

Contents

1. Introduction.....	2
2. 2003 Expenditures.....	3
2.1 Why do the figures differ?	
2.2. Explanations for expenditure increases in 2003	
2.3 Explanations for increases in staff salaries and benefits from last year	
2.4 Rationale for cost of living and merit increases to staff salaries	
2.5 Explanations for increases to accrued benefit obligations	
2.6 Rent increases and future accommodation plans for PEO	
2.7 Employee future benefit accrued liability	
2.8 Differences in general management operating expenses	
2.9 Differences of forecast numbers versus actual	
3. PEO's Five-Year Outlook and Business Planning Process.....	7
3.1 PEO's financial state	
3.2 Does PEO have a five-year financial plan?	
3.3 Does PEO have a five-year strategic plan? Spending and revenue projections	
3.4 What is PEO doing to increase membership?	
3.5 Approved staff headcount and associated salaries and benefits	
3.6 I am hearing that PEO has more than 100 staff deployed in its operation, is this true?	
3.7 Outlook for salary and benefit increases beyond 2004	
4. Operating Reserve.....	11
4.1 What was the impact of the transfers to OSPE on the Operating Reserve?	
4.2 What is planned to rebuild the operating reserve?	
4.3 Why is the former item "Members Equity" now called the "Operating Reserve"?	
5. 2004 Fee Increases.....	13
5.1 PEO's annual grant to OSPE has ended. Shouldn't there be a decrease in fees?	
5.2 Is there added value to a P.Eng. licence considering fee increases due to inflation?	
6. 2004 PEO Initiatives and Major Projects	21
6.1 2004 business functions and key initiatives	
6.2 Will Council review cancellation of <i>The Link</i> ?	
7. Canadian Council of Professional Engineers (CCPE).....	25
7.1 Background on CCPE	
7.2 Justifications for CCPE fee increases	
8. Activity-based Costing (ABC).....	28
8.1 What is activity-based costing/budgeting and why is PEO going to such a system	
8.2 Differences in the way the budget figures are presented based on the adoption of ABC	
9. Process Improvement and Cost Saving Initiatives.....	30
9.1 PEO initiatives to improve its business process and achieve cost savings	

1. Introduction

Questions and Answers on PEO Operations was compiled to address questions, raised by PEO members, on all aspects of PEO Operations. Information in this document, provided by PEO management, with input from Council, the Finance Committee and staff, is as of April 19, 2004.

Timely and thorough communications is a PEO imperative. To this end, this document will also be published on the PEO website.

At the past number of Annual General Meetings, members have raised questions about PEO expenditures and the Audited Financial Statements. The Audited Financial Statement is a reflection of past expenditure; the Auditors ensure that these statements accurately represent these past expenditures. This document is aimed at answering questions on both past expenditures and also PEO's future operations. It is hoped that this document will provide members the necessary information to provide input to Council with respect to future directions.

If you have further questions, please email operations@peo.on.ca. Look for periodic updates to *Questions and Answers on PEO Operations* on PEO's website (www.peo.on.ca).

2. 2003 Expenditures

2.1 **Why are the figures for Expenses, shown on page 23 of Annual Report The Privilege of Self-regulation different from the Operating Expenses shown on the graph on page 27 of the report?**

The figures are different because the "Operating Expenses" on the page 27 graph include salaries and wages for the various business units. On page 23 of the Annual Report, "Salaries and Benefits" is shown as a separate item.

2.2 **Expenditures increased by 11.6 percent in 2003 over the previous year. What accounted for such an increase?**

Expenditures in 2003 increased as compared to 2002 because of:

Complaints and Discipline:

- ◆ increased number of hearings (15 hearings as compared to a previous average of six to 10 hearings a year). As shown in 8.2, the average cost of a hearing is almost \$40,000;
- ◆ high level of complaints requiring expert investigations;
- ◆ legal costs for establishing an admissions appeal process, the discipline handbook, and legal matters related to Bill 124, Brownfields, the Experience Requirements Committee (ERC), and the Certificate of Authorization (C of A).

Enforcement:

- ◆ Registration Committee – high number of hearing days (six) in 2003 compared with a previous average of two to four days a year. One hearing had multiple sittings requiring extensive legal support for preparation and attendance

Admissions:

- ◆ increased number of applications and assessments;
- ◆ technical exams – increased number of technical exams written (20 percent more), and increased number of locations where exams were written;
- ◆ Professional Practice Exam – increased number of exams written (12 percent more) and increased number of locations where exams were written.

Note: All fees except the annual P.Eng. licence fee are part of Regulation 941/90 and have not been updated since 1992. With the cost of activities determined by Activity Based Costing (see section 8), PEO will be in a position to adjust these fees based on costs.

Professional Affairs:

- Certificate of Authorization (C of A) postage – increased volume of mail for both new Cs of A and renewals. There was also an increase in the cost of postage.

Council and Executive:

- ◆ The budget for the Business Sessions – Promotion/Printing/Advertisement was based on the previous year's number of copies and volume of material. In fact, the volume of material to be produced increased by about 50 percent, due to a doubling of the number of resolutions submitted and the increased length of both the financial information presented and the minutes of the previous year's meeting. The number of copies printed increased by 25 percent;
- ◆ Awards Event Ceremony – A/V Graphics Budget was based on eight award winners. There were nine winners.

General Management and Administration:

- ◆ Temporary Services – during the year, temporary staff were used a number of time to clear up backlogs;
- ◆ Amortization – ongoing computer equipment purchases and upgrades;
- ◆ Building lease costs – base lease costs increased on January 1, 2003;
- ◆ Insurance expenses – directors and officers insurance premiums increased;
- ◆ Implementing a new governance model and PEO restructuring.

Communication Internal:

- ◆ Production costs of *Engineering Dimensions* – printing budget was based on producing issues of the same size as in 2002. In fact, there was almost 9 percent more pages produced because of the need to keep members informed of changes at PEO and ongoing legislative issues. There was also an increase of 25 percent in the number of pages of *Gazette* (see printing transfers, below);
- ◆ *Engineering Dimensions* – transfers of printing costs budget was based on 2002 transfers. In fact, there was a 25 percent increase in the number of pages of *Gazette*, and a 40 percent increase in the pre-AGM financial pages.
- ◆ Media and Public Relations – media monitoring budget was based on the tracking of a similar number of issues and volume of coverage as in 2002. In fact, the number of issues and volume of coverage increased substantially.

2.3 There was an increase of 22 percent in salaries and benefits from last year. What contributed to this increase?

Staff Salaries and Benefits:

- ◆ salaries increased by 3 percent and senior staff hired as part of the restructuring (approved 2002 headcount: 78; approved 2003 headcount: 82);
- ◆ group insurance benefits (employee benefits) also increased by 3 percent, plus the effect of the additional headcount;
- ◆ the largest item is Employee Future Benefits, which is an accrual obligation required by law, as explained in detail in the Notes to the Financial Statements (see 2.5).

2.4 Staff at PEO had salary increases of up to 4.5 percent. What is the rationale for this increase?

The 4.5 percent consists of a 2.5 percent cost of living adjustment and an aggregate amount equal to 2 percent of total salary for progression and performance recognition, as appropriate. On average, PEO staff are at 96 percent of their pay scale.

2.5 The accrued benefit obligation in the Employee Future Benefits rose from \$11,564,000 in 2002 to \$14,890,000 in 2003, an increase of 28 percent. Why?

Please refer to the Notes section on page 25 of the 2003 Annual Report. The actuarial present value of health claims and pension costs expected to be provided for all current active employees and current retirees increased mainly due to additional funding requirements because of an increase in employee headcount, a drop in interest rates, and an increase in the CCRA maximum pension payable for each year of service. The Employee Future Benefits accrual is calculated by PEO's actuaries based on data provided by Human Resources. Showing "Employee Future Benefits" on financial statements is an accounting practice that has just emerged over the past few years.

2.6 PEO's rent has increased by approximately \$125,000 from 2003. Are such increases expected in the future and what is being done about the accommodations at PEO? The rent is \$1,162,000, but the lease cost is \$662,000. What else is included?

The lease agreement effective from January 1995 until December 2009 called for an increase in basic rent of \$137,633, effective January 1, 2003. This increases PEO's basic rent from \$15.50 to \$20 a square foot. There will be no further increases to the basic rent for the balance of the lease.

