



TO: Chair and Members of the Board of Health

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2013 May 16

DRAFT RESERVE/RESERVE FUND POLICY

Recommendation

It is recommended that the Board of Health endorse Appendix B – Draft Reserve/Reserve Fund Policy and direct staff to engage the City of London and Middlesex County regarding the related Memorandum of Understanding in Appendix C to Report No. 067-13.

Key Points

- Establishment and maintenance of reserves and reserve funds is a responsible business practice used by many health units in Ontario.
- Although Middlesex-London has reserves and reserve funds, it does not have a formal policy to establish them or to maintain them.

Background

During the Board's review and approval of the 2013 cost-shared budget, the Board received [Report No. 117-12](#), "2013 Budget – Protecting the Gains". In the report a number of concerns were raised in meeting the anticipated shortfall of \$477,682 as a result of achieving a 0% municipal increase. Generally, these concerns related to the Health Unit's potential inability to meet training requirements, purchase specialized services, manage corporate assets, and to meet unexpected expenditures. It was discussed that a partial solution to mitigate the areas of concern was for the Board of Health to develop a policy for establishing and maintaining reserves and/or reserve funds.

A reserve is an amount set aside by resolution of the Board of Health that is carried year to year mainly as a contingency against unforeseen events or emergencies. A reserve fund is an amount set aside for a specific purpose by resolution of the Board of Health that is carried from year to year unless consumed or formally closed.

Historically, the Board has made contributions to reserves and reserve funds without a formalized approach. The Health Unit currently does have both reserves and reserve funds, the balances of which are included in the annual audited financial statements. Attached as [Appendix A](#) is a summary of reserves and reserve funds as at December 31, 2012.

Legislatively, the Middlesex – London Board of Health is a separate autonomous entity, and as such can legally hold reserves and reserve funds. However, the Province of Ontario explicitly prohibits the use of their grants as contributions to reserves and/or reserve funds in their agreements with Boards of Health.

Draft Policy

Attached as [Appendix B](#) is a draft Reserve/Reserve Fund policy for the Board's consideration and feedback. The main purpose of the policy is to provide a framework for the Board of Health to establish and maintain reserves and/or reserve funds to protect against predicted and unpredicted liabilities, and to cover contingencies or emergency expenditures. The draft policy answers the following questions:

- a) How are reserves and reserve funds established?
- b) What are the maximum contributions allowed for a reserve fund?
- c) What are the annual and cumulative maximums allowed for reserves?
- d) Who authorizes contributions and withdrawals to/ from reserves and/or reserve funds?
- e) What are the reporting requirements under the policy?

Finally the draft policy sets out a process whereby an agreement is reached with the City of London and Middlesex County. A draft agreement is attached as [Appendix C](#).

Environmental Scan

A brief and informal survey was conducted to understand if other autonomous Boards of Health utilized reserves and/or reserve funds. [Appendix D](#) provides the outcome of the survey. Twenty-four (24) health units were asked if their Boards of Health utilized reserves and/or reserve funds as a financial management tool. Twelve (12) Boards of Health were left out of the survey as they were either from a regional structure or municipally integrated structure where it was assumed they used reserves and reserve funds. Out of the twenty-four (24) health units surveyed, fourteen (14) responded that they have reserves and/or reserve funds and most had policies governing their use. Five (5) health units responded that they didn't utilize reserve and/or reserve funds and the remaining five (5) did not respond before this report was written. This quick survey revealed that more than half of the health units surveyed utilize reserves and/or reserve funds.

From the health units that provided further information and copies of their policies it would seem that many Boards of Health provide for a maximum level of reserves. However, there was a lot of variability in terms of the maximum set. The maximum ranged from 1.5% of gross revenue to 16.67% (or 2 months of operations) and in some cases there were no maximums.

Next Steps

Reserves and reserve funds are used by many health units, including the Middlesex-London Health Unit. The Board of Health could increase its oversight and standardize the Health Unit's approach by implementing a policy such as that in [Appendix B](#). If this is approved, staff will approach both the City of London and the County of Middlesex with the intent to establish an agreement similar to the draft "Memorandum of Agreement" attached as [Appendix C](#).

This report was prepared by Mr. John Millson, Director, Finance & Operations.

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