



## **Annual Report on Reserves**

**April 24, 2014**

The purpose of this report is to annually summarize the various reserves whether they are working or committed reserve accounts held by this Board. The first portion of the report speaks to the need and value of reserves in general terms. There are two types of reserve accounts. Working reserves have no specific committed purpose although they may be needed to cover various outstanding obligations. Committed reserves are amounts which, although held by the Board, must be spent on activities approved by the appropriate ministry, legislation, collective agreements, Board resolutions or decisions reached as part of the Board budget process. The report will also discuss significant accounts within accrued liabilities and deferred revenue as these do have implications for the level of committed reserves, the operating budget and the working reserve.

The report which follows sets out all reserve accounts. First is a discussion of the working reserve. Then the report describes each committed reserve and provides the rationale for that reserve. The actual amount of each reserve as of December 31, 2013 is included and is consistent with the amounts recorded in the final 2013 audit. Any annual transfer of operating funds into a committed reserve from the operating budget is noted.

There is a restriction in the District Social Services Administration Board Act (DSSAB) on the level of working reserves which the Board may have. The Board has a policy which provides for a maximum working reserve which is below the limits set in the legislation.

Through our discussions with this Board's auditor there appears to be no restriction on the level of committed reserves which the Board may hold. However, for each committed reserve there should be a sound rationale for the creation of the reserve, the amount of the reserve and any decision to add to that committed reserve. Funds should be withdrawn from a committed reserve only to meet those obligations or purposes for which the reserve was originally created. If the obligation or purpose for which the reserve was created is reduced this should be reflected in the amount of the reserve. If the obligation no longer exists or if the original purpose is no longer valid then that committed reserve should be eliminated.

As part of the completion of this document we are providing specific recommendations related to the working reserve and each committed reserve. These recommendations attempt to take into consideration several factors.

These factors include:

- The uncertainty concerning this Board's role and any financial implications related to the Charles Pascal report on early learning and child care and the provinces decision to implement the Full-Day Early-Learning Kindergarten program.
- Recommendations in the report on Housing Affordability and Needs Study.
- Results of the Building Condition Assessments completed on all DSB owned buildings by Stonewell Group will be used to develop long term capital plans for all Board properties.
- The development of the 10-Year Housing and Homelessness Plan that is required by the Ministry of Municipal Affairs and Housing.
- The Mindemoya EMS station lease which will expire in 2017.
- The End of Operating Agreements for the Social Housing properties.

The recommendations are based on several principles including:

- Committed reserves established for a particular program should be kept within that program area since they often include provincial payments.
- Each committed reserve must have a rationale for its existence, its amount and the appropriateness of any additional transfer from the operating budget.
- Where possible similar reserve accounts have been combined.
- If delays in adjusting the reserve are appropriate a future review date has been established.
- All committed reserves which include the annual revolving of funds must be reviewed annually through the creation of five year or greater estimated expenditure plans.

### **Accrued Liabilities**

Within the accrued liabilities section of the 2013 audit there is an amount of \$700,878. This amount represents monies set aside specifically for the payment of severance to EMS employees under a collective agreement. This severance obligation must be shown as a liability to the Board and be provided for.

## Deferred Revenue

Within the deferred revenue section there is an amount of \$1,024,822. This amount is the 100% provincially funded unconditional grant which was directed to the Board in the first year of the Best Start initiative. On March 23, 2006 the Board passed [Resolution 06-22](#) upon receipt of these funds that they would be used for any decommissioning costs related to the termination of the Best Start program. Although the Federal government ended its funding towards the Best Start program, the Provincial government funded the extension of this program effective April 1, 2010. However, there is a significant report on the issue of child care and early childhood development completed by Dr. Charles Pascal. This report, if implemented, may have long-term impacts on this Board's role in the provision of a variety of children's services. The Provincial government has received the Pascal report and in October 2009 the Premier announced Ontario's plan to move ahead with an Extended Full-Day Early-Learning program for four and five-year-olds. The program was renamed Full-Day Early-Learning Kindergarten program which will be managed by the Ministry of Education. The goal is to have the program for four and five-year-olds fully implemented in all schools by 2015-2016. This program also includes extended hours for before and after school care that will be directly run by the Boards of Education. Since the implementation of this plan will affect the viability of existing non-profit child care providers, these funds are still required to ensure municipalities are not negatively affected as indicated in the original Board resolution.