The Accommodation Task Force is actively studying concept of leasing versus owning for PEO. There are pros and cons to each alternative. Please refer to the 2003 Task Force report, included in the *2003 Committee and Task Force Reports* and published on the PEO website.

2.7 The Employee Future Benefit accrued liability of \$931,000 comprises accrued pension plan assets of \$608,000 and other accrued post retirement benefit liabilities of \$1,539,000. Please explain how this affects 2003 Operating Expenses. Please also explain how the 2002 accrued liability of \$225,000 relates to the 2003 budgeted expenses.

The movement of \$706,000 between the balance sheet amounts for Employee Future Benefits of \$931,000 as at December 31, 2003, and \$225,000 as at December 31, 2002, was accounted for as an expense to the operations during the year, using generally accepted accounting principles (GAAP) and as required under section 3461 of Canadian Institute of Chartered Accountants (CICA) guidelines. Since the accrued liability of \$931,000 could not actuarially be determined until late in 2003, the 2003 budget, developed late in 2002, used the most current amount available, which was the 2002 actual expense.

2.8 The General Management operating expenses are shown in the graphic analysis in the 2003 Annual Report to increase from about \$1,700,000 in 2002 to \$3,300,000 in 2003, while in last year's annual report it was forecast around \$2,700,000. Please explain the differences?

The difference in General Management operating expenses between the 2003 actual and the budget of \$580,000 was mainly attributable to Employee Future Benefit expenses and additional benefits due to additional staff hiring (see 2.5).

Also in 2003, the cost of temporary and contract staff were included in General Management. In 2004, with the implementation of Activity Based Costing, these costs will be expensed to the appropriate process where they were consumed.

To be successful, business entities, including PEO, must be flexible to changes and business needs. The forecast in the 2002 Annual Report served as a very high level financial forecast into the future.

Forecasts indicate a trend, based on the information available when they are made, and should be read in this light (see 3.3).

2.9 The Financial Statement Analysis on page 27 of the 2003 Annual Report states that "Enforcement costs increased by \$140,000, due to the 15 hearings that were held." PEO held 14 hearings in 2002 (only one less) and received additional revenue of \$46,000 from costs awarded. There was a decrease in Complaints from 80 to 67. So how does this explain the increase?

PEO's legal costs related to a high number of Discipline and Registration Committee hearings, plus legal costs related to other matters, such as Bill 124 (Building Regulatory Reform Advisory Group), Brownfields legislation, Experience Requirements Committee interviews and the Certificate of Authorization are contributing factors. The additional revenue from costs is identified separately from expenditures on the financial statements.

The financial statement analysis touched on only one of the factors that drove PEO's legal costs higher than budgeted in 2003.

3. PEO's Five-Year Outlook and Business Planning Process

3.1 *What is PEO's financial state, based on the 2003 financial statement?*

Based on the 2003 Financial Statements, PEO is in very good financial shape because:

- ◆ Investments of \$11.7 million have remained relatively unchanged since 1999, even though increased expenditures were incurred for establishing the Ontario Society of Professional Engineers and for increased operating expenses.
- ◆ The working capital ratio of 3.4 is above industry standards.
- ◆ Although the unrestricted operating reserve balance of \$4.47 million was below the minimum level of \$5.8 million, as set by policy, it is still considered adequate, particularly in light of initiatives to rebuild the operating reserve as detailed in the Financial Outlook.
- ◆ PEO is able to meet all financial obligations and does not rely on short-term borrowing to finance its operation.

3.2 *Does PEO have a five-year financial plan in place to give direction for the future? What is PEO's five-year budget forecast?*

PEO has prepared a 2004 five-year outlook, which includes a five-year budget forecast. Please refer to page 28 of the 2003 Annual Report.

The five-year outlook is a part of PEO's annual business planning cycle, and will be revisited every year based on new information, new priorities and the consequent adjustments.

3.3 *Is there a five-year strategic plan for PEO? What are the spending and revenue projections associated with this strategy?*

Council approved the plan's Strategic Vision and five Strategic Imperatives on January 12, 2001. It endorsed the plan's Strategic Goals and Strategic Initiatives on June 22, 2001. Council received an update on the implementation of the Action Plans and endorsed implementation priorities in June 2002. The approved next steps were that the plan implementation be folded into 2003 and succeeding budgets. The 2004 budget and the following objectives and measures include the items from the Strategic Plan.

In November 2003, Council approved that an annual PEO Business Planning Cycle be established where Council:

- ◆ reviews/revises the strategic direction in April;
- ◆ reviews and approves the five-year plan and supporting programs in June;
- ◆ reviews and approves annual action plan, goals, metrics and budget in September; and
- ◆ reviews the previous year's results in February and revises, as needed, the measures for the current year.

PEO's Business Planning Cycle



PEO has developed and submitted an outlook for PEO revenues, expenditures, and operating reserve for the period 2005 to 2009, to serve as a basis for planning for the future. The document will be revised during the implementation of the 2004 strategic planning process.

PEO is in the process of reviewing and updating its Strategic Plan, in which the revenue and expenditure projections are developed based on Council's direction and set of priorities.

3.4 **What is PEO doing to increase membership? Will significant increases in membership increase revenues more than expenses? Will it be possible to reduce annual licence fees while maintaining a balanced budget with increased numbers of members?**

The purpose of PEO is defined in the principal and additional objects under the *Professional Engineers Act*, R.S.O. 1990. PEO administers the *Professional Engineers Act*, upholds its integrity, enhances its effectiveness, and maintains a self-regulating entity that regulates the practice of professional engineering and governs its members and licence holders in order that the public interest may be served and protected. PEO establishes, maintains and develops standards of: knowledge and skill among its members, qualification and standards of practice for the practice of professional engineering and professional ethics among its members; and promotes public awareness of its role.

In the Act, the principal object of PEO is to: "*regulate the practice of professional engineering and to govern its members, holders of certificates of authorization, holders of temporary licences, holders of provisional licences, and holders of limited licences in accordance with this Act, the regulations, and the by-laws in order that the public interest may be served and protected*".

PEO is not mandated under the Act to increase its membership, but rather to regulate the practice of professional engineering and to govern its members and various licence holders.

Nevertheless, Council has approved a set of Governance Principles that include:

“The role of PEO is to provide trusteeship and leadership of the engineering profession through licensing and development of competent and ethical professional engineers for today’s and tomorrow’s needs.”

We expect that such initiatives as PEO promoting the relevance of the profession to engineering graduates and raising awareness among employers of the added value licensed engineers provide, could be an incentive for engineers to join PEO. However, these initiatives will be actively debated during the review of the Strategic Plan.

3.5 What have been the recent approved headcounts and actual headcounts and associated salaries and benefits?

The following table includes the approved budgeted and actual staff headcounts and the approved and actual salaries and benefits, including temporary staff.

Year	Headcount (number in approved budget)	Actual Average Full-Time Staff Headcount (excludes Contract and Temporary)	Budgeted Staff Salaries and Benefits	Actual Staff Salaries and Benefits	Actual Average Headcount, (including Contract and Temporary)
1997	74	67	\$3,892,740	\$4,013,630	73
1998	77	64	\$4,536,169	\$4,394,555	73
1999	78	64	\$4,618,000	\$3,858,844	71
2000	78	69	\$5,196,125	\$4,881,368	74
2001	79	67	\$5,596,000	\$5,389,409	76
2002	78	68	\$6,022,899	\$5,572,544	78
2003	82	70	\$6,709,638	\$6,813,884	82
2004	87	70 (end of March)			83 (end of March)

3.6 I am hearing that PEO has more than 100 staff deployed in its operation. Is this correct?

No. The table above shows that the headcount figures for both actual and approved budgeted headcounts, including temporary and contract positions, are not 100. As of April 2004, the 2004 actual headcount is 83, which is less than the approved budgeted headcount of 87, the basis for the Salary and Benefits item in the approved budgeted.

3.7 What is the outlook for salaries and benefits increases beyond 2004? What are the driving factors and how will these factors be mitigated?

Salaries and benefits are included in the Outlook; however, the driver for salaries is PEO’s obligations to administer the *Professional Engineers Act* and the additional programs approved by Council. PEO has established a Compensation/Human Resources Committee to review and make recommendations to Council regarding salaries and benefits. PEO will not exceed its staffing level beyond the resources provided in the approved budget.

