

Report To: Finance + Facilities Committee, Board of Health
Submitted by: Dr. Nicola Mercer, Medical Officer of Health & CEO
Subject: RESERVES AND RESERVE FUNDS STATUS AS AT DECEMBER 31, 2017

RECOMMENDATION(S):

- (a) That the Finance + Facilities Committee makes recommendation to the Board of Health to receive this Report, as presented, for information.
- (b) That the Finance + Facilities Committee makes recommendation to the Board of Health to approve the transfer of the \$150,000 Cost-Shared Mandatory Programs surplus that arose as a result of the receipt of the \$150,000 in 100% MOHLTC funding for Harm Reduction Program Enhancement, into the Reserve for Contingencies.
- (c) That the Finance + Facilities Committee makes recommendation to the Board of Health to approve the transfer of any remaining year-end surplus into the Reserve for Technology (IT).

BACKGROUND:

Reserves and reserve funds are a tool for accumulating cash for future capital disbursements and other permissible expenditures of the organization. They allow Wellington-Dufferin-Guelph Public Health (WDGPH) to plan ahead and systematically save for a specific purpose or project and to smooth the financial impact over multiple years. Reserve funds can also help protect the organization against risks, such as a potential lawsuit or a major funding reduction.

The nature of provincial funding for Public Health makes it difficult to plan beyond the current fiscal year due to the requirement to use provincial funds prior to year-end or return them. Late in the year, provincial funding approvals exacerbate this as Public Health Units operate with an uncertain level of funding for eight (8) to ten (10) months of every fiscal year (10.5 months in 2017). This funding timeline creates a challenge in developing an organizational multi-year business strategy and medium to long-term financial plan. It is also difficult to execute a multi-year project and maximize value for money without the use of reserves and reserve funds. These factors may adversely impact overall organizational success in achievement of strategic objectives that usually span a five (5) year period. WDGPH's municipal funding level is determined by the Board of Health (BOH), and that provides the BOH with the opportunity to mitigate the challenges that accompany provincial requirements around the timing of spending and funding approvals.

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 BOH 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.

Reserve means an allocation from net revenue, at the discretion of the BOH, after the provision for all known expenditures, as part of an overall strategy for funding programs or projects that are set out in annual budgets or budget forecasts and is authorized by BOH 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 BOH.

Reserve Funds

WDGPH maintains the following Reserve Funds:

- Guelph Facilities Reserve Fund – for the purpose of funding future major capital repairs and maintenance to the WDGPH owned facility at 160 Chancellors Way, in Guelph.
- Orangeville Facilities Reserve Fund – for the purpose of funding future major capital repairs and maintenance to the WDGPH owned facility at 180 Broadway, in Orangeville.

The Guelph and Orangeville Facilities Reserve Funds were created by the BOH in December 2014, in compliance with Section 6.9 of the Ontario Public Health Organizational Standards and BOH By-law No. 3 (Property).

The BOH Reserve Fund Plan was developed by the Altus Group Limited and outlines the estimated annual expenditures from the Reserve Funds and the projected annual contributions to the Reserve Funds required to have sufficient funds to meet future requirements. This approach ensures that when major capital repairs or replacements are required, such as a new roof or replacement of elevators, there will not be a significant one-year impact on the operating budget of the organization.

In 2017, higher than estimated interest was earned on the Guelph and Orangeville Reserve Funds due to increasing Bank of Canada interest rates driving increases to bank prime rates. Additionally, an expenditure included in the 30-year expenditure table, in each plan, for the updating of the plan was not made in 2017. The BOH By-law indicates that the plan shall be updated, from time to time, at the discretion of the Medical Officer of Health and the Director of Finance and Corporate Operations (now, Director of Administrative Services). The Medical Officer of Health advises a five (5) year interval for updating the plan, given the newness of the two facilities and a rigorous ongoing annual maintenance program which is in place for both facilities.

