

Part: **Public Money and Property**
 Section: **General Revenue Fund and Revolving Funds**
 Subsection: **Establishment and Control of Revolving Funds**
 Policy: **Budget and Control of Revolving Funds**

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Budget and Control of Revolving Funds

Objective

The objective is to specify budget and control requirements to ensure a revolving fund operates within its intended purpose and objectives including break-even requirements and financing limits.

Authority

The Financial Administration Act, 1993, clauses 5(a), 5(e), subsection 10(2) and sections 22 and 28

Treasury Board Policy

Budgets

- .01 Revolving fund budgets for each fiscal year are to be prepared and submitted to Treasury Board in a manner prescribed by Treasury Board.
- .02 Treasury Board approval of the annual budget is required, including the annual operating expenses, recovery rates, revenues, capital acquisitions, capital disposals and the net expense/recovery. The methodology and assumed activities levels that are used to determine recovery rates must be included in the budget submission.
- .03 Treasury Board approval is required for any revisions in budgeted expenses, recovery rates or capital acquisitions. Such approvals are required prior to incurring additional expenses or revising recovery rates.

Break-even

- .04 Revolving funds are normally expected to reflect break-even operations. Recovery rates should be set to recover each major cost component such as:
 - the portion of capital expenditures used in operations or required during the year (this recovery component should equal annual amortization);
 - operating expenses over a normal operating cycle (in some instances, an operating cycle may be longer than one year); and
 - administrative expenses over a fiscal year.
- .05 Revolving funds are to recover costs from users or from subsidization over a period of time. The revolving fund is a method of financing only and is not intended to accumulate permanent operating deficits or surpluses.

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- Subsidy** .06 Treasury Board may approve budgeted net deficits on the operation of a revolving fund. Any deficit that is, in fact, a subsidy and not a deficit due to business fluctuations must be covered by a subsidy to the revolving fund from the responsible ministry’s appropriation in the same fiscal year.
- Surcharge** .07 Treasury Board may apply a surcharge at its discretion to recover all, or a portion of, the costs related to the revolving fund that are not paid by the revolving fund (e.g., expenses incurred by various government appropriations). Revolving funds should estimate the value of services provided to them free of charge and determine the applicable surcharge to third parties necessary to recover such costs. In general, these surcharges should be levied against Crown corporations, organizations, individuals and agencies not directly subject to Treasury Board control.
- .08 If Treasury Board directs the application of a surcharge, it should be accounted for separately from the recovery rates set to recover revolving fund expenses. The surcharges must be deposited as revenue into the General Revenue Fund (GRF). For purposes of these surcharges, interest revenue on revolving fund third party loans and investments and any gain on the disposal of capital assets are not considered as surcharges returnable to the GRF.
- Accumulated Surplus/Deficit Limit** .09 Treasury Board controls the operations of each revolving fund, in part, by monitoring the amount of its accumulated operating surplus/deficit. Treasury Board sets an accumulated surplus/deficit limit for each revolving fund.
- .10 If the accumulated surplus/deficit falls above or below the limit set by Treasury Board, ministries are responsible to present a plan to address the excess surplus/deficit for approval by Treasury Board. Plans may include, but are not limited to, payment of excess surpluses, requests for additional funding, revisions to rates charged and changes in specified limits.
- Excess Accumulated Surplus** .11 If the accumulated surplus of a revolving fund exceeds the amount specified, the normal first course of action by management is to plan to return the excess to the GRF as soon as possible in the following fiscal year.

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- Excess Accumulated Deficit** .12 If the accumulated deficit of a revolving fund exceeds the amount specified, the normal first course of action by management is to plan to replenish the excess through a subsidy from the GRF **within fifteen months** of the end of the fiscal year in which the excess arose.
- .13 The following accumulated surplus/deficit limits have been specified for each revolving fund:

Revolving Fund	Accumulated Surplus/Deficit Limit
Commercial	\$350,000
Pastures	\$700,000
Correctional Facilities Industries	\$100,000
Public Employees Benefits Agency	---
Queen’s Printer	\$177,000

- Quarterly Financial Statements** .14 Revolving funds are to submit quarterly revolving fund financial statements to Treasury Board staff. An exemption from submitting quarterly financial statements may be granted upon approval of Treasury Board Branch.

- Provincial Comptroller Directives** .15 Revolving funds are to, over a period of time, fully recover costs from users or from subsidies provided by the GRF through the responsible ministry’s appropriation.

- Controls** .16 Financial management policies and controls are necessary to ensure management accountability in the operation of revolving funds. The following controls provide for the operation of revolving funds within their intended purpose and objectives:

Nature of Operations

- .17 The nature of operations the revolving fund can engage in is specifically outlined in legislation. This limits the operation of the fund to authorized activities.

Accumulated Net Expenditure Limit

- .18 The maximum accumulated net expenditure restricts the amount of total capital or size of the revolving fund operation. The limit continues from year to year. Refer to [Section 3200 Establishment and Control of Revolving Funds](#) for further information on the accumulated net expenditure limit. At any point in time, the

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accumulated net expenditure is not to exceed the maximum amount established. When the maximum is reached, payments are rejected on the Government's central financial system, until funds are available or a new limit is approved.