### **#1 Recommendation:**

**On an annual basis, the Board will reassess the advisability of continuing to hold these funds as deferred revenue based on the implementation of the Full-Day Early-Learning Kindergarten program and its impact on the viability of the non-profit child care providers.**

## Reasons for Reserves

The Board requires reserves for a variety of reasons.

### **Specific Liabilities:**

Reserves are needed to cover specific liabilities. These liabilities include unpaid bills, legal proceedings, subsidy adjustments, etc.

### **Prevention of Borrowing:**

The Board has several programs in which it expends reserves and then must wait for the retroactive payment of subsidies. The Board has developed a levy system in which it waits for the retroactive payment of municipal and unincorporated levies. If the Board has no reserve it must borrow, at significant cost, to cover these expenditures. The need for working reserves in the Ontario Works Program is somewhat mitigated by the upfront provincial funding of the allowances portion of this program.

### **Reduction/Elimination of Bank Charges:**

Because the Board has reserves, it has been able, through a competitive tendering process, to negotiate very reasonable terms with a bank. Those terms provide for an interest payment at 1.0% and a set service fee of \$550 per month which covers all transactions. If reserves are not adequate the Board would pay high interest costs and bank charges.

### **Ability to Respond to Long Term Capital Needs:**

The presence of committed working reserves allows the Board to respond to capital requirements. A recent example of this is the construction of the Little Current and Foley EMS bases. The purchase of Massey EMS base and the Chapleau Integrated Social Services Office were also funded in this manner.

In the Emergency Medical Services program, there is the need for ongoing capital repairs for the bases which the Board either owns outright or leases. Ambulances also need replacement as they age. The presence of reserves allows these two significant areas of EMS expenditure to occur without creating huge year to year shifts in the municipal levy.

In the Social Housing program, reserves are needed as the building components and fixtures move through their life cycle. The reserves allow us to deal with exceptional and recurring capital requirements.

### **Ability to Respond to Significant Program Changes:**

The Board operates several programs which have been subject to huge cost shifts. This can occur in the Ontario Works program due to changes in unemployment rates. EMS costs can and have dramatically changed by adjustments in the availability of local health care or as a result of unilateral provincial decisions. Since this Board delivers provincially mandated programs, significant increases in costs can occur as a result of changes in provincial legislation.

### **Ability to Respond to Significant Grant or Cost Sharing Changes:**

The Board is subject to the unilateral decisions of the Province and the Federal government to reduce grants or change cost sharing. This has been and will continue to be a reality with all four program areas under this Board's jurisdiction. Reserves provide some ability, at least in the short term, to offset these sudden unilateral decisions. In almost all of the downloaded programs, open ended cost sharing has been replaced by unilaterally set grants.

## Working Reserve

The total amount of the working reserve which the Board may retain is 15% of the Board's current year's estimates as set out in the District Social Services Administration Board Act and Regulations. The legislation does not speak to committed reserves.

The following excerpt from the regulations notes that the working reserve may be up to 15% of the total estimates of the Board for the year. The Board estimates are not simply the amount required by the Board for the municipal levy. The estimates include the amounts which the Board requires from senior levels of government to have a balanced budget.

