



Annual Report on Reserves

May 27, 2021

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, 2020 is included and is consistent with the amounts recorded in the final 2020 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 Funds should be withdrawn from a committed reserve only to meet those obligations or purposes for which the reserve was originally created.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 If the obligation no longer exists or if the original purpose is no longer valid then that committed reserve should be eliminated.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:

- Recommendations in the report on [Housing Affordability and Needs Study](#).

- Results of the [Ten Year Capital Management Plan](#) completed on all DSB owned buildings by Housing Services Corporation 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 [End of Operating Agreements](#) for the Community Housing properties.
- The Community Housing responsibilities under [Duty to Accommodate](#).
- [Post-Traumatic Stress Disorder – Prevention Plan](#)

The recommendations are based on several principles including:

- Committed reserves established for a 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.
- Any specific expenses that fluctuate significantly from year to year that may cause significant increases to annual budget should be considered when creating revolving reserves.

Accrued Liabilities

Within the accrued liabilities section of the 2020 audit there is an amount of \$1,154,100. This amount represents monies set aside specifically for the payment of severance to Paramedic Services employees under a collective agreement. This severance obligation must be shown as a liability to the Board and be provided for.

Manitoulin-Sudbury DSB retained Mondelis Actuarial Services Corporation to perform a valuation of the severance benefit. In December 2020, the [Actuarial Report](#) states that the severance accrual should be \$1,154,100 as of December 31, 2020. At the end of 2020, the DSB ensured the severance accrual was \$1,154,100. The Actuarial Report forecast for the 2021 year-end is \$1,163,400. The DSB will need to contribute \$9,300 to meet its severance obligations for 2021.

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 0.7% and a set service fee of \$850 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. An example of this is the construction of the Little Current and Foleyet Paramedic Services bases. The purchase of Mindemoya and Massey Paramedic Services bases and the Chapleau Integrated Social Services Office were also funded in this manner.

In the Paramedic 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 Paramedic Services expenditure to occur without creating huge year to year shifts in the municipal levy.

In the Community 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. The Community Housing program requires reserves for future potential affordable projects in the district.

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. Paramedic Services 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 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 May 2021 uses the 2021 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 should not exceed 15% of the total estimated 2020 expenditures.
 2021 total estimated expenditures **\$40,252,248.**
 15% Working Fund Reserve amount is **\$ 6,037,837.**

Board Policy - Working Reserves

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

2021 municipal share of the operating 2021 budget **\$10,664,361.**
 15% Working Fund Reserve amount is **\$1,599,654.**

Summary of Working Funds Reserve		
Reserve Balance as of December 31, 2019	\$1,690,524	
	Amount	Board Resolution
2019 Deficit Surplus	\$ 7,179	
Total Withdrawals	\$ 7,179	
Deposits		
Repayment to Reserve for all buildings	\$ 172,820	
Total Deposits	\$ 172,820	
Balance of Reserve on December 31, 2020	\$1,856,165	

Based on the 2020 audit, the Board has Working Funding Reserves of **\$1,856,165.**
Based on the Municipal expenditures, the working reserves is overfunded by \$256,511. Based on DSSAB Act Gross expenditures, the working reserves is underfunded by \$4,181,672

#1 Recommendation:

Transfer \$256,511 from the Working Reserve to the Capital Building Reserve for any future affordable housing projects. Change the annual transfers to reserve for the repayment of borrowed funds for the purchase of buildings to the Capital Reserve instead of the Working Funds Reserve.

Due the current COVID-19 pandemic and the unknown future costs, staff are recommending that the Board follow the DSSAB legislation during the COVID19 pandemic by allowing the gross expenditure calculation to determine the upper limit of the working 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 Vehicle and Equipment reserve. In that case, \$722,560 goes into the account annually and the number of required ambulances based on a 6- or 7-year renewal plan is purchased from that account each year, as well as any needed equipment. 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.

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 Refresh (IT) Committed Reserve (Revolving) **Balance end of 2020 is \$271,582.**

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 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 2020 this reserve was augmented by a transfer of **\$115,532** from the operating budget.

DSB Building Capital Fund (Revolving) **Balance end of 2020 is \$2,335,878.**

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 2020 Budget the Board contribution was \$206,244 bringing the total amount to \$431,901 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 June 2013, staff prepared a report for the Board on the effect of End of Operating Agreements (EOA). The federal funding for the Community Housing buildings will decrease by \$56,053 by 2024.

Additionally, the [Building Condition Assessment Report](#) (BCA) that was prepared for Manitoulin-Sudbury DSB by Stonewall Group in 2010 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 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 2021 Budget increased the contribution to the Capital Building Reserve by 2%, as well as \$12,358. In 2021, the reserve contribution will be \$452,897.

In 2020 Ten Year Capital Management Plan was completed on all DSB properties. This report has allowed for the creation of a multi-year consolidated capital repair plan which may change the reserve transfer requirements. The plan will be finalized in the fall of 2021 and any changes to reserve transfers will be included in the 2022 Budget.

In 2020 this reserve was augmented by a transfer of **\$431,901** from the operating budget. In 2020 this reserve was also augmented by a transfer of **\$305,508** from the sales of two of the single homes in Espanola.

**DSB Vehicle and Equipment Replacement Committed Reserve (Revolving)
Balance end of 2020 is \$ 694,607.**

The DSB requires vehicles in all departments in order to operate. The two vehicle reserves and the equipment reserve have been consolidated in one reserve to ensure funding is available to replace vehicles on an annual basis without creating large budget fluctuations from year to year.

The ambulance replacement policy will remain on a cycle of 6 or 7 years. The other vehicles are replaced on an as needed cycle based on use and wear. However, the other vehicles are budgeted for replacement on a 5-year cycle.

The need for medical equipment can change from year to year due to Ministry requirements, disease outbreaks and product replacement cycles. To avoid significant fluctuations in the budget process year to year, an amount is being transferred by the budget process into this committed reserve.

The DSB 2021 budget includes \$67,575 for Paramedic uniforms, jackets, and helmets in the Equipment Reserve. In the latest OPSEU Collective Agreement, the mandatory annual allocation for uniforms and personal protective equipment has been eliminated. This has allowed for some efficiencies by moving dollars from the operational budget to a reserve to allow for annualized fluctuations.

Funds are flowed into this committed reserve and are flowed out to meet the specific expenditure requirements each year. In 2020 this reserve was augmented by a transfer of **\$722,560** from the operating budget.

Benefits Reserve (Revolving)
Balance end of 2020 is \$706,722

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. 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

This reserve is augmented when there is a year-end surplus in the benefits budget for any year. In 2020 this reserve was not augmented as there was no surplus. The Benefits Reserve balance as of December 2020 is \$706,722.

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.

Appendix A			
Working Funds Reserve Balances			
Title of Reserve	2020	2019	2018
Working Reserve	\$1,856,165	\$1,690,524	\$1,517,082
DSB Capital Repair Reserve	\$2,335,878	\$1,725,832	\$1,597,957
DSB Vehicle and Equipment Reserve	\$ 694,607	\$ 586,868	\$ 492,327
Information Technology (IT) Reserve	\$271,582	\$241,610	\$213,773
Benefits Reserve	\$706,722	\$706,722	\$518,606
Total Reserves per Audited Financial Statements	\$5,864,954	\$4,951,556	\$4,339,745