

Consolidated Revenue Fund

The Department of Public Works and Government Services Canada, in its role as Receiver General, is responsible for the management and safeguarding of all federal government money. These funds, which are used in the disbursement of all Government of Canada expenditures, investments and transfers, are held in the Consolidated Revenue Fund (CRF), at the Bank of Canada.

Funds are collected through taxation, revenue, and borrowing, there are also transactions with foreign governments and the IMF. Although... borrowing by the federal government, is not the same as you and I would borrow. When the federal government runs a budget deficit, to make up the shortfall it issues securities, bonds and treasury bills. When securities are first issued by the government, the BoC and commercial banks create new money the same way a commercial bank does when issuing a loan to you or me (1). The BoC also creates new money when purchasing securities from the secondary market, and this is what is called Quantitative Easing (QE). However, the BoC words it this way, "the Bank of Canada buys Government of Canada bonds on the secondary market, primarily from financial institutions, and in exchange we create "settlement balances for those financial institutions." (2)

The daily inflows, outflows, and cash balances in the CRF are forecast by analysts in the securities department at the BoC. The main priority in managing these balances is to ensure the government has sufficient cash to meet its daily needs. (3)

The Federal Government raises funds in 3 ways, taxation, revenue from its Crown corporations, and by issuing securities. The proceeds from all 3 of these methods enters the CRF where a daily cash balance is maintained to meet the needs of Government spending. Money must be in the CRF before the Federal Government can spend.

I have taken a random day Dec. 2, 2020 to illustrate the inflows (4), outflows, and the Governments Cash Balance. Starting with the inflows I would like you to focus on the bold text. The Financial Institution number identifies the institution, in this case, number 0327 represents State Street an authorized foreign bank. Next is the date of the transaction, Dec. 2, 2020. Then is the Deposit Transaction Type Code (DTCT). This identifies the type of deposit entering the CRF, and in this case CSA represents Credit Support Annex which is usually securities as guaranteed collateral for derivative trades. The last one is the Deposit Amount (DA).

As we move down the page let's look at some of the other Deposit Transaction Type Codes (5). The next one is RIVT which stands for Returned Direct Deposit as a bank draft. Next is the CBPM the Government Borrowing Program which is the receipt of funds returned by Canadian crown corporations through the Crown Borrowing Program. Then we have CAD Concentrator Account Deposits, concentrator accounts were established at commercial banks for several Government programs to collect payments from the public (such as income tax and commodity tax payments for the Canada Revenue Agency). Bulk payments related to specific programs are transferred daily using LVTS from the commercial banks to the BoC for deposit to the CRF account (6). Then we have PAD Pre - Authorized Debit Deposits. and so on... now let's get to the good stuff!

Moving to the end of this business day. The financial institution number 0177 represents the Bank of Canada which created 4.9 billion digital dollars in exchange for newly issued marketable bonds. In public discourse, this transaction is always referred to as a purchase, whereas in documentation provided by the BoC, they more accurately refer to it as an acquisition (7).

PLINT refers to interest paid by the BoC on the Prudential Liquidity Fund for the CRF. RGINT refers to interest paid on the RGs operating account by the BoC to the CRF (8). Both the PLF and the RGs operating account are calculated and forwarded to the CRF daily. The Prudential Liquidity Fund (PLF) was created in 2011 to safeguard the ability of the Receiver General to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. In addition, according to the data, February 29, 2012 was when the BoC first paid interest on the PLF. However, it wasn't until July 23, 2015 that the fund became visible in the data with the governments daily cash balance. A portion of the PLF is held as a \$20 billion dollar deposit with the BoC (9).

I will be very brief with the outflows. Instead of Deposit Transaction Type Code (DTTC) the column has a Redemption Transaction Type Code (RTTC). In place of the Deposit Amount, it has a Redemption Amount, in other words the amount paid out. The first RTTC is CERTS which means people are cashing in their Canada Savings Bond paper certificates. PCND means government cheques redeemed at and processed by a financial institution and claimed on the next business day. DFT means direct deposit payments processed by a financial institution. Coincidentally, the first 11 transactions on the ledger are done by the bank that I have all my accounts with the Canadian Imperial Bank of Commerce 0010.

The chart that you now see illustrates the cash flows in and out of the CRF (10). It was created using Government of Canada data and correspondence with the BoC and the DoF. In the CRF, sometimes outflows may exceed inflows. That is why the RG always maintains a positive cash balance to ensure that payments are made.

In conclusion, Money creation by the BoC during securities purchases, occurs before entering the CRF. In addition to federal taxes paid through the banking system, revenue gained from crown corporations, money from foreign banks, and the IMF, they comprise all the deposits in the CRF. From there, these funds are used to finance program payments or extinguish obligations due.

Authored by Jeff Eder

Endnotes:

1. How the Bank of Canada Creates Money for the Federal Government: Operational and Legal Aspects, Library of Parliament, August 10, 2015
https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/1cmpg2rlo_996811.pdf?ver=1619940296390
2. QE Settlement Balances, Bank of Canada email communication, April 7, 2021
<https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/BoC%20email%20QE.pdf?ver=1620482161661>
3. Managing the federal government's cash balances: A technical note, Bank of Canada Review, Spring 1995
<https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/managing%20the%20federal%20governments%20cash%20balances.pdf?ver=1620482163160>
4. Government of Canada, Consolidated Revenue Fund Inflows, Current
<https://open.canada.ca/data/en/dataset/5ea9438d-07ea-4ae0-a9b9-e36df2089899>
5. Government of Canada, Supporting Documentation - Consolidated Revenue Fund Inflows, Current
<http://donnees-data.tpsgc-pwgsc.gc.ca/ba1/eft-crfi/soutien-support-eng.html>
6. The “Bank” at the Bank of Canada, Bank of Canada Review, Spring 2015

<https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/The%20%E2%80%9CBank%E2%80%9D%20at%20the%20Bank%20of%20Canada.pdf?ver=1620510215294>

7. Statement of Policy Governing the Acquisition and Management of Financial Assets for the Bank of Canada's Balance Sheet, 2. Objectives of Holding Financial Assets on the Bank's Balance Sheet, April 8, 2021

<https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/Statement%20of%20Policy%20Governing%20the%20Acquisition%20.pdf?ver=1620591423268>

8. Same as 4

9. Same as 6

10. Consolidated Revenue Fund Cash Flow Chart for Dec.2, 2020:

Copyright © 2021 Progressive Money Canada - All Rights Reserved.