

Part: **Public Money and Property**
 Section: **General Revenue Fund and Revolving Funds**
 Subsection: **Control of the GRF**
 Policy: **Net Budgeting in the GRF**

Number: **3001**
 Date: **2017-06-01**
 Page: **1 of 5**

Net Budgeting in the GRF

Objective

The objective is to specify the approval and control requirements for net budgeting in the General Revenue Fund.

Authority

The Financial Administration Act, 1993 (FAA), section 13.1 provides that with the authorization of the Lieutenant Governor in Council (i.e., an Order in Council), an amount equal to the actual revenues of the GRF that relate to the provision of property, goods or services (i.e., commercial-type activities), or a portion thereof, may be used, without appropriation, to pay for costs directly related to the activities. Pursuant to the FAA, Treasury Board may fix a portion of the total revenues generated by the activity to be used to engage in the activity. Treasury Board may also impose any limitations and restrictions on payments (e.g., the type of payments permitted).

Pursuant to the FAA, in order to pay expenses before sufficient revenue is received to sustain the activity, Treasury Board may set an amount (i.e., a portion of the **estimated** revenues) by which spending can exceed revenue received on a **temporary** basis. This is needed because there is generally a time lag between incurring costs for the provision of goods or services and charging for the goods or services. This is commonly referred to as the **temporary spending amount**.

Pursuant to the FAA, Treasury Board may approve rates (i.e., prices) if the Order in Council for the activity authorizes the ministry to charge fees or charges for the activity and another Act does not provide specific authority to set fees or charges for the activity.

Background

The authorization through an Order in Council under section 13.1 for spending up to actual revenues provides statutory appropriation that does not need to be voted. It provides for continued operations for approved activities from year to year, for limited situations where the level of expenses is directly linked to revenue from the use of property or the sale of goods or services.

Net budgeting allows more flexibility for the Government to operate commercial-type activities in the GRF, rather than establishing a separate fund or organization.

Subsidy

If revenues generated by the net budgeting activity are not intended or expected to fully cover costs, an appropriation is required. This is referred to as a **subsidy**.

Part: **Public Money and Property**
 Section: **General Revenue Fund and Revolving Funds**
 Subsection: **Control of the GRF**
 Policy: **Net Budgeting in the GRF**

Number: **3001**
 Date: **2017-06-01**
 Page: **2 of 5**

Restricted Revenue Treasury Board may limit spending to a portion of the revenues generated by the activity. The portion of revenues that cannot be spent is referred to as **restricted revenue**.

Treasury Board Policy .01 Prior approval must be obtained from Treasury Board and Cabinet for each specific net budgeting activity. (This approval must be provided before the Order in Council that authorizes the net budgeting activity is obtained.)

.02 Net budgeting is **limited** to commercial-type activities (i.e., revenue from property, goods and services). Revenues that are clearly not of a commercial-type nature do not qualify for net budgeting (e.g., revenues from taxation, non-renewable resources, CHST, equalization, dividends from CIC and the Liquor and Gaming Authority).

Provincial Comptroller Directives .03 Ministries are to consult with the Budget Analysis Division, Ministry of Finance and the Provincial Comptroller's Office, Ministry of Finance, when a new net budgeting activity is contemplated. Each potential activity for net budgeting requires analysis to determine whether or not the activity qualifies for net budgeting.

.04 Activities that involve reallocation of expenses within or between ministries are not appropriate for net budgeting, as they are not commercial-type activities.

.05 Activities that involve the sale of land are not appropriate for net budgeting. It should be noted that the definition of service does not include the sale of land, as the sale of land is the sale of a government asset and not a revenue-generating activity.

.06 A Treasury Board and Cabinet submission (Cabinet Decision Item) requesting approval for the net budgeting activity should include information to support the request, including the following:

- description of the activity and the legal authority for the activity;
- direct costs to engage in the activity;
- indirect costs (e.g., employee benefits, accommodation) relating to the activity that are paid from other subvotes;
- rates to be charged and whether there is a profit or loss;

Part:	Public Money and Property
Section:	General Revenue Fund and Revolving Funds
Subsection:	Control of the GRF
Policy:	Net Budgeting in the GRF