Several factors are influencing salaries and benefits:

- ◆ unexpected changing workload – for example, the backlogs in Experience Requirements Committee interviews or Financial Services' Accounts Receivable. The strategy of deploying resources either on a temporary or a contract basis is used to prevent PEO from having to increase its staffing level to meet its needs;
- ◆ *Professional Engineers Act* changes – for example, Admission Appeals. PEO is moving to a competitive bidding process to obtain the most cost-effective external legal services;
- ◆ new programs and PEO's priorities – for example, enhancement of the student membership program. A financial impact will be performed to highlight the impacts of new programs on the future budget;
- ◆ emerging issues – for example, PEO's need to comply with the federal Personal Information Protection and Electronic Documents Act (PIPEDA). The resourcing needs resulted from such emerging issues is being addressed by shifting priorities and using all available internal resources or outside temporary help, if possible. However, additional resources may be required; and
- ◆ external factors – for example, compliance with keeping a register of professional engineers who have qualified under the Building Regulatory Reform Advisory Group recommendations and Bill 124 has imposed costs on PEO.

Upon recommendations made by both the Finance Committee and the Audit Committee for a review of PEO's staff pension plan, Council passed a motion at its February 26, 2004, meeting that the Compensation and Human and Resources Committee investigate all possible options.

4. Operating Reserve

4.1 ***At the end of December 31, 2003, PEO's annual grant to the Ontario Society of Professional Engineers (OSPE) ended. What was the impact of OSPE funding on PEO's Operating Reserve?***

PEO funding of OSPE has primarily reduced PEO's operating reserves from \$9,637,680 to \$5,314,696. The funding of OSPE took three forms:

- ◆ a one-time grant of \$933,277 (10 percent of the association's Unrestricted Members' Equity (now called Operating Reserve) from the audited balance sheet at December 31, 1999);
- ◆ a grant equal to \$30 for each full-fee-paying member for a period of three years ending December 31, 2003 (\$4,790,985); and
- ◆ PEO paying the net cost of programs transferred until December 31, 2003 (\$504,000 total representing an annual operating cost of \$200,000).

The total funding is \$6.3 million. The majority of this expenditure was initially funded from operating reserves. PEO had an excess of expenses over revenues of:

2001 –	\$1,808,844
2002 –	\$1,111,762
2003 –	<u>\$1,403,897</u>
Total –	\$4,324,203

This expenditure reduced PEO's reserves to \$5,314,696. PEO Council wants to rebuild the reserves to approximately \$10 million by 2009.

4.2 ***The operating reserve has gone from \$9.64 million in 2000 to \$5.31 million at the end of 2003. What is Council doing to address this issue?***

The 2003 budgeted deficit of \$1.4 million reduced the operating reserve ratio to 39 percent. The direction Council gave to the Finance Committee in November 2003 was to produce a balanced budget. A balanced budget under two scenarios was presented to Council. Since Council was already aware that the operating reserve was below the level set by the policy and had authorized this draw down, it was not considered as a factor. Step one was to create the balanced budget; step two was to develop a plan to bring the operating reserve back to the approved level.

The actual operating reserve for 2003 was \$5.31 million or 34 percent of the total expenditures. The 2004 budget forecast an operating reserve of \$5.81 million or 39 percent of total expenditures. In February 2004, Council directed that \$500,000 be put back into the operating reserve, as a first step to build the reserve to its acceptable minimum 50 percent level.

Considering that the intent of the operating reserve is to pay PEO's creditors should PEO file for bankruptcy, it would appear that \$5.82 million should be sufficient. A review of the operating reserve policy has been recommended to Council.

4.3 Why did you change the Balance Sheet item called “Members Equity” to “Operating Reserve”?

During the discussion with the Attorney General’s office for the creation of the Ontario Society of Professional Engineers, the question was raised as to whether PEO members would receive the “Members Equity” if PEO operations were wound up. The government’s answer was no: the money would go to the entity that would be charged with administering the *Professional Engineers Act*. Thus, the change to a more appropriate term called “Operating Reserve”.

5. 2004 Fee Increase

5.1 At the end of December 31, 2003, PEO’s annual grant to the Ontario Society of Professional Engineers (OSPE) ended. Why is there a need to have a \$10 increase in the annual licence fee in 2004? Should there not be a decrease in the fee? Please justify a \$40 increase to my licence fee, which includes \$30 to OSPE that is not required in 2004 and beyond, plus the 2004 \$10 fee increase.

The 2003 Budget included a planned deficit of approximately \$1.4 million. There was also a payment of \$1.8 million to OSPE. In 2002, Council approved the deficit budget, since it expected to be able to rebuild the reserves from the surplus after funding to OSPE ceased. However, increases in program costs due to the recommendations of the Admissions, Complaints, Discipline and Enforcement (ACDE) Task Force, an increase in the number of applicants, new appeals processes, etc. require an increase of funding, which translates to a fee increase (please see the detailed analysis in the answer to question 5.2). The drivers for ongoing cost increases, not including one-time cost increases, are shown in the following table. Council insisted that the 2004 budget be balanced, with a desirable objective of starting to rebuild the operating reserve. More detailed information is provided in the answer to question 5.2.

Drivers for Cost Increases	\$/Member Increase
Employee Future Benefit Expenses (based on the accrued benefit liability at December 31, 2003)	\$12.19
Additional Regulatory Activities and Core Resources to uphold the <i>Professional Engineers Act</i> (regulatory activities including increased work load for Experience Requirements Committee interviews, independent legal counsel, admission appeals, regulatory affairs, Building Code Engineer Assessment, D & O insurance)	\$10.55
Rebuild the operating reserve (\$500,000 contribution in 2004)	\$ 8.30
Inflation as compared to 2003	\$ 6.00
Canadian Council of Professional Engineers	\$ 2.40
Service improvements (on-line payment, volunteer management)	\$ 2.17
PEO operation (IT Security, cost transparency mechanism)	\$ 1.00
Total:	\$42.61

5.2 What value has PEO and its members seen from the change from an inflation adjusted \$140 fee base to a fee base that is currently \$200 and looking as if it will continue to increase beyond inflation? Why? Please provide rationale.

Figure 1 illustrates the historical data for PEO’s revenue and expenditure. The revenue increases occurred mainly due to the full membership fee increase in steps of \$20 from 2001 to 2003 and a \$10 fee increase in 2004. The annual membership fee had remained constant at \$130 from 1995 to 2000 and no inflationary factor had been considered in the fee setting process. If the inflation were considered, then the P.Eng. licence fee would only have increased to \$153 in 2003 from \$130 in 1995, due to an accumulated inflation impact of 18 percent (see Figure 2 - “CPI Canada 1990-2003”). The inflation adjusted fee for the year 2000 would have been \$143, as compared to the actual fee of \$130 when OSPE was created.

