

Update on Financial Policy Review and Draft Integrated Budget/Planning Process

Presentation to
Finance and Facilities Committee
September 5, 2013

PwC – Financial Policies

- **Engaged PwC on June 17th to review MLHU financial policies in light of the Broader Public Sector guidelines**
- **PwC completed their review in late August**
- **PwC met with the Director of Finance to review first draft of findings**

PwC – Financial Policies

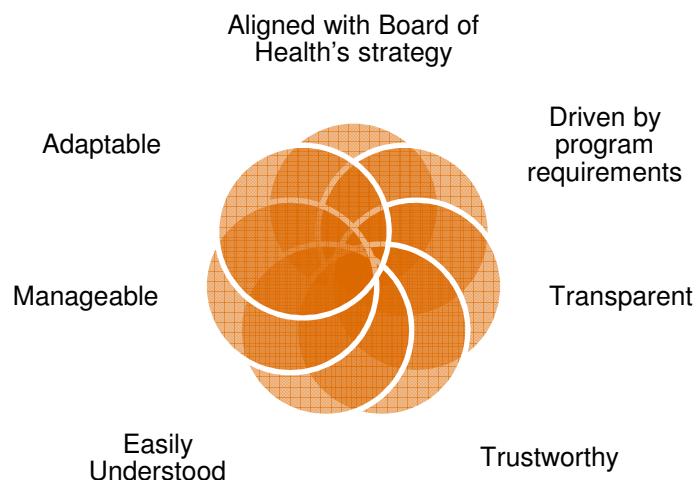
Next Steps:

- SLT to review recommendations in September
- Report to Finance & Facilities Committee in October
- Revise financial policies & implement (educate staff on revisions)

What should the future budget/planning process achieve?

The future budget/planning process should better integrate operational planning with budget planning

The future state process should be:



“Integrate and align Service Area planning and budgeting activities to mitigate against risk of unplanned expenditures and to support optimal allocation of resources to key initiatives.”

PwC recommendation

Once implemented, MLHU should be able to:

- ✓ Better align the budget to the Board of Health's overall strategic priorities
- ✓ Use operational plans to inform the development of the budget (not *vice versa*)
- ✓ Uphold public accountability over the use of financial resources in an open and transparent manner
- ✓ Foster confidence and trust in the integrity of the budget process
- ✓ Clearly communicate and report on the status of the budget, frequently and regularly, in order to facilitate effective decision making
- ✓ Manage the budget process more efficiently, spending less effort to achieve greater output
- ✓ React flexibly to new information and adapt the budget to ongoing developments

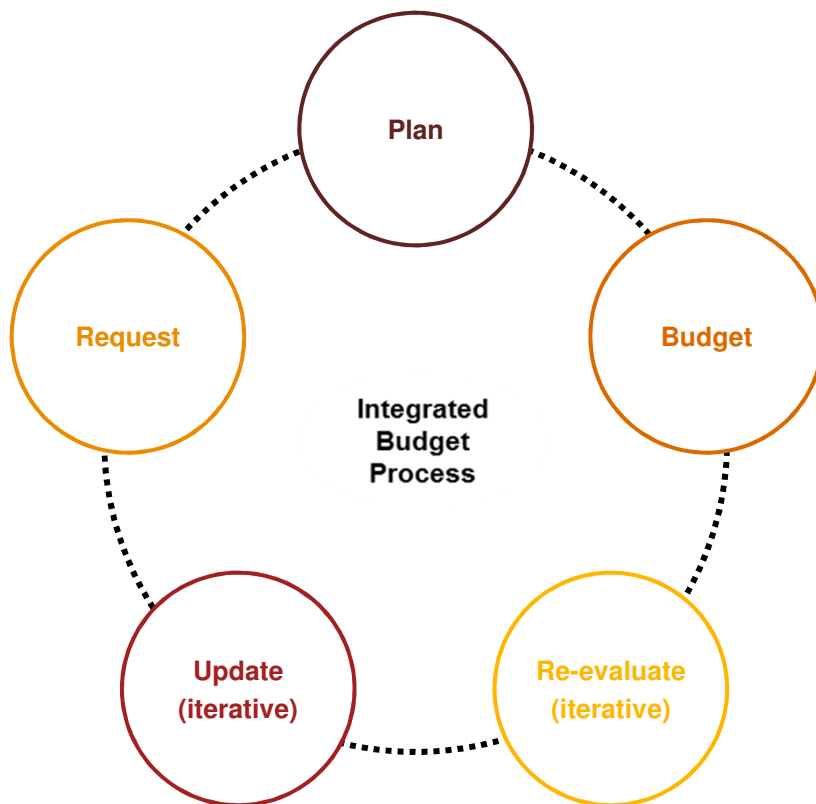
What needs to change?

