



Fiscal Surplus, Democratic Deficit: Budgeting and Government Finance in Alberta

by Parkland Institute's
Committee on Alberta's Finances

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Executive Summary

The Alberta government's formal budgeting process leaves a great deal to be desired in terms of accountability and democracy. The federal process has seriously involved opposition parties in budget deliberation. Alberta's does not; it excludes opposition parties at the most crucial steps – departmental budget planning and advanced budget input. Indeed the Alberta government's formal budget process seems designed to exclude serious legislative scrutiny of the budget, thereby subverting the parliamentary principle and mechanisms of citizen consent to taxation.

Beyond the formal process, the informal democratic scrutiny of budgets – including public debate, and media attention – is further subverted by the government's practice of routinely underestimating revenues, particularly revenues from selling off non-renewable natural resources. The result is a repetitive series of 'surprise' surplus announcements that in fact are no surprise to anyone. These surprise surplus announcements can buy political popularity, as they are accompanied by surprise spending announcements (including unbudgeted spending, rebates and tax cuts). However, these spending announcements occur when media and public attention are not focussed on government spending, and it is impossible to debate about competing priorities, trade-offs and the budget as a whole. At budget time, the government regularly claims it cannot afford this or that public priority – public health care is the latest target – but later in the year finds money for the latest popularity-enhancing road-building or other capital project. Albertans' expectations are managed, and democracy thereby limited.

The wildly swinging revenues of the Alberta government are the result of its policy decision to cut sustainable taxes, and rely instead on increasing yet unsustainable rents from selling off the public's fossil fuels. The expenditure side swings wildly because of the government's ill-conceived balanced budget rule. Balancing revenues and program expenses over the long term is wise, but a rule that spending cannot exceed revenues in any year is both unnecessary and unwise, especially in light of the government's reliance on volatile fossil fuel rents. In the end, the government essentially did away with the balanced budget rule by creating a number of funds, foundations, and special accounts to absorb money

in good years and spend in lean years. This socking away of natural capital rents can help reduce revenue volatility and conserve overall capital levels, but there are accountability concerns with the way the government is doing it. Arm's length foundations can reduce legislative oversight and Ministerial responsibility. And executive-controlled funds and accounts need structure.

All in all, the government seems to be making spending decisions based on the accounting need to distribute bloated revenues, and it seems to have no vision for a prosperous, sustainable Alberta. The government had been blindly pursuing its debt-elimination agenda, and its ruling ideology – cutting public programs – does not lend itself to a guiding vision for a government in fiscal surplus. The government's own Financial Management Commission pointed out the obvious – that Alberta needs a vision and a strategic plan to guide its spending decisions. The government responded by writing one. However, the process of developing it gave short shrift to the notion of stakeholder engagement. The result was a plan that contained significant contradictions, and whose strategies will make it impossible to achieve key goals, like economic diversification. It is too early to tell where the government's strategic plan will take the budgeting process, or whether it could help make it more democratic, but the early signs are not positive.

Selected recommendations for the Alberta government on...

The budget process:

- create a Legislative Standing Committee on Finance that includes Opposition members and has a mandate to conduct province-wide hearings and issue majority and minority reports independently of government.

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- provide for a lengthier and more in-depth budget debate in the legislature.

'Surprise' surpluses:

- annually commission a panel of ten independent, credible financial experts to issue public reports predicting non-renewable resource revenue levels, and should justify its own budget forecasts against those reports.
- establish an independent commission to thoroughly examine its pattern of underestimating net revenue, and to issue majority and minority reports including findings and recommendations.
- empower the Public Accounts Committee to more thoroughly examine its books and to issue reports (including minority reports) to the Legislature.
- ease the breakneck pace of fossil fuel extraction, banking more of Albertans' resources for a secure energy future.

Foundations, endowments and special accounts:

- re-focus the Heritage Fund, enabling it to grow and become a nest-egg for the future when Alberta's energy resources decline. 100% of nonrenewable resource rents should be placed in the Heritage Fund, thus converting natural capital into financial capital and maintaining overall capital. Government should only have access to the interest of this capital investment: all Fund earnings (Fund growth, less resource rent contributions, less inflation-proofing), if any, should be placed in the Sustainability Fund.
- if placing all non-renewable resource rents in the Heritage Fund would create a deficit, the Alberta government should restore taxes to levels necessary to fund existing programs, starting with restoring corporate taxes and replacement of the flat tax with a progressive tax. Further tax revenues, if necessary, should

come from taxes on environmentally harmful activities, such as pollution.

- ensure that major spending decisions – regardless of where they take place – are reviewed and debated in the legislature. And the doctrine of Ministerial Responsibility should govern all major spending decisions.

Vision and strategic planning

Start over on its Strategic Planning, and establish a process for soliciting informed and considered public input:

- There should be scientific polling, focus groups and other public opinion research to inform the process and gauge Albertan's priorities for the upcoming 20 years
- There should be province-wide public consultations focussed on the development of the strategic plan documents, starting with the vision, and moving sequentially to goals, objectives and strategies
- 'Experts' and stakeholders should be surveyed on the relevant sections of the plan

Focus its Strategic Plan at all levels – vision, goals, objectives, strategies, and targets – on achieving the outcome of sustainability:

- The Plan should establish a target of 100% of rents from non-renewable extraction being converted into various types of capital investments (social, human, natural etc.) within 5 years (i.e. no rents going into tax cuts, rebates or other consumption-promoting giveaways)
- The Plan should establish a target of restoring regular revenues (i.e. corporate and progressive taxes) to the level where they will sustainably support government programs

Formalize a process for regularly reviewing the content of the strategic plan, and the process should involve the public input elements above.

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