District Social Services Administration Board Act - Ontario Regulation 278/98

### *ESTIMATES AND RESERVES*

7. (1) *Each board shall in each year apportion among the jurisdictions in its district, in accordance with section 6, the amounts that it estimates will be required to defray the expenditures for social services for that year and shall on or before March 31 of that year notify,*
  - (a) *the clerk of each municipality of the amount to be provided by that municipality; and*
  - (b) *the Minister responsible for each social service of the amount to be provided by the Minister with respect to that social service under section 8 of the Act. O. Reg. 37/99, s. 5 (1).*
- (2) *If a board that has given notice of its estimated expenditures incurs additional costs for social services that were not anticipated at the time the notice was given, the additional costs shall be apportioned and notification given in accordance with subsection (1). O. Reg. 278/98, s. 7 (2); O. Reg. 37/99, s. 5 (2).*
- (3) ***In preparing the estimates, the board may provide for a reserve for working reserves in a year not to exceed 15 per cent of the total estimates of the board for the year. O. Reg. 278/98, s. 7 (3).***
- (4) *If the actual expenditures of a board for a year are greater or less than the estimated expenditures for that year, the board shall, in preparing the estimates of the amount required to defray its expenditures for the following year,*
  - (a) *make due allowance for any surplus that will be available from the preceding*
  - (b) *provide for any deficit of the preceding year. O. Reg. 278/98, s. 7 (4).*

This report completed in April 2014 uses the 2014 gross estimated operating costs from the approved budget. The gross estimated costs are used to be consistent with legislation and because the Board expends gross funds prior to receiving any offsets of provincial grants, cost sharing or the receipt of municipal levies.

The working reserve cannot exceed 15% of the total estimated 2014 expenditures.  
 2013 total estimated expenditures **\$27,545,717**.  
 15% Working Fund Reserve amount is **\$ 4,131,858**.

**Board Policy - Working Reserves**

The Manitoulin-Sudbury District Services Board by [Resolution #02-097](#) has adopted a policy to have working reserves set at 15% of the municipal share of the DSB’s current operating budget.

Specifically the policy is:

*“To maintain a Working Reserve that is set at a maximum of 15% of the annualized municipal share of the DSB’s operating current budget.”*

The above policy provides for a working reserve which is less than that provided for by the legislation.

2014 municipal share of the operating 2014 budget **\$11,010,420**.  
 15% Working Fund Reserve amount is **\$1,651,563**.

<b>Summary of Working Funds Reserve</b>		
<b>Reserve Balance as of December 31, 2012</b>	<b>\$265,403</b>	
<b>Withdrawals</b>	<b>Amount</b>	<b>Board Resolution</b>
Gogama EMS Base Heating Repairs	\$ 26,548	<a href="#">#13-20 Feb 2013</a>
<b>Total Withdrawals</b>	<b>\$ 26,548</b>	
<b>Deposits</b>		
2012 Surplus	\$ 55,640	
Repayment to Reserve for all buildings	\$ 124,583	
<b>Total Deposits</b>	<b>\$ 180,223</b>	
<b>Balance of Reserve at December 31, 2013</b>	<b>\$ 419,078</b>	

Based on the 2013 audit, the Board has Working Funding Reserves of **\$419,078**.  
**The shortfall for the working reserves is \$1,232,485.**

**#2 Recommendation:**  
**The Board reaffirms its existing policy related to the working fund reserve.**

## **Committed Reserves**

In addition to the Board's working reserve, there are a number of committed reserves. These have been established by legislation, Board resolutions or as a result of decisions reached as part of the budget process. These funds are set aside for a specific purpose/obligation and are used to meet those specific purposes/obligations.

Each year, in some of these committed reserves, funds are flowed into the reserve and flowed out to meet the specific expenditure requirements. An example of this is the EMS Ambulance reserve. In that case, \$369,852 goes into the account annually and the number of required ambulances based on a 7-year renewal plan is purchased from that account each year. As a result, this committed reserve balance may change significantly from audit to audit. To identify those types of committed reserves we have added the title "Revolving" after the reserve title.

In other committed reserves, no expenditures are made unless specific criteria are met. An example is the EMS Severance Committed Reserve in which funds are only payable upon the departure of those employees.

The existence of these committed reserves reduces the likelihood that the municipal share will vary significantly from year to year. An example of this is the ambulance replacement reserve allows us to levy a consistent amount each year, even though the number of ambulances purchased may fluctuate dramatically from year to year.