The current process has three fundamental issues that need to be addressed

	Issue	Impact	Change Req'd
<p>Current Budget Process</p>	<p>1 Link to Strategy</p> <p>Current process for cost-shared budget is driven primarily by external budget processes. The Board of Health's strategic priorities and operational input from the Service Areas are not well linked to the budget.</p>	<p>The organization lacks a formal approach to seek the Board of Health's strategic and operational input early on in the budget process. As a result, the budget is not fully informed by strategic and operational needs.</p>	<p>The budget process needs to start with strategic and operational planning to ensure that the budget is fully informed by strategic and operational requirements.</p>
	<p>2 Uncertainty</p> <p>Both the timing and amount of funding are highly uncertain. More than 50% of the funding amount remains uncertain as late as Q3 of the operating year. Timing of approval of funding, particularly for 100% grants, is also difficult to predict.</p>	<p>Service Areas face challenges in optimizing operating plans due to the uncertainty in the timing and amount of the funding.</p>	<p>Service Areas need to be provided with guidance around strategic priorities and planning assumptions, well ahead of the budget cycle. The budget process needs to account for lack of certainty over the timing and amount of funding.</p>
	<p>3 Rigidity</p> <p>The budget process is a once-a-year event: once it is 'approved', there is little opportunity for the Board of Health to formally revise the agency budget.</p>	<p>The Board of Health lacks a formal mechanism to refine the budget as new information becomes available, and can feel disconnected with the implementation of the budget.</p>	<p>The budget process needs more frequent updates so that Service Areas can seek Board of Health input more quickly and flexibly to react to new information</p>

How does the future state Budget/Planning Process work?

The future state process is comprised of five major stages



	Stage	Key Objectives
1	Plan	<ul style="list-style-type: none"> Formulate strategic direction Set next year's high-level planning parameters Review prior year's operating outcomes Establish next year's service operating plans
2	Budget	<ul style="list-style-type: none"> Assess current year's budget status Assess program evidence – new, existing, cancellations Cost out program requirements Recommend, approve and communicate budget
3	Re-evaluate (iterative)	<ul style="list-style-type: none"> Assess health of operating surpluses in prior quarters based on agreed-upon criteria Prioritize operating initiatives Develop and agree on operating surpluses deployment plans
4	Update (iterative)	<ul style="list-style-type: none"> On a frequent basis, update status of operating and budget to key stakeholders Assess impact of new information on operating plans, budget, and use of operating reserves Based on new information, make refinements to current year budget and "lock-in" the budget forecast for the next quarter
5	Request	<ul style="list-style-type: none"> On the basis of the ongoing activities of the above stages, work with the City, County and the Province to make funding requests, as required

What are the key activities for each stage?

1. Plan (2015 Process)

#	Lead	Support	Activity	Timing
1	Finance Committee, BOH	SLT	Provide MLHU with strategic direction and key budget planning assumptions for the next year (i.e. 2015)	March 2014
2	SLT	Service Areas	SLT outline high-level planning parameters to Service Areas	March
3	Service Areas	SLT	Review prior year summaries	March
4	Service Areas	SLT	Review prior year operational plan outcomes	March
5	Service Areas	SLT	Review current year Q1 variance reports	April
6	Service Areas	SLT	Assess feasibility of current year targets	April
7	Service Areas	SLT	Create operating plans for each Service Area	April

“Unless commitment is made, there are only promises and hopes; but no plans.”

Peter F. Drucker

Notes

Expected Outputs

- High-level operating planning parameters for Service Areas
- Operating plans for each Service Area

Linkages

- Prior quarter’s budget status should inform the assessment of current year targets

What are the key activities for each stage?

(2015 Process)

2. Budget

#	Lead	Support	Activity	Timing
1	Service Areas	SLT	Analyze operational and financial information to date, per above	May
2	Service Areas	SLT	Assess additional program evidence - current and new	May
3	Service Areas	SLT	Cost out program changes (new/current/cancellation) to develop budgets	June to July
4	Service Areas	SLT	Consider agency-wide initiatives and assess impact on plans	June to July
5	Service Areas	SLT	Meet with SLT to dialogue on Service Area plans and budgets	August
6	SLT	Service Areas	Report to BOH on high level program initiatives	September
7	SLT	Service Areas	Recommend budget for next year to BOH	October
8	BOH, whole	SLT	Approve budget for next year	November
9	SLT	Service Areas	Communicate budget and program directions with staff	December

Notes

Expected Outputs

- Approved budget for next year

Linkages

- Priorities for operating initiatives should inform the development of operating reserve deployment plans, which in turn should be a key consideration in developing the operating budget for next year

“Don't tell me what you value, show me your budget, and I'll tell you what you value.”

