
Municipal Act Procedures Manual

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| PART: 6 – FINANCIAL ADMINISTRATION | |
| Subject: 3 – Approvals of Deficits and Transfers | |
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6.3 Approvals of Deficits and Transfers

(1) Legal Requirements

General Operating Fund Deficits

Subsection 164(3) of The Municipal Act (the Act) requires councils to obtain written approval of the Minister for all budgeted deficits in the General Operating Fund. These budgeted deficits will occur when total estimated expenditures exceed total estimated revenues and transfers in the annual budget of the General Operating Fund.

Subsection 165(1) of the Act requires councils to obtain written approval of the Minister for all anticipated deficits in the General Operating Fund. Municipalities should review their revenues and expenditure prior to year end to determine if a deficit is anticipated. A deficit occurs when expenditures exceed revenues and transfers of the General Operating Fund.

Utility Operating Fund Deficits

Subsection 164(4) of the Act requires councils to obtain approval of The Public Utilities Board for all budgeted deficits in the Utility Operating Fund.

Subsection 165(2) of the Act requires councils to obtain approval of The Public Utilities Board for all actual deficits in the Utility Operating Fund.

Transfers from Reserves and Surplus

The Accumulated Surplus and General Reserve Regulation (Regulation 49/97) establishes limitations on amounts which may be transferred from accumulated surplus or general reserves without approval from the Minister.

Subsection 164(5) of the Act requires councils to obtain approval for any transfers that exceed the maximum amount set out in the Regulation. Municipalities are required to maintain a balance in the accumulated surplus and general reserve fund (combined) equal to or greater than 20% of the prior years' expenditure.

A proposed transfer that does not meet the 20% threshold would require the Minister's approval. To assist municipalities in applying the formula to a proposed transfer, three examples applying the Regulation's formula are provided in Appendix 1.

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(2) Approval Procedures

Ministerial Approvals

Requests for approval under subsections 164(3) (budgeted deficits) and 164(5) (transfers in excess of limitations) should be directed to:

Minister of Municipal Relations
c/o Designate
Municipal Governance and Advisory Services
508 - 800 Portage Avenue
Winnipeg, Manitoba R3G 0N4
or
Email: mrmaas@gov.mb.ca

Requests for approval under subsection 165(1) of the Act (anticipated deficits) should be submitted to:

Manitoba Municipalities Online (MMO) under Submit/View Municipal Report – Municipal report – unaudited financial statement – gen op fund deficit letter. A sample General Operating Deficit Recovery letter is provided in Appendix 2.

Public Utilities Board Approvals

Applications for approval under subsections 164(4) (budgeted deficits) and 165(2) (actual deficits) of the Act should be directed to:

The Public Utilities Board
400 - 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4
or
Email: publicutilities@gov.mb.ca

The Deficit Application Form and deficit information can be found on the Public Utilities Board website at <http://www.pubmanitoba.ca/v1/regulated-utilities/www/utilities/utilities.html>

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(3) Options for Recovery or Restoration

Options a council may consider for recovery of an operating deficit include:

a) General Operating Fund

- recovery by transfer from accumulated surplus;
- recovery by transfer from general reserve fund;
- recovery by transfer from specific reserve fund;
- recovery by levy in one or more future years;
- recovery from identified revenue sources in the succeeding year's financial plan; or
- recovery by combination of any of the above.

The method of recovery of a general operating fund deficit must be stated in the deficit recovery letter and accompanied by a council resolution and is subject to the Minister's approval.

Note: All recoveries are to be reported in the following years' Financial Plan.

b) Utility Operating Fund

- recovery by transfer from utility accumulated surplus;
- recovery by rate rider (future years);
- recovery by transfer from utility reserve fund;
- recovery by transfer from general reserve fund;
- recovery by other method; or
- recovery by combination of any of the above.

The method of recovery of a utility deficit must be stated on the deficit application and accompanied by a council resolution and is subject to the Public Utilities Board approval.