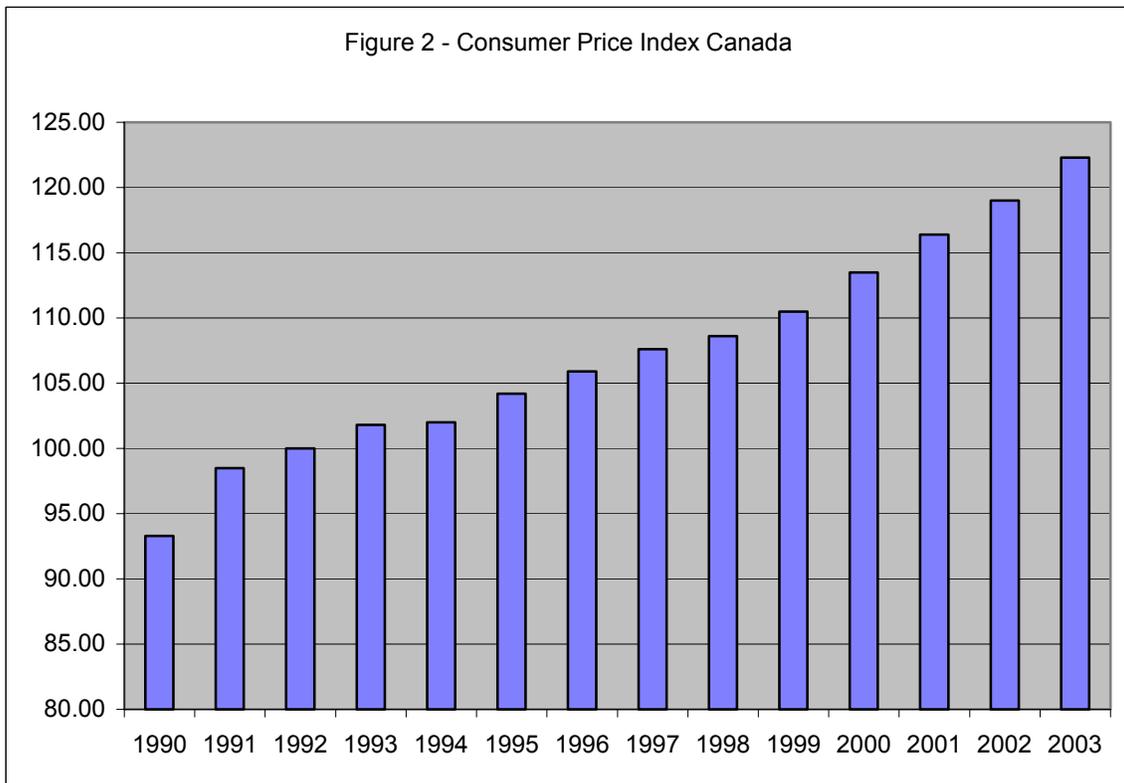
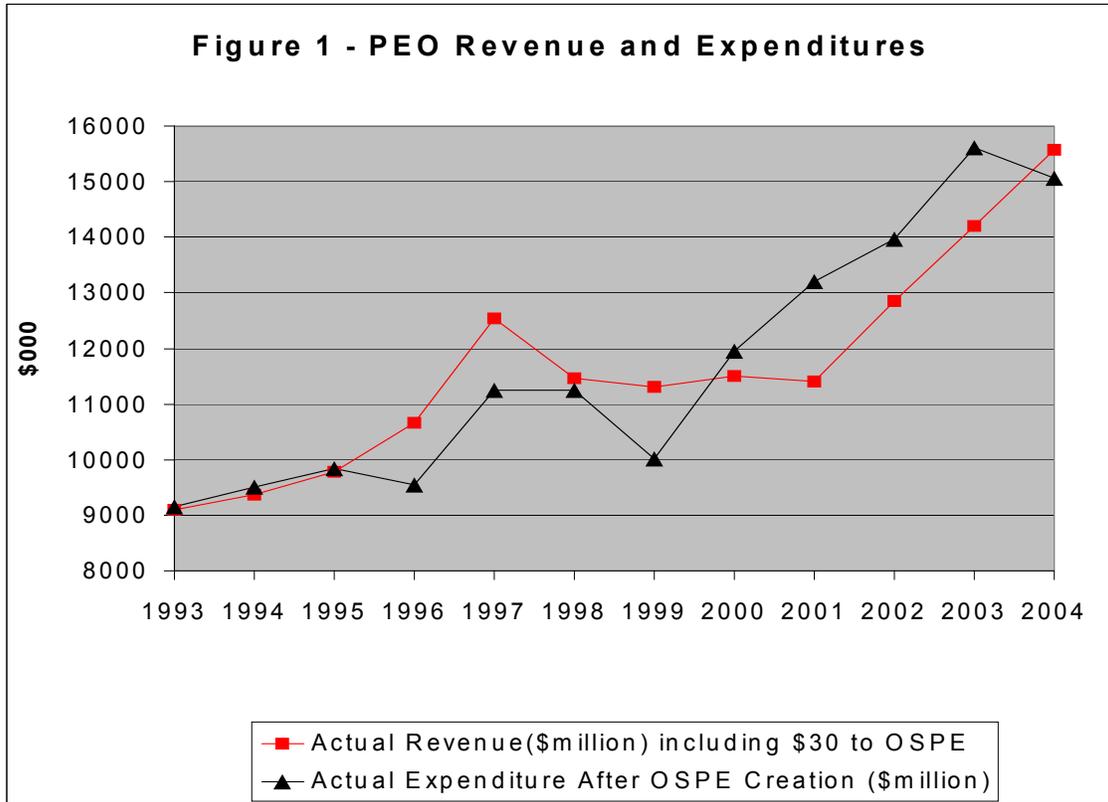


Figure 3 shows that if PEO had not created OSPE and not increased the annual licence fee, it would have still experienced a deficit from period of 2001 to 2004. This is due to the fact that the membership fee had remained constant at \$130 while the expenditures increased during this period because of inflationary factors and additional program costs. As compared to the 1998 when PEO experienced a balanced budget with a revenue of \$13.4 million, the revenue in 2004 would have been 14.1 million as compared to the forecasted revenue of 15.57 million in 2004, considering the inflation and membership growth and assuming non-P.Eng. revenues would have remained the same. The expenditure in 2004 would have been \$13.4 million after consideration of accumulated inflation, as compared to \$11.2 million expenditure in 1998 (Please see the table provided in question 5.1 and details in this section).

However, the assumption that inflation is the only key factor influencing the fee setting process and PEO expenditure is not correct, since many changes and much complexity has been introduced into PEO's business over the past many years, which have required fee increases. The factors for fee increases are follows as:

- ◆ Revenue changes
- ◆ Building the Operating Reserve
- ◆ Membership Demographic Changes:
- ◆ Commitment to the additional programs, e.g. ACDE recommendations, etc. and increased regulatory activities;
- ◆ Compliance with Act and Regulation changes, e.g. admission appeals (new legislation February 2003), PIPEDA compliance (January 2004), etc.; and
- ◆ Impacts of additional, uncontrollable costs, e.g. rent increases, CCPE fee increase, directors and officers liability insurance expense increases, etc.;

Revenue Changes:

There have been changes on the revenue side for PEO including:

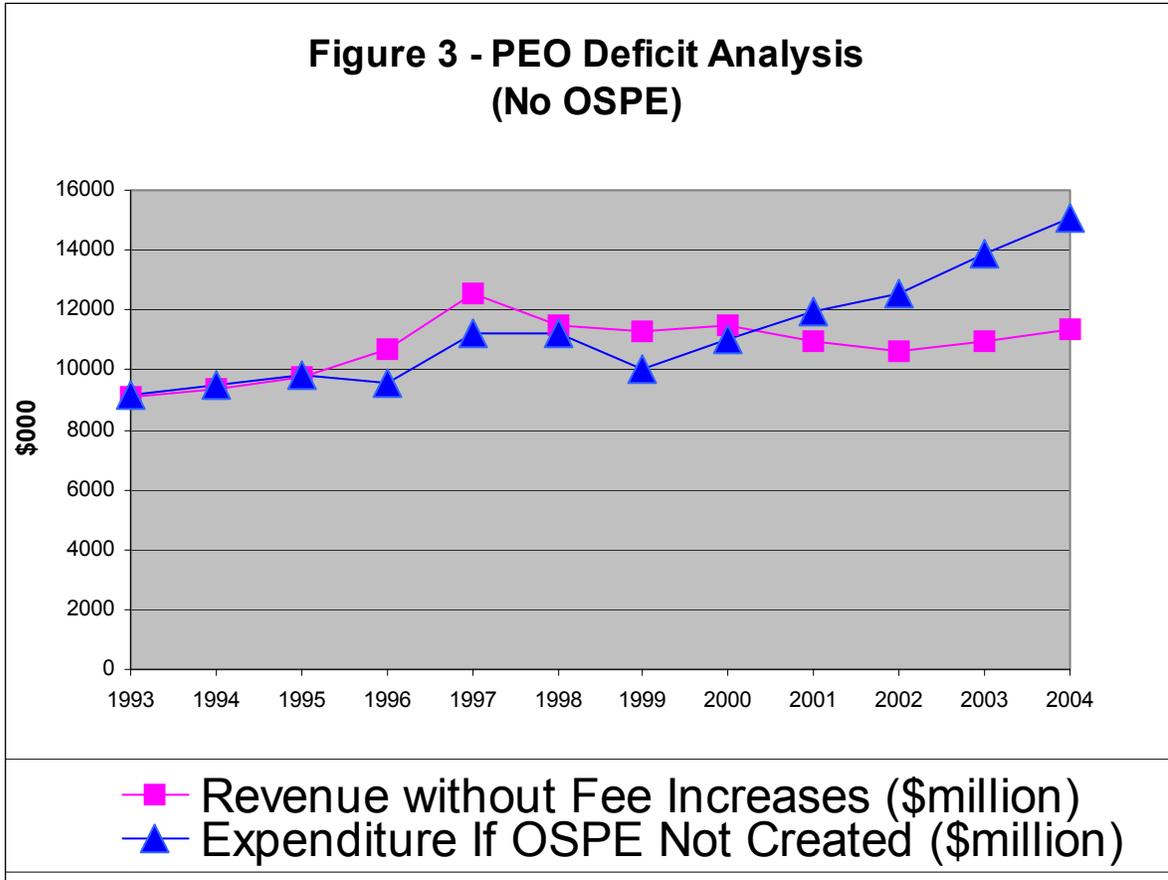
- ◆ Decrease in advertising revenue from 2002 to 2003, a \$0.86/member loss of revenue
- ◆ PEO not being permitted to receive revenue from member services programs