Number:	3001
Date:	2017-06-01
Page:	3 of 5

- proposed temporary spending limit and the rationale (e.g., the expected time lag between incurring costs and generating revenue and the amount in dollars); the temporary spending amount is based on cash flow needs until revenues are received.
- .07 Ministries are to consult with the Budget Analysis Division, and the Provincial Comptroller's Office regarding preparation of an Order in Council. The Order in Council to authorize the net budgeting activity under the FAA requires the recommendation of the Minister of Finance.
- .08 Analysis of the operations is required to determine an appropriate temporary spending amount for each specific activity. Where a subsidy is provided, a temporary spending amount may not be required. Where there is no appropriation, for example, one-twelfth of the estimated revenue may be appropriate. The amount required depends on the cash requirements of the activity.
- .09 Approval of the Assistant Provincial Comptroller, Provincial Comptroller's Office is required for new natural accounts for coding revenue for the approved net budgeting activity, which are required for spending control purposes.
- .10 Spending control on the Government's central financial system is required to permit a ministry to spend an amount equal to the actual revenue that directly relates to an approved net budgeting activity (or a portion of that actual revenue as set by Treasury Board), in addition to amounts that may be appropriated (i.e., a subsidy).
- .11 Only costs that are directly related to the approved net budgeting activity are to be charged to the net budgeting subvote.
- .12 Capital assets related to the net budgeting activity are to be purchased outside the net budgeting subvote.
- .13 Treasury Board may establish recovery rates (i.e., prices) for the goods or services, if rates are not specified in legislation. As a general rule, rates should be set to recover the full costs of the good or service, including costs that may not be directly

Part: **Public Money and Property**
 Section: **General Revenue Fund and Revolving Funds**
 Subsection: **Control of the GRF**
 Policy: **Net Budgeting in the GRF**

Number: **3001**
 Date: **2017-06-01**
 Page: **4 of 5**

charged to the activity (e.g., salary overhead costs, accommodation, administration, amortization).

- .14 Treasury Board may allow for all of the revenue generated by the activity to be used. However, if costs not charged to the activity (e.g., employee benefit costs paid centrally by the Government) are recovered through the pricing structure, Treasury Board may determine that a portion of the revenue related to the recovery of these costs cannot be spent (i.e., restricted revenue). Ministries are to record this restricted revenue to a separate natural account. This type of natural account is referred to as a surcharge natural account in the Government's central financial system.
- .15 To ensure that Treasury Board's direction is followed (i.e., the proper amount of revenue has been restricted), ministries should review, throughout the year, the allocation of revenue to the surcharge account.
- .16 If Treasury Board has provided for a temporary spending amount, it is added to the spending control on the Government's central financial system at the start of a fiscal year. By cut-off each year, the temporary spending amount will no longer be available. It must be reduced to zero. As the net budgeting activity is restricted to the amount of actual revenue or portion thereof fixed by Treasury Board, and to any subsidy provided through appropriation, ministries must monitor the revenues and expenses of the net budgeting activity throughout the year to ensure that it will not be overspent at year end.
- An overspent situation could occur if a ministry used the temporary appropriation without sufficient revenues at year-end to cover its usage. It could also occur if the ministry was unable to allocate surcharge revenue to the surcharge account at year-end.
- .17 To ensure that the net budgeting activity will not be overspent, virements-in and/or special warrants may be required.
- .18 If a subsidy is appropriated for the activity and it is not required, it is available to be vired out for other purposes.

Part:	Public Money and Property
Section:	General Revenue Fund and Revolving Funds
Subsection:	Control of the GRF
Policy:	Net Budgeting in the GRF

Number:	3001
Date:	2017-06-01
Page:	5 of 5

- .19 The temporary spending amount cannot be vired out. This temporary spending amount is only to be used for the purposes of the approved net budgeting activity.
- .20 As with other subvotes, overexpenditures are not permitted. In accordance with subsection 37(3) of the FAA, overexpenditures, if not provided for through virement or special warrant in the current fiscal year, would be charged to the next year's appropriation. That means that the subvote for the net budgeting activity will be charged in the next fiscal year for the overexpenditure. The ministry may require an appropriation in the next fiscal year to cover the overexpenditure.
- .21 The General Revenue Fund records reflect gross revenues and gross expenses in accordance with the gross budgeting concept.

References

- [3000 Control of the GRF](#)
- [3005 Refunds to Vote](#)
- [3007 Shared Services](#)
- [3008 Shared Grants and Programs](#)