Deficit Reduction Through Real Property Revenue

Or

How to Keep the Funds You Generate with Your Underutilised Real Property

Net Voting Authority
What it is and How it works

1. Departments obtain cash to operate through annual legislation known as the Appropriations Bill in Parliament

2. The Appropriations Bill is debated twice annually in the main estimates and supplementary estimates committees

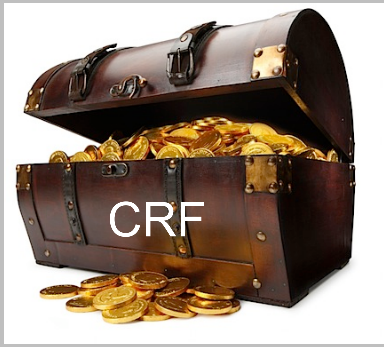
3. Through this debate the Committee reviews the departmental budgets and approves the estimated departmental expenditures in separate vote categories

1. Once a Vote is passed through committee the funds for that category of expenditures are appropriated by legislation for that department to spend

2. The Votes we normally work with in Real Property are;
   A. Vote 1- Departmental Operations and Maintenance
   B. Vote 5 – Departmental special contingencies (one time expenses such as capital expenditures)
   C. Vote 10 – Transfer Payments and Contributions

3. The cash $$$ comes from the

   Consolidated Revenue Fund (CRF)



1. Two distinct type of revenue for Consolidated Revenue Fund
    A. Tax Revenue (income tax, HST, tariffs etc.)
    B. Non Tax Revenue (user fees, sales of services, rental revenue to external non governmental parties)

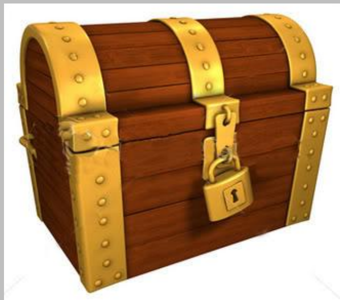
2. All cash $$$ collected that is Non Tax Revenue is deposited to the Receiver General of Canada

3. FAA Schedule I and II departments cannot normally access those funds unless they have a Net Voting Authority granted in the Appropriations Bill for a fiscal year

1. Departments obtain Net Voting Authority through an annual Treasury Board submission that demonstrates how non tax revenue collected will be used to reduce expenditures for specific program needs

2. Through this Net Voting Authority the Comptroller General of Canada then credits Non Tax Revenue deposited by the departments back to the department

3. The credit for the revenue for the program expenditures is passed as a Statutory Authority in the Appropriations Bill



The two main types of non-tax revenue received by

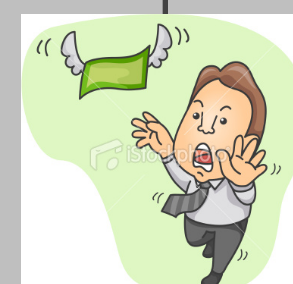
DND and the CF are:

1. Departmental Revenue,
   Revenue credited to the Departmental Vote (Defence Services Program);

2. Governmental Revenue,
   Revenue which must be returned to the CRF

This flow chart shows the types of non-tax revenue (revenue other than that generated by taxation) received by DND and the CF

- Non Tax Revenue
  - Departmental Revenue
    - Corporate Revenue
    - Local Revenue
  - Governmental Revenue



Note that receipts from the sale of federal real property is considered Governmental Revenue and cannot be retained for net voting without specific separate approvals

How to Get There

1. Net voting obtained annually through TB submission

2. Drafting the Vote
   A. Stated purpose
   B. Established financial limits
   C. Identify the Source of Funds

3. Real Property Remarks in Vote Submission
   A. Separate PAA is providing infrastructure for departmental programs
   B. 3-5 year plan with pro-forma (Investment plan a must)
   C. Future availability of underutilized space while consolidating or rationalising portfolio
   D. Funds will be applied to reduce O and E for underutilised buildings

Essential Criteria for A Net Voting Submission

- Stable part of your mandate supporting departmental program objectives (approved PAA)

- Framework for charging user fees

- Specific service to specific groups

- Revenues and expenses closely related (rental revenue must be spent on infrastructure)

- Cost controls, performance benchmarks and market data

- Possible value of fund retention must be worth it

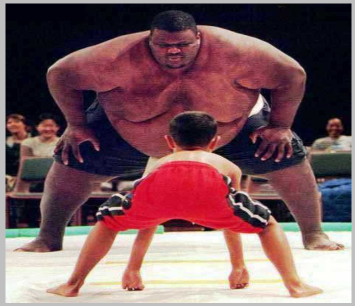
Additional Supporting Information for an RP Net Voting Submission

1. Portfolio description and performance indicators

2. Rational for not disposing of infrastructure

3. Market value principles in setting charges

4. <u>Considerations for avoiding undue competition in private sector arena</u>



5. Departmental and governmental resource impacts (need qualified RP staff)

Internal Financial Administration Policies Required

1. Financial policies needed for business planning with non tax revenue

2. Controls for what is HQ revenue and local revenues

3. Financial record keeping and accounting

4. Established audit trails for revenue and appropriate reduction of infrastructure costs

Internal Real Property Governance Required

1. Require delegation of authority levels for real property transactions
2. Require framework and governance for the authorities
3. Must establish governance and direction on transacting in federal real property
   A. Fair, open and transparent
   B. Legal, environmental, and aboriginal considerations
   C. Operational and security considerations
   D. Financial considerations

Pitfalls

1. ## MoU with OGD's ?
   A. According to TBS guideline you should canvass OGD's first for possible use of underutilized space
   B. Funds obtained through an MoU with a federal OGD are not considered non tax revenue and you must then use an interdepartmental settlement agreement (less flexibility for use of funds)

2. ## License or Lease?
   A. Real property transactions may grant long term legal rights to outside parties
   B. Choose license wherever possible (non-exclusive use)

3. ## Selling the farm
   A. Must balance prospective long term user requirements against future departmental needs

4. ## Security Considerations
   A. External users must be compatible with departmental operations

Benefits

1. Can reduce future Vote 1 appropriations to respond to DRAP or Strategic Review budget pressures

2. Greater flexibility in use of funds within portfolio

3. Can help to support retention of infrastructure critical to program for future years

Challenges

1. Non tax revenue generated from leases and licenses normally must be used to support infrastructure

2. Non tax revenue from lease and licenses must reduce Vote 1 appropriations not Vote 5

3. If underutilized asset is disposed non tax revenue can go to Vote 5 infrastructure projects (currently only with specific TB approval)

4. Requires strong network of internal governance, policy and financial controls

5. Requires strong network of functional specialists with subject matter expertise to manage risks and complexities

Questions ?