### **Information Technology (IT) Committed Reserve (Revolving) Balance end of 2013 is \$90,183.**

Due to the rapid evolution of technology, and new hardware requirements as a result of provincially mandated systems, there is a need for a committed reserve to avoid significant year to year fluctuations. All of the programs rely on the continuous functioning of a DSB wide IT system. Accordingly, funds must be available to immediately replace IT components that may fail.

In 2013 this reserve was augmented by a transfer of \$97,000 from the operating budget.

### **Public Housing Capital Repair (Revolving) Balance end of 2013 is \$1,788,499.**

The Ministry has passed regulations requiring each Consolidated Municipal Service Manager or DSSAB to expend a prescribed amount each year for capital repairs for its directly operated public housing portfolio. In this jurisdiction, the public housing portfolio ownership is registered to the Board. Prior to devolution, the capital needs for the public housing portfolio were met by the Province from general revenues and from Federal subsidies.

As a result of Provincial regulations, the amount for the Board to expend each year for capital repairs of the public housing portfolio is \$803 per unit per year. For the transferred public housing units the amount is  $281 \times \$803 = \$225,657$ . In the 2013 Budget the Board contribution was \$119,738 bringing the total amount to \$345,395 being levied each year as part of the Housing Services Budget. With the additional contribution to this reserve it was decided that this reserve would become a “Revolving” reserve with the requirement that at minimum the \$225,657 in Federal Funding must be utilized on an annual basis. These funds are used each year to fund the capital repairs approved for that year.

In 2010 Building Condition Assessments (BCA) were completed on all social housing properties. These BCA's have allowed for the creation of a multi-year consolidated capital repair plan which was included in the 2014 Budget.

In June 2013, staff prepared a report for the Board on the effect of End of Operating Agreements (EOA). The federal funding for the social housing buildings will decrease by \$56,053 by 2024. Currently the DSB spends \$345,395 on capital expenditures and this amount will be reduced by \$56,053 in 2024.

Additionally the Building Condition Assessment (BCA) that was prepared for Manitoulin-Sudbury DSB indicated that an additional \$79,880 is required annually to maintain the capital reserve for the housing buildings.

By 2024, the DSB will require an additional \$135,933 ( $\$56,053 + \$79,880$ ) in municipal funding in order to maintain the capital infrastructure of its existing public housing stock.

In the June 26, 2013 [End of Operating - Issue Report](#), staff recommended that the Finance Committee consider increasing the capital repairs budget on an annual basis to eliminate the \$135,933 shortfall over the next 11 years. That would require an additional \$12,358 annually from 2014 to 2024 to eliminate the shortfall.

The approved 2014 Budget increased the contribution to the Social Housing Reserve by \$12,358. In 2014, the reserve contribution will be \$357,753.

In 2013 this reserve was augmented by a transfer of \$345,395 from the operating budget.

**EMS Patient Care Equipment Committed Reserve (Revolving)  
Balance end of 2013 is \$253,536.**

The need for medical supplies and equipment can change from year to year due to Ministry requirements, disease outbreaks and product replacement cycles. In order to avoid significant fluctuations in the budget process year to year, an amount is being transferred by the budget process into this committed reserve. Funds are flowed into this committed reserve and are flowed out to meet the specific expenditure requirements each year. In 2013 this reserve was augmented by a transfer of \$66,484 from the operating budget.

**EMS Severance Committed Reserve**  
**Balance end of 2013 is \$235,992.**

The original base funding template for Emergency Medical Services included an annual reserve transfer for future severance liabilities related to this Program in the amount of \$52,133. There was an initial one time transfer from MOHLTC of \$215,296. The annual reserve transfer was discontinued during the 2004 budget process. The current collective agreement has imposed additional liabilities relating to this fund since that time. The total future unadjusted liability is **\$936,870**. This is a maximum liability which would not likely ever occur as it involves all the employees impacted retiring or being laid off at once.

