

Report To: Finance + Facilities Committee, Board of Health
Submitted by: Dr. Nicola Mercer, Medical Officer of Health & CEO
Subject: RESERVES AND RESERVE FUNDS BOARD OF HEALTH POLICY AND PROCEDURE

RECOMMENDATION(S):

- (a) That the Finance + Facilities Committee makes recommendation to the Board of Health to adopt the Board of Health Reserves and Reserve Funds Policy and Procedure as attached at Appendix “1” and Appendix “2”.

BACKGROUND:

The Board of Health maintains reserves and reserve funds with various purposes as part of the strategic financial and risk management plans for the organization.

Definitions:

“**Reserve**” means an allocation from net revenue at the discretion of the Board of Health after the provision for all known expenditures, which is authorized by Board of Health resolution. It has no reference to any specific asset as in the case of a reserve fund. A reserve may be established for a predetermined purpose and applied for that purpose at the discretion of the Board of Health. Revenues set aside for working funds and for contingencies are examples of reserves.

“**Reserve fund**” means a discretionary reserve fund with assets which are restricted to meet the purpose of the reserve fund. It is based on a Board of Health By-law or defined liability payable in the future, and is usually prescriptive as to the basis for collection and use of monies in the fund. It is used to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any years’ revenues so that the funds are available as required. Revenues set aside for future major repairs and maintenance to an owned facility is an example of a reserve fund.

As at March 31, 2018, the Board of Health had the reserves and reserve funds with the following balances:

Name	Type	Balance (March 31, 2018)	Purpose
Guelph Facilities Reserve Fund	Reserve Fund	\$1,542,288.33	To fund future major capital repairs and maintenance to the building and property at 160 Chancellors Way, Guelph; amounts based on Board of Health Approved Reserve Fund Plan.
Orangeville Facilities Reserve Fund	Reserve Fund	800,083.03	To fund future major capital repairs and maintenance to the building and property at 180 Broadway, Orangeville; amounts based on Board of Health Approved Reserve Fund Plan.
Reserve for Technology	Reserve	1,170,464.96	To fund the periodic replacement of capital IT equipment that does not have an annual replacement cycle.
Reserve for Contingencies	Reserve	1,569,542.64	Used as a combination of working reserve and contingencies reserve. Working reserve: surplus funds for projects budgeted for but not completed in one fiscal cycle as deposited into this reserve at year-end to be utilized in the following year; and Contingencies: Source of funds to mitigate the impacts of unforeseen events, extraordinary expenditures, or reductions in revenue that are not covered by insurance policy.
Reserve for Expanded Fluoride Varnish Program	Reserve	68,025.54	Funds set aside for three year pilot of expanded fluoride varnish program.
Total		\$5,150,404.50	

The Board of Health does not currently have a policy and procedure to govern the reserves and reserve funds of the organization. The draft policy found at Appendix “1” and procedure found at Appendix “2” to this report are provided for the Committee’s consideration to ensure appropriate governance over the creation and use of reserves and reserve funds at Wellington-Dufferin-Guelph Public Health (WDGPH).

PUBLIC HEALTH AND/OR FINANCIAL IMPLICATIONS:

Policy

The key objectives to be accomplished through the use of reserves and reserve funds are:

- *Financial stability*: ensure the availability of funds to maintain the major capital infrastructure, including IT infrastructure of the organization in a state of good repair;
- *Risk management*: ensure the availability of funds to mitigate the impacts of unforeseen circumstances which are not covered by the organization's insurance policies;
- *Efficient budget management*: to allow for the completion of projects budgeted for but not fully completed within the fiscal cycle.

Financial Stability

Capital expenditures for the purchase, replacement, development, and maintenance of facilities and IT infrastructure happen on a periodic (rather than annual) basis, depending on the lifecycle of the asset being purchased, replaced, developed, or maintained. WDGPH's funding is provided on a reasonably static basis, with annual inflationary increases to municipal funding, a high level of ambiguity around inflationary increases to provincial funding, and periodic receipt of new provincial base funding for specific initiatives or base funding increases in excess of inflation. The province also provides one-time grant funding which has a significant level of uncertainty.

There are three (3) potential alternatives to managing a budget in this situation:

1. Maintain an annual budget with just enough funding to cover the ongoing annual expenditures. Increase the municipal levy in years that have periodic expenditures and decrease it back to the amount required to cover the ongoing annual expenditures in years when there are no periodic expenditures. When unforeseen situations arise, in-year municipal levies would be required to accommodate unexpected costs.
2. Finance periodic expenditures using debt instruments and maintain an annual budget with just enough funding to cover the ongoing annual expenditures plus debt repayments. This is the buy now, pay later approach.
3. Maintain an annual budget with enough funding to cover the ongoing annual expenditures, plus annual contributions to reserve funds to ensure that funds are available for major repairs to and replacement of the capital assets of the organization. This is the save up for and then purchase approach.