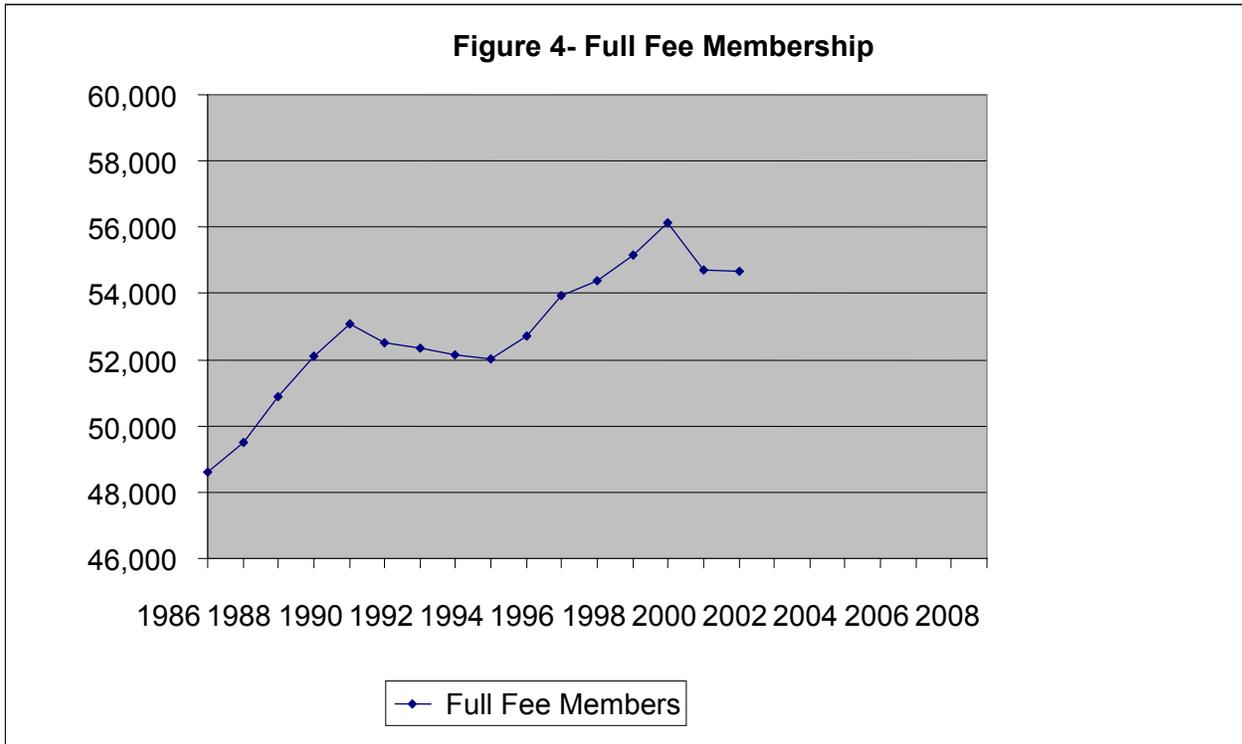
Building the Operating Reserve:

- ◆ Build operating reserve: \$500,000 in 2004, contribution of \$8.63/member (approved by Council at its February 26, 2004 meeting).

Membership Demographic Changes:

The growth in P.Eng. licences is estimated to be an average 1.5 percent on an annual basis, as shown in Figure 4. However, membership has not been consistently growing for the last 10 years. For example, the number of full fee members for the period of 1993 to 1995 decreased. The membership growth rate is highly influenced by a number of factors, including economic trends, unemployment, an aging population, number of retirees, immigration, and PEO processes for issuing licences (e.g. new Experience Requirement Committee interview process).





However, the number of retirees is expected to continue to increase over the next five years at a constant rate of 5.4 percent as compared to the 1.5 percent growth of full fee members. Although there is a net drop in retirees, who either pass away or decide not to maintain their affiliation with PEO, the retiree rate is increasing.

The number of retirees has increased at a higher rate from 1998 to 2003, as compared to 1993 to 1998, as shown in Figure 5. In fact, the net effect is an increase in the ratio of retirees over full fee members from 12 percent in 1993 to approximately 19 percent in 2004. It is expected that this ratio will increase to an estimated 23 percent in 2009, as shown in Figure 5. In other words, for 2004, each full fee member has to absorb 19 percent of the membership fee of a retiree, as compared to a mere 12 percent in 1993, to maintain PEO’s revenue requirements assuming the full-member fees would have remained the same over the period.

Figure 6 illustrates the ratio of revenue collected from full members to the total revenue pool, which represents the requirement contributions from full members with and without OSPE’s assessment. This figure shows that the revenue contribution of the full member has been decreasing since 1993, mainly due to two reasons: a) the number of retirees has been increasing as per Figure 5 and b) the full- member fee remained constant at \$130 for six years from 1995 to 2000.

The trend for revenue contribution of full member to total revenue pool would have continued decreasing if the full-member fee had not increased after creation of OSPE. The same figure demonstrates that even without OSPE’s assessment, fee increases were still

required to prevent a downward revenue trend if the same revenue requirements were to be maintained.