In this case the maximum liability is already fully met for 2013 by an **Accrued Liability of \$700,878 plus \$235,992** as reported in the 2013 audit. The 2009 Reserve report recommended that this reserve be closed and funds transferred to an EMS Building reserve. This was investigated through the Ministry of Health and Long-Term Care and we were advised that the reserve must be maintained and only used for severance purposes.

**EMS Vehicle Replacement Committed Reserve (Revolving)**  
**Balance end of 2013 is \$317,978.**

The ambulance replacement policy states a cycle of 7 years. This cycle is greater than the MOHLTC recommended 5-year cycle. The need for ambulances can change from year to year due to call volume and the total kilometers traveled. Regardless of the number of ambulances required an amount equal to the vehicle amortization (\$369,852 in 2013) flows into this committed reserve each year. Funds are flowed into this committed reserve and are flowed out to meet the specific expenditure requirements.

**Non-EMS Vehicle Replacement Committed Reserve (Revolving)**  
**Balance end of 2013 is \$264,735.**

For the operation of the Ontario Works programs, there is a need for vehicles to transport clients to education, training and job readiness programs. In 2000, the Ministry of Community and Social Services funded the initial vehicle purchase. There is a single vehicle for the IT department which also needs periodic replacement. The replacement of these vehicles is the responsibility of the DSB. The need for these vehicles can change from year to year. In order to avoid significant fluctuations in the budget process year to year, a fixed amount is transferred. Regardless of the number of vehicles required a fixed amount of \$15,000 flows into this committed reserve each year. Funds are flowed into this committed reserve and are flowed out to meet the specific expenditure requirements

**Health Benefits Reserve (Revolving)**  
**Balance end of 2013 is \$14,061.**

Prior to July 1, 2011, the DSB purchased insurance to cover the cost of prescribed drug benefits provided to employees in accordance with collective agreement commitments. Purchasing insurance to cover the cost of prescribed drugs meant that the DSB was billed an annual premium based on usage over the past years.

As of July 1, 2011, the DSB has moved away from insurance based coverage to a self-funded benefits program which includes stop loss insurance in instances where one individual's claims exceed a threshold of \$10,000 annually. Since the introduction of this self-funded benefits coverage program, the DSB has seen some significant savings however since the costs associated with the program are based on actual expenditures by employees and their families, there is a risk that costs will vary significantly from year to year. Many organizations have moved to self-funded drug benefit programs. What they have found is the creation of a reserve for this purpose does alleviate the need for significant changes in year to year budgets as actual costs vary annually. The current annual costs for self-funded benefits is \$345,000 so we are recommending the creation of a revolving reserve to a maximum of \$100,000 which would safely cover any over expenditure in the benefits budget. The reserve would only be augmented when there is a year-end surplus in the benefits budget for any year. In 2013 this reserve was augmented by a transfer of \$14,061 from the operating budget.

**Summary**

This report, once approved, will be added to the Finance section of the Board website as an ongoing reference document and be updated annually based on the prior years' audit and the current year estimates. See the summary chart in Appendix A.

<b>Appendix A Working Funds Reserve Balances</b>			
<b>Title of Reserve</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Working Reserve	<b>\$419,078</b>	\$265,403	\$134,528
Information Technology (IT) Reserve	<b>\$90,183</b>	\$103,154	\$74,407
Public Housing Capital Repair Reserve	<b>\$1,788,499</b>	\$1,678,059	\$1,638,130
EMS Fund/MOHLTC Reserve	<b>\$0</b>	\$0	\$77,050
EMS Patient Care Equipment Reserve	<b>\$253,536</b>	\$302,753	\$240,019
EMS Severance Reserve	<b>\$235,992</b>	\$235,992	\$242,492
EMS Vehicle Replacement Reserve	<b>\$317,978</b>	\$346,641	\$382,802
Non-EMS Vehicle Replacement Reserve	<b>\$264,735</b>	\$249,735	\$234,735
Health Benefits Reserve	<b>\$14,061</b>	\$0	\$0
<b>Total Reserves per 2013 Audited Financial Statements</b>	<b>\$3,384,062</b>	\$3,181,737	\$3,024,162