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Appendix 1 - Accumulated Surplus and General Reserve Regulation (49/97)

Formula:

$$AS + GRF - T \geq 20\% \text{ of } E$$

In this formula,

AS - the amount of the accumulated surplus reported at the end of the previous fiscal year;

GRF - the amount of money in the general reserve fund;

T - the amount of the proposed transfer;

≥ - greater than or equal to;

E - the total of all expenditures at the end of the previous fiscal year excluding the amount for education requisitions in accordance with clause 164(1)(c) of The Municipal Act.

Example 1 – Municipality A proposes an expenditure of \$200,000 to be covered by a transfer from accumulated surplus or general reserve funds in their current financial plan.

| | |
|--|-------------|
| Details from previous years' audited financial statement | |
| Accumulated Surplus (from notes) | \$ 184,886 |
| General Reserve (schedule 6) | \$1,196,216 |
| Total Acc. Surplus and General Reserve | \$1,381,102 |
| Previous years' general operating expenditures | \$7,420,285 |
| 20% of Expenditures | \$1,484,057 |
| | |
| Regulation 49/97 Threshold met | No |
| Maximum Transfer (1,381,102 – 1,484,057) | (\$102,955) |

Under this example, Municipality A's "maximum transfer" amount is negative. The municipality cannot transfer from accumulated surplus or general reserves without Ministerial approval for this transfer prior to the adoption of the financial plan.

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Example 2 – Municipality B proposes an expenditure of \$200,000 to be covered by a transfer from accumulated surplus or general reserve funds in their current financial plan.

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|---|-------------|
| Details from previous years' audited financial statements | |
| Accumulated Surplus (from notes) | \$ 134,551 |
| General Reserve (schedule 6) | \$ 199,328 |
| Total Acc. Surplus and General Reserve Fund | \$ 333,879 |
| Previous years' expenditures | \$1,597,730 |
| 20% of Expenditures | \$ 319,546 |
| | |
| Regulation 49/97 Threshold met | Yes |
| Maximum Transfer (333,879 – 319,546) | \$ 14,333 |

Under this example, Municipality B meets the threshold however the maximum transfer is \$14,333. If Municipality B wishes to transfer the proposed \$200,000, Ministerial approval for \$185,667 is required prior to the adoption of the financial plan (\$200,000-\$14,333).

Example 3 – Municipality C proposes an expenditure of \$200,000 to be covered by a transfer from accumulated surplus or general reserve funds in their current financial plan.

| | |
|---|-------------|
| Details from previous years' audited financial statements | |
| Accumulated Surplus (from notes) | \$ 650,555 |
| General Reserve (schedule 6) | \$ 202,640 |
| Total Acc. Surplus and General Reserve Fund | \$ 853,195 |
| Previous years' Expenditures | \$2,506,435 |
| 20% of Expenditures | \$ 501,287 |
| | |
| Regulation 49/97 Threshold met | Yes |
| Maximum Transfer (853,195 – 501,287) | \$ 351,908 |

Under this example, Municipality C meets the threshold and may transfer the proposed \$200,000. No Ministerial approval is required.

For expenditures not included in the adopted financial plan (general operating and capital budgets) council may consider a transfer from accumulated surplus and/or general reserve fund. Subsection 169(5) allows council to cover this expenditure by transfer from accumulated surplus and/or general reserve fund that are within limits established by Regulation 49/97. This situation is covered more in depth in Part 6 -The Financial Plan.

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Appendix 2 – Sample General Operating Deficit Recovery Letter

Minister of Municipal Relations
c/o Designate
Municipal Assessment and Advisory Services
500-800 Portage Avenue
Winnipeg, MB
R3G 0N4

Re: Municipal Name 20xx General Operating Deficit

Dear

The Municipal Name incurred a general operating deficit for the year 20xx in the amount of \$xx.

The operating deficit was incurred due to... state cause(s) of deficit...

The Council of Municipality Name requests approval to recover the deficit... state method of recovery... Please find attached resolution no. xx to this effect (attached resolution).

Yours truly,