Figure 5

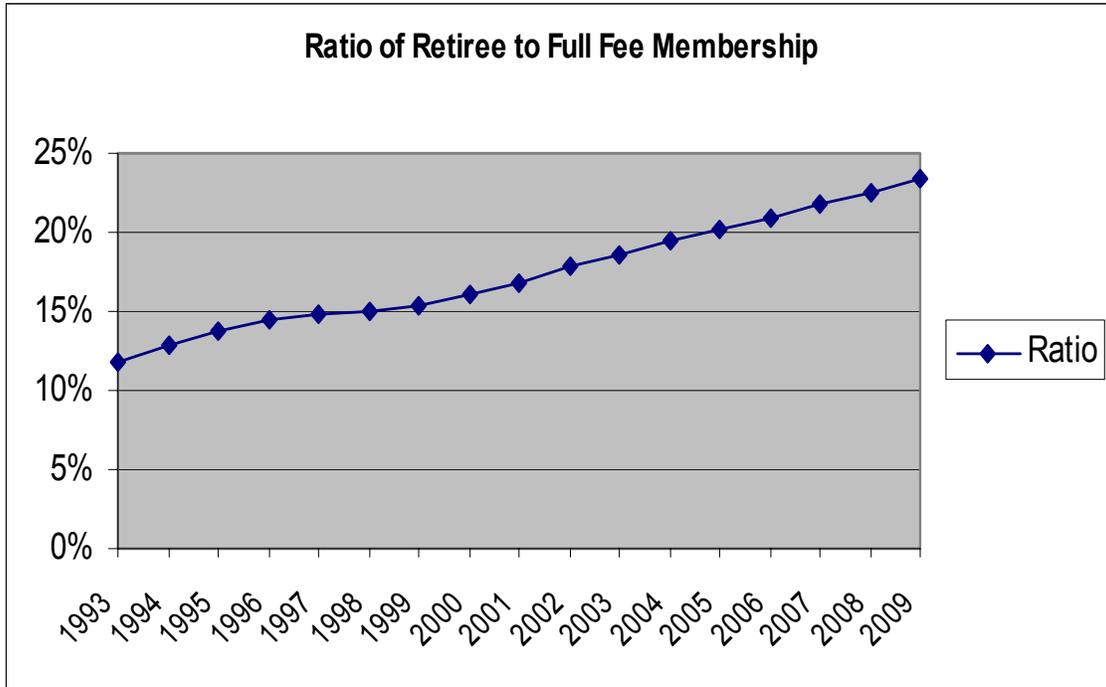
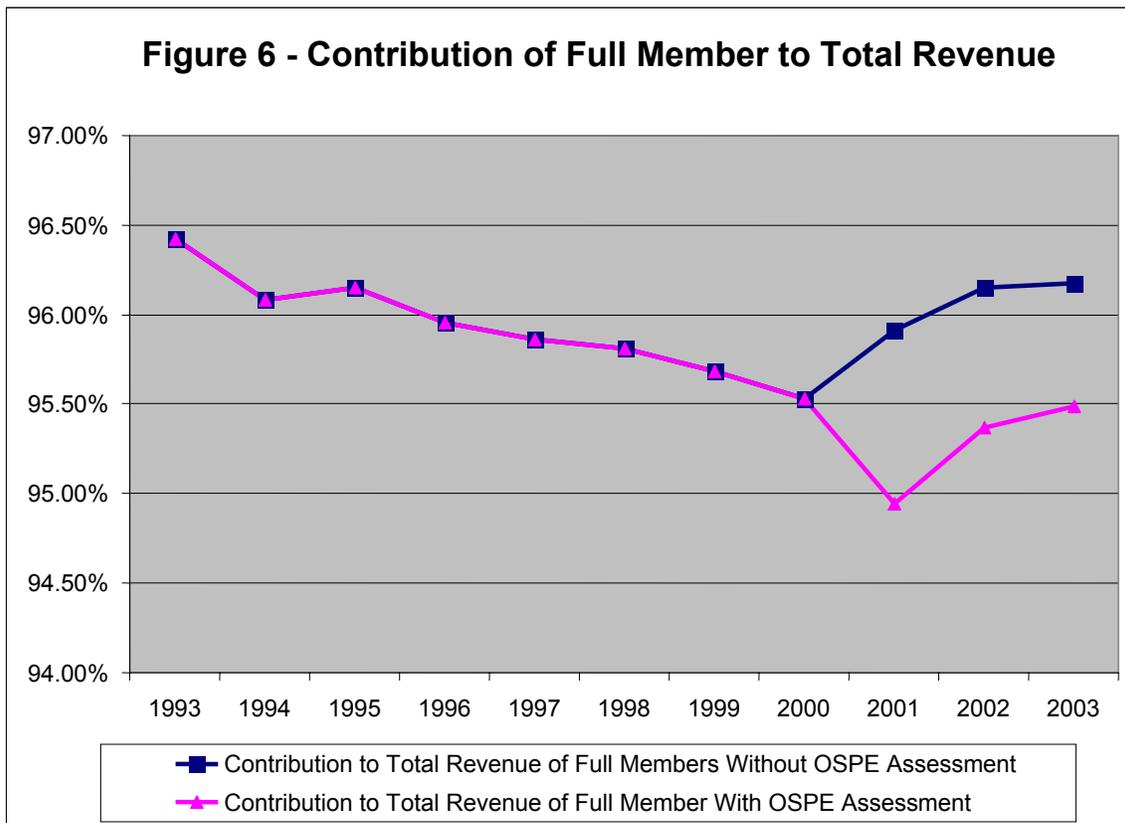


Figure 6 - Contribution of Full Member to Total Revenue



Increased Regulatory Activities:

PEO has experienced increased activities in the following areas:

- ◆ hearings (Note: PEO is making an effort for partial cost recovery);
- ◆ complaints requiring expert investigations;
- ◆ applications and assessments;
- ◆ technical exams and Professional Practice Exam;
- ◆ compliance with Federal Privacy Act (PIPEDA); and
- ◆ internationally trained professionals.

Expenditure Changes:

Expenditures have changed over the last number of years as follows:

- ◆ Regulatory Activities
 - ◇ Core resources needed to uphold the *Professional Engineers Act* increased \$5.76/member;
 - ◇ anticipated additional activities related to complaints investigation, discipline and enforcement prosecution, and registration hearings increased \$1.59/member over 2003 budget;
 - ◇ CCPE assessment increased \$2.40/member in 2004 (\$0 increase in 2005 and \$2.40/member increase in 2006);
 - ◇ compliance with administration of BRRAG designation increased \$1.87/member, an imposed cost to PEO (expected to be revenue neutral, but incomplete cost recovery in the early implementation years);
 - ◇ increased workload for ERC interviews increased \$1.40/member in 2004;
 - ◇ 66 recommendations from ACDE task force.
- ◆ New Regulatory/Act Compliance
 - ◇ PIPEDA legislation (effective January 2004) is a one-time increased expenditure of \$2.16/member for 2004. There will be an ongoing administrative cost for PIPEDA, but it is not known at this time;
 - ◇ admission appeals increased expenditures \$0.85/member, as a result of the new *Professional Engineers Act* in February 2003
- ◆ Enhanced Services to Members
 - ◇ online credit card payment services as requested by members increased expenditure of \$1.42/member from 2003 to 2004 (\$801,465.52 fee collected through credit card payment from February 19, 2004 to April 16, 2004);
 - ◇ volunteer management increased \$0.75/member from \$0.49/member in 2003 to \$1.24/member in 2004.

◆ Support Services

- ◇ financial reporting and cost tracking system resulted in a one-time increase of \$0.95/member for Solomon financial reporting system and an ongoing increase of \$0.63/member for cost tracking;
- ◇ centralized purchasing function increased expenditure by \$0.98/member with a target of cost savings of \$2.59/member for 2004;
- ◇ IT security increased \$0.41/member.

◆ General

- ◇ employee future benefits (based on actuarial calculations) increased expenditures by \$12.19/member, from \$4.66/member in 2002 to \$16/member in 2003 (see page 25 of 2003 Annual Report);
- ◇ director and officer liability insurance increased \$0.95/member from \$1.81/member in 2003 to \$2.76/member in 2004 (an increase of \$2.58/member from \$0.18/member in 1999 to \$2.76/member in 2004).

◆ Inflation

- ◇ inflation increased \$6/member for total program expenditures from 2003;
- ◇ using actual inflation rate for the last 13 years, the accumulated impact of inflation on 1990 miscellaneous fees is approximately 31 percent. Miscellaneous fees have not yet been increased due to the inflation impact; however, the cost to process has been changed significantly.

6. 2004 PEO Initiatives and Major Projects

6.1 *What are PEO's business functions and what are the key initiatives and activities for 2004?*

Standards and Regulations:

Standards and Regulations will be undertaking the following major projects in 2004:

- ◆ legislative analysis to address the Council-approved recommendations stemming from the Technologist Licensure Task Group, primarily the establishment of the L.E.T. designation within the Limited Licence, the expansion of the Limited Licence provisions to permit such practitioners to be designated on a Certificate of Authorization as the practitioner responsible for the supervision and direction of a defined scope of practice, and amending the Act so that all Limited Licence holders would be members of PEO;
- ◆ development of standards of qualification and standards of practice for the practice of professional engineering in light of section 12(1) of the Act;
- ◆ developing and establishing the framework and strategy for a regulatory Government Relations program;
- ◆ analyzing the existing licensing processes to determine any gaps in the legislative framework, and submitting corrective legislative or regulatory proposals to Council; and
- ◆ analyzing and reviewing the licensing and registration standards that are currently being utilized for issuing a licence in view of the legislative framework under the *Professional Engineers Act*.

Licensing and Registration:

Licensing and Registration grants licences (i.e. P.Eng., Transfers, Reinstatements, Temporary, Provisional, Limited), Certificates of Authorization, Designations (i.e. consulting engineer) to qualified individuals or firms and registers engineering interns and engineering students. The Licensing and Registration Department facilitates PEO's fulfillment of the Principal Object of the *Professional Engineers Act*.

Major Projects for 2004 include:

- ◆ reviewing the P.Eng. licensure process to develop and evaluate alternatives that will provide more effective, shorter duration assessments of applicants;
- ◆ reducing the non-CEAB interview backlog through the Experience Requirements Committee two-person interview panels;
- ◆ implementing the Bill 124 (BRAGG) requirements of a PEO register of Qualified Practitioners, subject to Act and Regulation changes;
- ◆ full support by LicenseEase of Certificates of Authorization and Temporary Licences;
- ◆ development through software of Engineer-in-Training mentorships; and
- ◆ possibly implementing the L.E.T designation, pending Act and Regulation changes to authorize the granting of the designation (resources were not included in the budget).