Joe Biden

What are the key activities for each stage?

(2015 Process)

3. Re-evaluate

#	Lead	Support	Activity	Timing
1	Service Areas	SLT	Assess status of operating reserves from prior quarters	July
2	Service Areas	SLT	Prioritize operating initiatives using both operating and financial criteria	July
3	Service Areas	SLT	Develop operating reserve deployment plans based on priorities	August
4	Service Areas	SLT	Agree on operating reserve deployment plans based on priorities	September

“The Principle of Priority states (a) you must know the difference between what is urgent and what is important, and (b) you must do what’s important first.”

Steven Pressfield, The War of Art: Break Through the Blocks & Win Your Inner Creative Battles

Notes

Expected Outputs

- Operating reserve deployment plans

Linkages

- Operating reserve deployment plans are critical to developing next year’s budget, as well as updating and refining the current year budget
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What are the key activities for each stage? (2015 Process)

4. Update

#	Lead	Support	Activity	Timing
1	SLT	Service Areas	Review prior quarter's budget status	Last month of each quarter
2	Service Areas	SLT	Update current year operating plan status and outcomes	First month of each quarter*
3	Service Areas	SLT	Assess operating reserve deployment plans based on updates	First month of each quarter*
4	SLT	BOH	Roll-up budget status and update BOH for information purposes	Second month of each quarter*
5	SLT	BOH	Make refinements to current year budget and create "Budget Lock"	Second month of each quarter*

* Except for July and August in Q3, these activities are superseded by main budget planning cycle for the next year.

"The biggest risk is not taking any risk... In a world that changing really quickly, the only strategy that is guaranteed to fail is not taking risks."

Mark Zuckerberg

Notes

Expected Outputs

- Summary operating plans status update
- Summary budget status update

Linkages

- During the main budget planning cycle for the following year, these updates will be required to inform the development of priorities

What are the key activities for each stage? (2015 Process)

5. Request

#	Lead	Support	Activity	Timing
1	Board of Health	SLT	Provide guidelines for City budget targets	May
2	SLT	City Council	Submit budget and planning information to City	September
3	City Council	SLT	Conduct formal City budget planning input process	Sept – Dec
4	SLT	City Council	Submit summary cost-shared budget to City	December
5	City Council	SLT	Confirm City's appropriation for cost-shared budget	February
6	County Council	SLT	Confirm County's appropriation for cost-shared budget	March
7	SLT	Province	Submit Ministry grant requests	April
8	Province	SLT	Confirm Ministry's funding grant	June to Sep
9	BOH whole	SLT	Approve and sign Ministry grant agreement	June to Sep

Notes

Expected Outputs

- Confirmation of City funding appropriation
- Confirmation of Council funding appropriation
- Ministry grant requests
- Signed Ministry grant agreements

Linkages

- Funding appropriations will be informed by the MLHU's budget and operating plans

A condensed process for 2014

Stage	Description for 2014 Budget/Planning Process	Timeline
Plan	2014 Budget/Planning Process Development	<ul style="list-style-type: none"> • FFC on Sept 5 • BOH on Sept 19
	Identify key initiatives for 2014 as well as areas for potential enhancements, efficiencies and reductions	<ul style="list-style-type: none"> • Health Unit staff from Sept-Nov
Budget	Budget Targets (financial and strategic)	<ul style="list-style-type: none"> • FFC on Sept 5 • BOH on Sept 19
	Program Budgeting and Marginal Analysis (PBMA) process to prioritize budget changes based on Board of Health's policy criteria: <ul style="list-style-type: none"> • Program-level changes • Organization-wide initiatives Draft Budget using new budget template format at team level incorporating: <ul style="list-style-type: none"> • Outcome report data • Proposed budgets • Proposed operating plans • Proposals for enhancements and reductions 	<ul style="list-style-type: none"> • BOH Retreat on Nov 1 (finalize criteria) • FFC on Dec 5 (information report) • BOH on Dec 12 (information report) • FFC in Jan (initial report) • BOH in Jan (initial report) • FFC in Feb (final report) • BOH in Feb (final report)
Re-evaluate and Update	2013 Q2 Variance Report	<ul style="list-style-type: none"> • SLT on Aug 12 • FFC on Sept 5 • BOH on Sept 19
	2013 Q3 Variance Report	<ul style="list-style-type: none"> • SLT on Nov 5 • FFC on Nov 7 • BOH on Nov 21
Request	Submit targets to City of London	<ul style="list-style-type: none"> • Oct 1
	Submit budget to Province	<ul style="list-style-type: none"> • March 31