The 2017 transactions in WDGPH's Guelph and Orangeville Facilities Reserve Funds are as follows:

Reserve	Opening Balance	Contributions to Reserve	Disbursements from Reserve	Interest Earned	Closing Balance
Guelph Facilities Reserve	\$1,002,242	\$258,815	\$0	\$13,802	\$1,274,859
Orangeville Facilities Reserve	\$551,739	\$118,332	\$0	\$7,349	\$677,420

The balances in WDGPH's Reserve Funds for Guelph and Orangeville facilities, as of December 31, 2017, in comparison with the closing balance required per the BOH approved Reserve Fund Plans, are as follows:

Reserve Fund	Actual Balance at December 31, 2017	Balance required in fund as of December 31, 2017, per BOH Reserve Fund Plan	Difference
Guelph Facilities Reserve Fund	\$1,274,859	\$1,262,039	\$12,820
Orangeville Facilities Reserve Fund	\$677,420	\$665,129	\$12,291

WDGPH is in full compliance with the BOH approved Reserve Fund Plan as of December 31, 2017.

Reserves

In addition to the Guelph and Orangeville Facilities Reserve Funds, WDPGH had the following reserves as of December 31, 2017:

- Reserve for Contingencies – general/working reserve.
- Reserve for Information Technology (IT) – to fund future major IT related capital expenditures (software, hardware, and infrastructure).
- Reserve for Fluoride Varnish Program – to fund costs associated with providing fluoride varnish applications to students at five additional high-risk elementary schools across Wellington-Dufferin-Guelph.
- Reserve for Poverty Elimination Task Force – this reserve belongs to the Poverty Elimination Task Force, a community collaborative that is housed at WDPGH. These funds have been set aside by the Task Force in order to offset any potential costs that may be incurred by WDPGH should the Task Force discontinue operations or incur other unexpected costs.

The transactions in the reserves in 2017 and balances as of December 31, 2017 were as follows:

Reserve	Opening Balance	Contributions to Reserve	Disbursements from Reserve	Interest Earned	Closing Balance
Contingencies	\$1,398,286	\$150,000 ⁽¹⁾	\$0	\$14,766	\$1,563,052
Information Technology	\$737,492	\$392,766 ⁽²⁾	\$0	\$8,192	\$1,138,450
Fluoride Varnish Program Expansion	\$67,000	\$0	\$0	\$744	\$67,744
Facilities Reserve	\$1,867,014	\$0	\$1,871,452 ⁽³⁾	\$4,438	\$0
Poverty Elimination Task Force	\$23,519	\$203	\$0	\$261	\$23,983

- (1) Pending approval by BOH.
- (2) Estimate subject change based on any adjustments required by auditors and pending approval by BOH.
- (3) The Facilities Reserve was created when the buildings in Guelph and Orangeville were constructed. The balance was paid out by way of lump sum loan repayment to the three (3) municipal lenders, in April 2017, per BOH resolution.

PUBLIC HEALTH AND/OR FINANCIAL IMPLICATIONS:

2017 Year-end Transfers to Reserves

WDGPH Management recommends transferring the year-end surplus into reserves as follows:

- Transfer \$150,000 into the Reserve for Contingencies at December 31, 2017. This portion of the Cost-Shared Mandatory Programs surplus was the direct result of the receipt of \$150,000 in 100% MOHLTC funding for Harm Reduction Program Enhancement. WDGPH had already allocated Cost-Shared Mandatory Programs funds to work which was an eligible expense under this funding, and obtained permission from the MOHLTC to allocate these eligible expenditures to this funding in 2017. This created a surplus in the Cost-Shared Mandatory Programs fund in the same amount, and with this transfer to reserves, will be used to fund temporary staff in 2018 to further enhance the harm reduction work.
- Transfer the remaining surplus, currently estimated at \$392,766, but subject to change as a result of any adjustments required by the auditor, into the Reserve for Technology. These funds will provide a source of funding for key IT initiatives expected to be undertaken throughout 2018, 2019, and 2020.

APPENDICES

NONE.

REFERENCES

NONE.

Original Signed Document on File

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