The number of P.Eng. applications has increased on average by 16 percent each year since 1999. The percentage of applicants who are not graduates of programs accredited by the Canadian Engineering Accreditation Board (CEAB) versus CEAB applicants has

reversed during the same period. PEO added staff to process the large non-CEAB applications.

Regulatory Compliance:

Regulatory Compliance governs practitioner compliance with the *Professional Engineers Act* and Regulation 941/90, proactively enforces the Act against unlicensed practitioners, and manages the various appeals processes.

Major projects for 2004 include:

- ◆ establishing benchmarks for the investigation and processing of complaints;
- ◆ implementing the admission Appeal process;
- ◆ developing an Alternative Dispute Resolution (ADR) process for less serious complaints matters;
- ◆ assessing and implementing measures to address escalating legal costs associated with discipline hearings; and
- ◆ considering the next phase of the enforcement outreach program to industry stakeholders.

Policy and Communications:

Policy and Communications will facilitate policy development, support the operation of Council, committees and chapters, conduct policy and communication research, promote public awareness of PEO, and keep members informed.

Major Projects for 2004 include:

- ◆ developing a cohesive strategic communications plan;
- ◆ continuing to produce a redesigned *Engineering Dimensions*.
- ◆ conducting a 20-year review of Council/Executive Committee motions for development of a policy manual;
- ◆ creating and implementing a policy development process, including a comprehensive user manual and training program;
- ◆ reviewing/developing improved agenda management processes for Council and Executive Committee meetings;
- ◆ continuing to implement the START II recommendations;
- ◆ expanding the Northern Regional Office service to remaining northern chapters;
- ◆ defining the roles and responsibilities of PEO chapters, based on START reports;
- ◆ engaging PEO chapters in the PEO policy development process;
- ◆ supporting Licensing and Registration outreach to Canadian engineering students and international engineering graduates; and
- ◆ increasing member understanding of the respective roles and responsibilities of PEO, the Canadian Council of Professional Engineers and the Ontario Society of Professional Engineers.

Administrative Services:

Administrative Services provides customer service, record and document management, purchasing, business planning, and financial management, reporting and forecasting, as well as facilities management.

Major activities for 2004:

- ◆ transforming records to a document management centre to provide direct access of members and candidates to the first available PEO staff;
- ◆ establishing a supply chain management process, including a purchasing function that link purchase orders to the approved budget;
- ◆ implementing a telephone system technology to replace old system and address busy signals and high volume of calls;
- ◆ implementing ABC tracking system to determine true cost of services, processes, and activities;
- ◆ improving ABC budgeting with full committee involvement;
- ◆ identifying opportunities for cost reduction and ongoing improvement;
- ◆ implementing control system to ensure expenditures match the approved budget;
- ◆ facilitating Council setting the direction through implementing and ongoing strategic planning process;
- ◆ preparing financial analysis, business case, and risk management on all matters impacting PEO, members, and public;
- ◆ developing and implementing operational policies consistent with those of Council; and
- ◆ ensuring operational work plans are developed and implemented aligned with Council's direction.

Human Resources:

Human Resources provides human resource (staff and volunteer) planning, including recruitment, training/development, and measures the performance of the staff, volunteers and consultants. Administers the compensation and benefits programs to meet the needs of staff and the organization.

Major Projects for 2004:

- ◆ initiating a volunteer development and recognition program for all PEO volunteers;
- ◆ developing a succession plan for senior positions; and
- ◆ linking the compensation program (salary) to individual performance.

Information and Technology Services:

Information and Technology Services provides and operates an effective, reliable and secure technology infrastructure and supports PEO operations and ongoing process improvement.

6.2 Does Council want to review the cancellation of The Link?

The cancellation of *The Link* was discussed at the budget presentation and it will be replaced by other more cost-effective communication tools. This is not a matter of policy; it is a matter of operational efficiency and cost-effectiveness.

7. Canadian Council of Professional Engineers (CCPE)

7.1 *Please provide background about CCPE.*

Established in 1936, the Canadian Council of Professional Engineers (CCPE) is the national organization of the 12 provincial and territorial associations/ordres that regulate the practice of engineering in Canada and license the country's more than 160,000 professional engineers. CCPE serves the associations/ordres, which are its constituent and sole members, by delivering national programs that ensure high standards of engineering education, professional qualifications and professional practice.

In addition to being the voice of its constituent members in national and international affairs, CCPE coordinates the development of national policies, positions and guidelines on behalf of the engineering profession. It also promotes greater understanding of the nature, role and contribution of professional engineers and engineering to society, and undertakes federal government relations and national media relations on behalf of, and in consultation with, its constituent members.

CCPE's policy-setting and governing body is the CCPE Board of Directors. Each of CCPE's constituent members has one or more seats at the board table (PEO has three), on a representation by population basis. All board members, as well as the majority of engineers who serve on CCPE's standing and policy committees, are volunteers. The work of the board and committees is supported by CCPE's staff.

7.2 *What extra services has CCPE provided to justify the substantial increase in PEO's contribution from \$566,511 in 2003 to \$737,312 in 2004 and probable further increase in 2005, especially now that member services have been transferred to OSPE?*

CCPE conducts business activities in support of the constituent members' regulatory activities (admissions, practice, discipline and enforcement) at a cost of \$2.7 million.

- ◆ Through the Canadian Engineering Accreditation Board (CEAB), CCPE accredits Canadian undergraduate engineering programs that meet the profession's high education standards. Graduates of those programs are deemed by the profession to have the required academic qualifications to be licensed as professional engineers in Canada.
- ◆ Through the Canadian Engineering Qualifications Board (CEQB), CCPE develops national guidelines on the qualifications, standards of practice and ethics expected of professional engineers. It also publishes the *CCPE Examination Syllabus* and the *CCPE List of Foreign Engineering Educational Institutions and Professional Qualifications*.
- ◆ The Syllabus describes an examination program to assess the academic qualifications of individuals who have not graduated from an accredited Canadian engineering program, an engineering program offered outside Canada but recognized to be equivalent to a Canadian program under a mutual recognition agreement, or a program offered outside Canada that has been evaluated by the Canadian Engineering

Accreditation Board (CEAB) and deemed to be "substantially equivalent" to a Canadian program. The academic qualifications requirement to be licensed as a professional engineer in Canada is outlined in CCPE's *National Guideline on the Admission to the Practice of Engineering in Canada*.

- ◆ CCPE maintains official marks on the terms engineer, engineering, professional engineer, P.Eng., consulting engineer, ingénieur, ing., ingénieur conseil, génie and ingénierie. This helps CCPE's constituent members to enforce the provisions of the Engineering Act in their jurisdiction, and protect the Canadian public through the regulation of engineering practice.

CCPE attempts to achieve "engineering without borders" through activities that result in national and international mobility, while maintaining the high standard of Canadian engineering practice at a cost of \$650,000.

- ◆ The international activities CCPE committees, volunteers and staff undertake for Canada's engineering profession are overseen and coordinated by its International Committee. This committee is also responsible for keeping CCPE's Board of Directors abreast of new opportunities to maintain or enhance international mobility for Canadian engineers, and for monitoring the use and viability of CCPE's existing mutual recognition agreements on the full or partial recognition of engineering qualifications.
- ◆ CCPE negotiates international agreements on behalf of its constituent members, primarily at the educational level through CEAB, to facilitate increased international mobility for Canadian engineers. The agreements also make it easier for CCPE's constituent members to evaluate the academic qualifications of international engineering graduates applying for engineering licensure in Canada.
- ◆ CEAB also plays a key role in CCPE's international activities, by assessing the equivalency of the accreditation systems used in other nations relative to the Canadian system, and by monitoring the accreditation systems employed by the engineering bodies that have entered into mutual recognition agreements with CCPE.

CCPE proactively address the challenges of continuing relevance of the engineering profession to maintain a strong profession, today and in the future at a cost of \$300,000.