The draft Reserves and Reserve Funds Policy direction is in alignment with the third approach, which is to annually set aside funds to save up for the major capital repairs and replacement of the capital assets of the organization. This approach is in alignment with Board of Health By-law No. 3 (Property) which requires the Board of Health to establish separate Facilities Reserve Funds for each property in which it has an ownership interest in land and/or buildings for the repair and replacement on and for the property in order to maintain the property in good repair and condition.

This approach is also in alignment with what has been previously communicated to WDGPH by the Ministry of Health and Long-Term Care (MOHLTC) as their expectation of Boards of Health. While the MOHLTC will sometimes provide one-time funding for the purchase of an asset (such as IT servers), when the useful life of that asset has come to an end, it is the MOHLTC's expectation that the Board of Health has planned to fund its replacement.

This approach also supports stable municipal levy increases as there is no spike in a year when a major expense such as a new roof on an owned facility is required, because the money has been put away over several years to plan for that.

Risk Management

WDGPH has a robust risk program:

- A Risk Register was developed by the Senior Leadership Team in consultation with the Board of Health and the broader Management Team and is reviewed and updated annually;
- Insurance coverage for identified risks where other mitigation strategies do not bring the level of risk down to an acceptable level; and
- A reserve for contingencies which has been built up through Board of Health allocation of year-end municipal surplus funds over a number of years to this reserve which provides a source of funds to mitigate the impacts of unforeseen circumstances which are not covered by the organization's insurance policies.
 - The contingencies reserve has also been used as a working reserve over the years: when funds for a project are in the operating budget for one fiscal year but due to timing issues the expenditures will happen in the next fiscal year, the unspent project funds have been allocated to the contingencies reserve to fund the expenses for the project in the next fiscal year. The proposal is to separate the contingencies reserve and working reserve as there are different objectives for the two. The separation of the contingencies reserve and working reserve will bring clarity to the purpose and use of each reserve.

Efficient Budget Management

The working reserve supports the organization in obtaining the best value for money for the funds provided. Even with careful planning, sometimes circumstances arise that delay the completion of a project budgeted for one fiscal year into the next. Instead of rushing to finish a project in the fiscal year for which the budget is available and ending up with a sub-optimal result, it is preferable to transfer the funds to the next fiscal year to ensure the project can be completed to the expected standards.

Another use for the working reserve is to optimize the receipt of provincial funding. Sometimes funding notifications are received from the province late in the year. When additional provincial funding is received for an initiative that WDGPH has already dedicated resources to, often the MOHLTC will allow the allocation of the expenditures already incurred to the additional provincial funding. This results in a municipal surplus which can then be carried over to the next year through allocation to the working reserve rather than returning the money to the province.

Procedure

The procedure outlines how reserves and reserve funds are established, contributed to, withdrawn from, and reported on to the Board of Health. Other key topics covered in the procedure include:

- Inter-reserve fund borrowing;
- Intended use; and
- Funding targets.

Draft funding targets are outlined in Appendix “1” to the Reserves and Reserve Funds Procedure. These funding targets have been provided for discussion and consideration by the Committee.

APPENDICES:

Appendix “1” – Reserves and Reserve Funds Policy
Appendix “2” – Reserves and Reserve Funds Procedure

REFERENCES:

N/A.

Original Signed Document on File

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Director, Administrative
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Approved by:
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CEO

POLICY

CATEGORY:	Board of Health	NUMBER:	
SUBJECT:	Reserves and Reserve Funds	EFFECTIVE:	May 1, 2017
DIVISION:		PAGE(S):	1 of 1
REPLACES:	N/A		

POLICY STATEMENT:

Wellington-Dufferin-Guelph Public Health (WDGPH) uses reserves and reserve funds as part of the overall strategic financial and risk management plans for the organization to ensure that resources are used efficiently and in line with local and provincial requirements. In conjunction with the Investment Policy (policy # cross reference) and Board of Health By-law No. 7 (Borrowing), this policy will support financial planning and minimize significant annual budget impacts. The Board of Health may establish a reserve or reserve fund to be used for any authorized purpose.

