legislature.	Arbitrary withdrawals are prohibited. Advisory Committee monitors Fund performance and holds public meetings. Regular and comprehensive internal and external audits are completed. Fund reports are published and publicly available. Information is not published on specific assets owned.
Alberta Heritage Trust Fund and Contingency Savings Account – 16.8 billion	The Alberta Heritage Savings Trust Fund was established in 1976. The Contingency Account was established in 2013.	Savings: Objective to save and invest non-renewable resource revenues for the future. Stabilization: The objective of the Contingency Account is to cover short-term fiscal deficits. Purpose in 1976 was not clear, which affected the performance of the fund through the 1980s.	Originally slated at 30% of non-renewable resource revenues, reduced to 15% and then suspended entirely in since 1987. Starting in 2013, regular deposits resumed as follows: • 5 percent of the first \$10 billion in non-renewable resource revenues; • 25 percent of the next \$5 billion above that; and • 50 percent of all non-renewable resource revenues above \$15 billion.	Deposits into the Fund cannot be withdrawn. • Investment income of the Fund is transferred to the general budget, minus an amount that is retained in the Alberta Heritage Savings Trust Fund to offset inflation. Non-renewable resource revenues are deposited into the Alberta Heritage Savings Trust Fund and other endowments funds after the Contingency Account reaches its cap of \$5 billion for the first time; exact share of revenues each fund receives is determined by the Alberta Treasury Board.	Objective is to earn an average annual real return of 4.5 percent. The Fund invests long-term, balancing higher risk with higher expected returns. • 50 percent equities • No investment in tobacco companies.	The Legislative Assembly has a standing committee tasked with reviewing fund performance. • Ultimate responsibility for the Fund's investments lies with Alberta's President of Treasury Board and Minister of Finance. Responsibility for the day-to-day management of investments is held with the Alberta Investment Management Corporation, an external body established by the Alberta Investment Management Corporation Act to provide investment management services for the various provincial endowment funds.	Exceedingly transparent, publishing details on specific investments, but there is little regular monitoring by citizens or civil society organizations. Although a majority of funds are managed internally, a portion is managed by external fund managers. The Auditor General audits the Fund, included in the report to the Legislative Standing Committee of the Alberta Heritage Savings Trust Fund, who conducts annual reviews.
Norway – Government Pension Fund Global, \$740 billion	Established in 1990 to stabilize the flow of oil revenue into the budget and save for future generations.	Savings: Sustainable long-term integration of oil revenue into the Norwegian economy, make petroleum funds available long-term. Stabilization: Enable adapting fiscal policy to • Federal budget deficits; • Domestic economic uncertainty; • Financial challenges of an aging population.	100 percent of Gross petroleum revenues, net revenues from government sale of shares in Statoil, the national oil company, and return on fund investments are deposited.	Withdrawals from the fund reflect a fiscal rule, agreed in 2001 by major political parties, that limits the non-oil structural deficit to 4 percent (expected long-run real return on fund's investments). The fund is fully integrated into the government's annual budget; parliament must approve all withdrawals.	The Ministry of Finance owns the fund on behalf of all Norwegians, the Norges Bank Investment Management, a branch of the Central Bank, manages it. Funds invested abroad only. Allocation by asset class: • 40 percent fixed income, 60 percent equities, less real estate; • Long-term investment horizon; • Wide diversification of investments; • Ethical investment guidelines; • Limit 10 percent ownership in any single company; • Strict risk-taking guidelines and strong oversight of investment managers.	Control and supervisory bodies exist at all levels of fund management. The Central Bank Supervisory Council, elected by Norway's parliament, is mandated to monitor Norges Bank activities and ensure that the rules governing operations are observed.	Fund is subject to some of the world's strongest safeguards: • Regular and comprehensive internal audits; • Parliament must approve all withdrawals; • Funds are managed separately from the country's international reserves; • Funds are subject to a regular and independent external audit.

1 See Wealth Fund Comparison Chart in Appendix.
2 Different vehicles for investment in future generations include heritage funds, infrastructure, health care and education; an in
depth examination of which mechanism for investment is optimal for the NWT is outside the scope of this report.
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Survey" National Bureau of Economic Research Working Paper 15836 (2010). The Pembina Institute: "Boom to Bust: Social and
Cultural Impacts of the Mining Cycle" (Feb. 2008).
4 Pretes, Michael. "Underdevelopment in Two Norths: The Brazilian Amazon and the Canadian Arctic." *Arctic* (1988): 109-116.
5 Irlbacher-Fox, Stephanie. "It Looks Like the Decisions Have Already Been Made: What To Do With NWT Resource Revenues."
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7 Kalgutkar, Sandy, Government of the Northwest Territories, Deputy Secretary of Financial Management Board. Personal interview.
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8 Public Consultation Report Government of the Northwest Territories <http://www.fin.gov.nt.ca/Dialogue%202013/Dialogue2013.htm> - accessed October 6, 2013.
9 Nearly 60% of the GNWT's operating budget is spent on education, health care, social services, housing, policing, and corrections,
while another 13% is allocated to municipal and government infrastructure. Budget Address 2012-2013, Northwest Territories, The
Honourable J' Michael Miltenburger, Minister of Finance, Third Session of the Seventeenth Legislative Assembly, May 24, 2012.
10 For example, health expenditure per capita is greater in the territories, In 2013, the total health expenditure per capita in the
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