- ◆ CCPE's research activities monitor the pulse of the engineering profession in Canada, from coordinating its ongoing research on the nature of engineering work in Canada, to undertaking its trends in engineering student enrolment and the number of degrees awarded study and its annual membership surveys.
- ◆ CCPE coordinates a national survey of the engineering profession, as well as monitoring emerging areas of engineering practice.
- ◆ The key research publications produced by the committee include *Canadian Engineers for Tomorrow – Engineering Enrolment and Degrees Awarded Report* and summary findings from CCPE's national surveys of the engineering profession in Canada.

CCPE raises the profile of professional engineering at a cost of \$750,000.

- ◆ CCPE produces several annual publications, including the CEAB's *Accreditation Criteria and Procedures Report*, and the *CCPE Annual Report*.

- ◆ CCPE presents the Canadian Engineers' Awards to honour Canada's outstanding engineers, engineering teams, engineering students and engineering achievements.
- ◆ CCPE offers a National Scholarship Program to support exceptional engineers undertaking postgraduate studies at the university level.
- ◆ CCPE supports the Canadian Engineering Memorial Foundation, which is dedicated to increasing the participation of women in the engineering profession.
- ◆ CCPE supports the initiatives undertaken by its constituent members during National Engineering Week (NEW). This annual celebration of engineering and the achievements of Canada's professional engineers features myriad events geared primarily toward students. NEW's goal is to promote awareness of the engineering profession and the career opportunities it offers, as well as the contributions of engineering and engineers to public safety, health, quality of life and economic well-being.

Enhance the professional, social and economic welfare of engineers through the provision of high quality member services at a cost of \$110,000 (creates about 60 percent of revenue).

- ◆ CCPE sponsors insurance and investment products for Canada's engineers, from RRSPs to professional liability insurance, as well as special discounts on car rentals.

CCPE influences federal government decision making in the areas of public policy on issues relevant to public welfare and safety as well as the engineering profession at a cost of \$50,000.

- ◆ CCPE's 2003 budget totalled \$5.4 million, about 40 percent of the cost of these programs was borne by the 12 provincial/territorial association/ordre. The governance framework and management mechanisms to demonstrate accountability to constituent members cost \$850,000. PEO's share represented \$566,000 in 2003 and the assessment increased to \$740,000 in 2004. The assessment is based on

Constituent Members	2003	2004	2005*
Full Paying Member	\$8.65	\$11.05	\$13.45
Partial Paying Member	\$7.55	\$9.95	\$12.35
Member-in-Training	\$6.70	\$9.10	\$11.55

*deferred by CCPE Board February 2004

8. Activity-based Costing (ABC)

8.1 *In 2004 an activity-based costing and budget approach is going to be used for the management of PEO's financial operations. What is activity-based costing/budgeting and why is PEO going to such a system?*

While some of PEO's past cost information can be easily traced to specific activities, e.g. technical exams, etc, there are several cost elements that cannot be linked to a specific departmental activity, e.g. miscellaneous accounts. The current PEO cost structure does not allow capturing of the cost for all processes activities and services that PEO offers to the public and members. This is a cost structure deficiency that must be addressed to allow PEO to establish cost visibility, transparency and fairness.

To be accountable to members and the public, PEO needs to be in a position to know what it costs to do many of its activities, including licensing and registration and discipline processes, and to charge fairly for these activities.

Activity-based Costing (ABC) is a method that helps identify the true cost of activities, services, and products, regardless of the nature of the activity. PEO identified major processes and activities for its operation. ABC implementation can now play a significant role in supporting PEO's operational improvement and enhancing its services for the public and members.

Service organizations, including government agencies such as the federal government, have been looking into activity-based costing for greater cost visibility and transparency. ABC has equally been applied in the service industry and manufacturing industry.

Other service organizations that applied ABC include: Department of National Defence, Peterborough Utilities Services, Inc., Ontario Municipalities, Public Service Commission of Canada, Halifax Regional Municipality, Ontario Financing Authority, Ontario Power Generation Inc., American Express, Mobile (retail operations), BC Hydro, Scarborough PUC, BC Tel, ScotiaBank, National Bank of Canada, HSBC Bank Canada, and many more!

8.2 *Please provide an example of activity-based costing/budgeting for one PEO process.*

An example of activity-based costing on the PEO discipline process is shown in the following table.

Activity Based Budget Example – Discipline Hearings

Process Summary	
Process Name	Discipline
Key Output	Hearings
Output #	15
Total Process Labour Budget	\$222,927
Total Process Non-Labour Budget	\$369,750
Total ABC Budget of Process	\$592,677
Capital Budget	\$0
Total Revenue	\$30,000
Unit Cost	\$37,512

8.3 *Why have we not shown the budget numbers for 2004 as we have done in previous years?*

We chose not to show the 2004 budget numbers in the graphic presentation for two reasons:

- ◆ It would have been necessary to reclassify many of the 2003 actual expenditures into the 2004 budget format; as consistent with PEO's new activity-based accounting approach; and
- ◆ It was decided to present the 2004 budget on a stand-alone basis as presented in the Financial Outlook section on page 28 of the 2003 Annual Report.

9. Process Improvement and Cost Saving Initiatives

9.1 *What has PEO been doing to improve its business processes and achieve cost savings in its operation?*

Council and management at PEO are aware of the importance of ongoing process improvement. In fact, Council carried a motion in 2003 stating that “*an ongoing process improvement savings program within the approved annual budget be established by the CEO/Registrar and tied into pay for performance*”. PEO is committed to ongoing improvement initiatives in its business operation.

A zero-deficit budget based on activity-based costing is another positive initiative that PEO has undertaken. The budget is based on PEO’s Strategic Plan, business plan, and work plans. Not only has PEO committed itself to develop and implement a zero-deficit budget for its operation, but it has also planned to **increase its operating reserve by \$500,000 (\$8.63/member)**.

PEO is taking initiatives to reduce costs like other responsible corporations. It has established a business planning team to review business processes and identify and implement cost-effective means of operation. PEO has embarked on a set of automation initiatives. For example, automated batch approvals, which was implemented in 2003, achieved a total **savings of \$35,000 (\$0.60/member)** in elimination of a contract position. PEO is beginning to offer on-line payment and on-line change of address capabilities to provide flexibility and faster service to the members, meet their needs, and enhance the level of service.

PEO is establishing a centralized purchasing and supply chain management process and developing and implementing a purchasing policy. It is estimated that implementing the centralized purchasing function will enable PEO to achieve an annual target **savings of \$150,000 (\$2.59/member)** through implementing a purchasing and competitive bidding process that links directly the purchase of goods and services to the approved budget and provides meaningful information for reviewing and establishing cost-effective contracts. This strategy will help PEO implement cost control mechanism and achieve savings in dealing with suppliers and procurement contracts.

Non-value added expenditures are being reviewed, removed, and replaced with cost-effective means. For example, legal costs, especially hourly rates, are perceived to be high for the value provided, and constantly draw the attention of committees and volunteers as an opportunity for implementation of cost savings; although there is no clear direction in the legislation for the full recovery of costs incurred in regulatory activities, PEO is looking at recovering a least a portion of the costs.

PEO will review and manage legal costs in a prudent and responsible manner. It will review historical legal expenses and explore options for provision of legal services for the various PEO needs: litigation, independent legal counsel, legal advice on regulatory and operational matters. It will examine options that may include the use of “contract” lawyers for certain services, in-house counsel, use of a bidding process and review of legislation for possible changes to enhance cost recovery. PEO is currently looking into the option of hiring a contract prosecution legal counsel, which is aimed at helping PEO reduce legal costs and achieve an estimated ongoing annual **cost saving of \$50,000 (\$0.86/member)** concerning activities related to prosecutions.

Implementing the strategy of improving business processes and installing cost savings initiatives will enable PEO to further focus on its core business of regulating the profession and enhancing services to its members.

Note:

This document was designed and produced at PEO by PEO staff. The internal cost of reproduction of this document is estimated at a fully burdened cost of \$550, as compared to a quoted outsourcing cost of \$1,080, a total savings of \$530. The decision to reproduce this document in-house was made to achieve PEO's objectives of "*Developing, implementing and managing all mailroom components to ensure efficient, cost-effective operations*" and "*Developing, implementing, managing purchasing elements to ensure compliance, consistency, and cost effectiveness.*" Thanks to Dan Ilic from PEO's Mail Room, who made this savings happen. It is important we look for all the opportunities.