Accumulated Surplus/Deficit Limit

- .19 The accumulated surplus/deficit limit provides an indicator of the effectiveness of cost recovery. Refer to Treasury Board policy requirements outlined in Section 3210.10 to .12 if a revolving fund exceeds the accumulated deficit or surplus limits established.
- .20 If a revolving fund has accumulated profits in excess of the limit established, the excess surplus should be transferred to the GRF even if a deficit, and possibly a subsidy, are expected for the following fiscal year.
- .21 Repayment of a surplus to the GRF, or recovery of a deficit from the responsible ministry, helps encourage revolving funds to break even over a period of time. They are not intended to retain large profits, as this indicates "overcharging" users, or to incur large deficits, as this indicates "under-charging" users.

Maximum Limit on Advances for Lending or Investing Activities

- .22 The maximum limit on advances from the GRF for lending or investing activity of the revolving fund are established by the Lieutenant Governor in Council. The advances are not to exceed the maximum amount established at any point in time.

Budgets

- .23 Approval of operating and capital budgets by Treasury Board provides for control over capital expenditures, the budgeted surplus or deficit for the year and the responsible ministry net expense/recovery for the year. Refer to Section 3210.01 to .03 for budget requirements.

Financial Systems Approval

- .24 Approval of financial systems by the Provincial Comptroller in accordance with requirements in [Section 4000 Financial Systems](#) of this Manual provides for appropriate financial control and financial management.

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Budgets

- .25 The purpose of preparing a budget is:
- to determine the budgeted operating results and the net financing requirement from the GRF;
 - to provide management with a financial plan for the use of resources; and
 - to enable management and Treasury Board to monitor and evaluate performance, and to control operations by comparing actual results to the targets established in the budget.
- .26 Revolving fund budgets have two components:
- an operational budget, or pro-forma income statement to outline the revenues and expenses and resulting surplus or deficit (this budget reflects revenues as they are earned and expenses as they are incurred); and
 - a cash flow budget to outline the cash (net financing) requirement necessary to operate.

Annual Budgets

- .27 Budgets for each fiscal year are prepared and submitted to Treasury Board for approval in a manner prescribed by Treasury Board.

The budget submission includes:

- a description of the purpose, objective and activities of the revolving fund;
- a listing of services provided and user groups of each service;
- a summary of permanent and non-permanent full-time equivalent positions;
- projected operating expenses in detail;
- projected revenues, including a summary of recovery rates and an outline of the methodology and assumed activity levels for such rates;
- projected surplus/deficit by responsibility centres within the revolving fund;
- projected capital acquisitions, disposals and transfers, along with a detailed five-year capital acquisition plan;
- a projected balance sheet;
- a projected cash flow budget;

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- a summary of commitments; and
- actual and/or estimated comparative data for the preceding two years.

Capital Acquisition Plan

- .28 The five-year capital acquisition plan is submitted as part of the budget. This plan includes machinery and equipment replacements and the planned new acquisitions due to projected work load increases and/or program expansion. Approval of the plan does not imply approval of new or expanded programs. Capital plans are costed in current year dollars and updated annually to reflect price changes.

Subsidy

- .29 Any budgeted deficit not due to business fluctuations must be recovered from the responsible ministry's appropriation in the same year the deficit is expected. This means the responsible ministry should budget for a subsidy. Refer to Section 3210.06.
- .30 Where less than the full cost is to be recovered, a case must be made on "public interest grounds". The portion of the operation that relates to a public purpose mandate may be funded through the responsible ministry's appropriation as a subsidy in that fiscal year.

Surcharge

- .31 Certain costs are not charged to the revolving fund (see Section 3210.07 to .08 for further details). Generally, these costs should be recovered from non-government users by applying an additional surcharge to the price.

Accumulated Surplus/Deficit Limit Exceeded

- .32 Refer to Section 3210.10 to .12 for budget requirements when accumulated surplus/deficit limits are exceeded.

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Quarterly Financial Statements

- .33 Quarterly financial statements must be submitted to Treasury Board Branch for review within 30 days after the end of the quarter. These statements include:
- a balance sheet;
 - a statement of operations and accumulated surplus/deficit for the year to date including a projection for the remainder of the fiscal year; and
 - a year-to-date cash flow statement with a comparison of budgeted and actual amounts along with projections to the year end.

An exemption from quarterly financial statements may be granted upon approval of Treasury Board Branch.

References

- [3200 Establishment and Control of Revolving Funds](#)
- [3205 Approval of Revolving Funds](#)
- [3215 Financial Reporting Requirements and Accounting Policies for Revolving Funds](#)
- [3530 Electronic Funds Transfer Receipts](#)
- [Accounting Manual](#)
- [Accounting Manual, Appendix A General Revenue Fund Year-end Procedures and Schedules](#)