Key principles:

- The Board of Health undertakes to self-fund all major planned and reasonably unplanned expenditures through the use of reserves and reserve funds in preference to additional municipal levies;
- Use of reserves is preferable to reserve funds in order to keep money available for financing daily operations, except when the Board of Health is required by statute, standards, or bylaw to set aside an amount from current revenue to finance future expenditures to ensure that the funds will not be used for any other purpose.
- Before creating a new reserve or reserve fund, the option of adding an incremental contribution to an existing reserve or reserve fund of a like nature will be considered.
- Reserves or reserve funds for different purposes shall be separate, but each may include a group of services in the same category. Flexibility can be achieved by defining, in the establishing Board of Health resolution or by-law, the intended use.

Key objectives:

- Financial stability: ensure the availability of funds to maintain the major capital infrastructure, including IT infrastructure of the organization in a state of good repair;
- Risk management: ensure the availability of funds to mitigate the impacts of unforeseen circumstances which are not covered by the organization's insurance policies;
- Efficient budget management: to allow for the completion of projects budgeted for but not fully completed within the fiscal cycle.

SCOPE:

This policy applies to all members of the Board of Health, the Medical Officer of Health and CEO, and all Divisions within the health unit.

DEFINITIONS:

“Reserve” means an allocation from net revenue at the discretion of the Board of Health after the provision for all known expenditures, which is authorized by Board of Health resolution. It has no reference to any specific asset as in the case of a reserve fund. A reserve may be established for a predetermined purpose and applied for that purpose at the discretion of the Board of Health. Revenues set aside for working funds and for contingencies are examples of reserves.

“Reserve fund” means a discretionary reserve fund with assets which are restricted to meet the purpose of the reserve fund. It is based on a Board of Health by-law or defined liability payable in the future, and is usually prescriptive as to the basis for collection and use of monies in the fund. It is used to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any years’ revenues so that the funds are available as required. Revenues set aside for future major repairs and maintenance to an owned facility is an example of a reserve fund.

REFERENCES AND RELATED BY-LAWS, POLICIES AND PROCEDURES:

Corresponding Procedure: CA.51.02.103 *Reserves and Reserve Funds*

CA.XX.XX.XXX *Investments*

By-law No. 3 Relating to the Property of the Wellington-Dufferin-Guelph Health Unit

By-law No. 7 Relating to Borrowing by the Board of Health for Wellington-Dufferin-Guelph Health Unit

Contact for inquiries: Director of Administrative Services

Approved by: Nancy Sullivan, Chair of the Board of Health on behalf of the Board of Health
Signed document on file _____

Dates Created: December 6, 2017

Dates Reviewed: <copy from previous version>

PROCEDURE

CATEGORY:	Board of Health	NUMBER:	
SUBJECT:	Reserves and Reserve Funds	EFFECTIVE:	May 1, 2017
DIVISION:		PAGE(S):	1 of
REPLACES:	N/A		

PROCEDURE:

1. Creation of reserves and reserve funds:
 - a. Reserves are established by Board of Health resolution.
 - b. Reserve funds are established by Board of Health bylaw.
2. Contributions and withdrawals:
 - a. Contributions to and withdrawals from reserves are approved by Board of Health resolution.
 - b. Contributions to reserve funds are made in accordance with the Board of Health bylaw that they are created under.
 - c. Withdrawals from reserve funds are budgeted for in the annual Board of Health approved budget based on capital expenditures planned for the specific assets that the reserve fund is for.
3. Inter-Reserve Fund Borrowing:
 - a) Temporary inter-reserve borrowing to cover a reserve shortfall is permitted with approval from the Board of Health and encouraged to avoid external debt charges.
 - b) Temporary inter-reserve fund borrowing is based on the parameters for inter-reserve fund borrowing established under the reserve fund creation bylaw.
 - a. Borrowing from a reserve or reserve fund may occur only when an analysis of the reserve has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve.
 - b. Temporary inter-fund borrowing must be repaid with interest based on the interest rate received on WDGPH accounts at the time the funds are borrowed.
4. Funding targets for reserves and reserve funds are included at Appendix 1 and are approved by the Board of Health on the advice of the MOH/CEO and Director of Administrative Services. Funding targets shall be reviewed every three years at minimum.
5. Intended use:
 - a. Any change to the purpose for which a reserve is designated must be approved by Board of Health resolution.
 - b. Any change to the purpose for which a reserve fund is designated must be approved by Board of Health by-law.
 - c. The annual budget shall set out the estimated portion of revenues considered necessary to be paid into WDGPH reserves and reserve funds annually.
 - d. Budgeted contributions from operating budgets to reserves and reserve funds shall be transferred upon the approval of WDGPH's budget.
 - e. End of year surplus or deficit may be transferred to or from reserves and reserve funds by the Board of Health upon receipt of the fourth quarter financial report by Board of Health resolution. The transfer will be dated on the date of the resolution.
 - f. Budgeted contributions from reserves and reserve funds to capital or operating accounts shall be transferred at identified milestones or upon completion of a project.

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- g. Withdrawals from a reserve or reserve fund shall not occur if the withdrawal would put the reserve or reserve fund into a negative balance. If such is the case, inter-fund borrowing will be investigated as a funding source.
6. Investment of funds:
 - a. Reserve funds are to be invested in accordance with the WDGPH's approved investment policy. Earnings from combined investments shall be credited to each separate reserve or reserve fund in proportion to the amount invested from it.
 - b. Investment earnings allocations shall be based on the actual monthly average balance of the reserve or reserve fund (calculated as the sum of the opening and closing balances divided by 2) and the actual average investment earnings.
 7. Adequacy:
 - a. The Director of Administrative Services shall be responsible for monitoring the status of reserves and reserve funds.
 - b. The adequacy of reserves and reserve funds shall be assessed annually by the Director of Administrative Services by comparing approved funding targets with actual reserve and reserve fund balances.
 8. Reserve Fund External Debt:
 - a. Debt repayment is not normally funded through a reserve. Debt shall be incurred and repaid through the operating fund. Any funding of debt costs shall be identified in WDGPH's annual operating budgets.
 9. Reporting:
 - a. Balances of reserves and reserve funds with comparative figures shall be disclosed by way of a note to the financial statements in conformity with the requirements of Public Sector Accounting Standards.
 - b. The Director of Administrative Services shall provide an annual report on the status of reserves and reserve funds in comparison with approved funding targets to the Board of Health.

RESPONSIBILITY:

N/A

DEFINITIONS:

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REFERENCES AND RELATED FORMS, POLICIES AND PROCEDURES:

Corresponding Policy: CA.51.02.103 *Reserves and Reserve Funds*

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Contact for inquiries: Director of Administrative Services

Approved by: Nancy Sullivan, Chair of the Board of Health on behalf of the Board of Health.

Signed document on file _____.

Dates Created: December 6, 2017

Dates Reviewed: <copy from previous version>

Draft

Appendix "1"

Name of Reserve or Reserve Fund	Type (Reserve or Reserve Fund)	Objective	Rules of Usage	Source of Funding	Funding Targets	Other Considerations
Working	Reserve	To allow for the completion of projects budgeted for but not fully completed within one fiscal year.	Funds expended for ongoing projects identified at year-end.	Unspent portion of current year operating budget allocation for project.	Based on ongoing projects identified at year-end.	
Contingencies (General)	Reserve	To mitigate impacts of unforeseen events, extraordinary expenditures or reductions in revenue.	Funds expended in the event of an operating deficit resulting from unforeseen events or reductions in revenue.	Funded from annual operating budget surplus after transfers to Working Reserve.	10% of annual operating budget.	This reserve represents a non-sustainable source of annual funding and it is not recommended for use on a routine basis to reduce annual funding levy increases.
Technology	Reserve	To provide a source of funding for IT expenditures and to allow for long-term planning for replacement of major hardware and software systems.	Funds expended based on annual IT capital budget and long-term strategy.	Annual allocation from operating budget.	Based on IT capital strategy.	
Fluoride Varnish Program	Reserve	To provide a source of funding for the provision of fluoride varnish to seven (7)	Funds expended based on annual budget for the cost of providing the	2016 municipal operating budget surplus	Approximately \$22,300 per year based on program estimate of	Funding is for a fixed term of three (3) years with evaluation and reports to be

APPENDIX "2"

		additional high-risk schools.	identified services to the approved schools.	funded the program for three (3) years, 2017 through 2019.	additional costs related to provision of services to the identified schools.	provided to the Board of Health at appropriate intervals.
Guelph Facilities	Reserve Fund	To provide a source of funding for future major repairs and maintenance required at the WDGPH owned facility at 160 Chancellors Way, Guelph.	Funds expended in accordance with budgeted major expenditures and Board of Health Reserve Fund Plan.	Annual allocation from operating budget.	As specified by the Board of Health Reserve Fund Plan for the 160 Chancellors Way, Guelph facility.	Board of Health Reserve Fund Plan must be updated from time to time in accordance with Board of Health By-law No. 3 (Property).
Orangeville Facilities	Reserve Fund	To provide a source of funding for future major repairs and maintenance required at the WDGPH owned facility at 180 Broadway, Orangeville.	Funds expended in accordance with budgeted major expenditures based on Board of Health Reserve Fund Plan.	Annual allocation from operating budget.	As specified by the Board of Health Reserve Fund Plan for the 180 Broadway, Orangeville facility.	Board of Health Reserve Fund Plan must be updated from time to time in accordance with Board of Health By-law No. 3 (Property).