



Professional Engineers
Ontario

Questions and Answers on PEO Operations ***April 2006***

Introduction

PEO first developed the booklet, *Questions and Answers on PEO Operations*, in 2004 to answer PEO members' questions on PEO Operations. Information in this document was provided by PEO staff, with input from Council and Audit and the Finance Committees.

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

At past Annual General Meetings, questions have arisen about PEO expenditures and the Audited Financial Statements. The Audited Financial Statements are a reflection of past expenditure; the Auditors ensure that the statements accurately represent these past expenditures. This document is aimed at answering questions on both past expenditures and PEO's future operations. It is hoped that this document will provide members the necessary information to make informed decisions with respect to PEO's 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 (<http://www.peo.on.ca>).

Principal object of Professional Engineers Act

The principal object of the Association 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. R.S.O. 1990, c. P.28, s. 2 (3); 2001, c. 9, Sched. B, s. 11 (2).

Additional objects of Professional Engineers Act

For the purpose of carrying out its principal object, the Association has the following additional objects:

- 1. To establish, maintain and develop standards of knowledge and skill among its members.*
- 2. To establish, maintain and develop standards of qualification and standards of practice for the practice of professional engineering.*
- 3. To establish, maintain and develop standards of professional ethics among its members.*
- 4. To promote public awareness of the role of the Association.*
- 5. To perform such other duties and exercise such other powers as are imposed or conferred on the Association by or under any Act. R.S.O. 1990, c. P.28, s. 2 (4).*

Source: Professional Engineers Act

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1 2005 Financial Statements

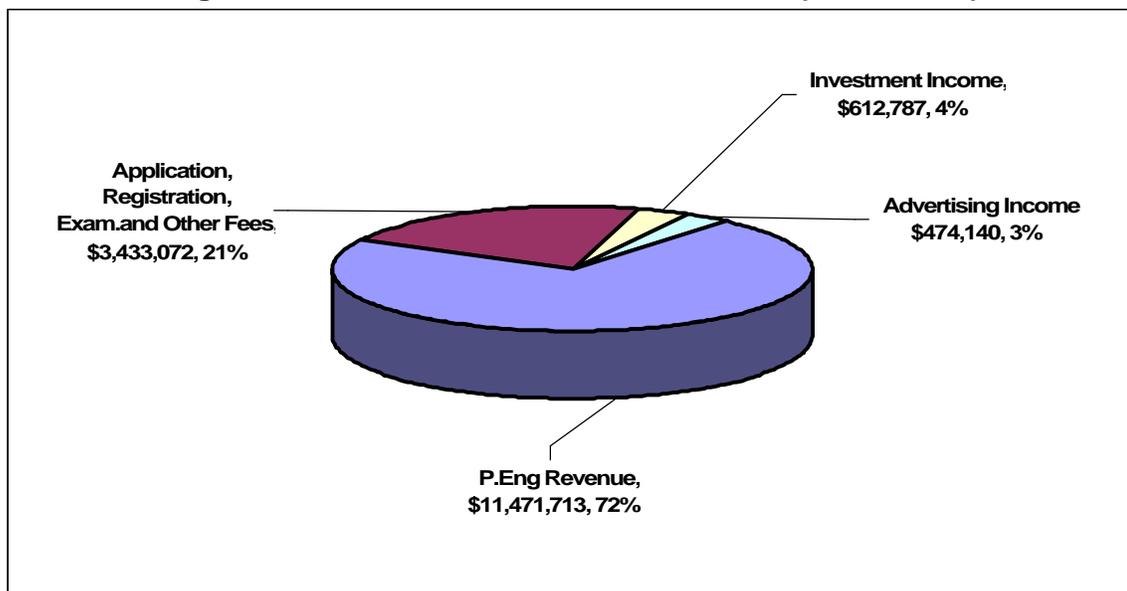
1.1 Revenue and Expenditures

1.1.1 Revenue increased by 1 per cent in 2005 over the previous year. What accounted for the increase?

The major sources of increased revenue were:

- ◆ an increase in membership fee revenue of \$377,600 due to a net membership increase of 853 in 2005, an increase in revenue of 3 per cent over 2004;
- ◆ an increase in revenue of registration fees by \$70,000, offset by lower application revenue (3342 applications in 2005 and 3850 applications in 2004), a decrease of 1 per cent over 2004;
- ◆ a decrease in *Engineering Dimensions*' advertising revenue of \$173,000 occurred during the transition to a new advertising sales agent and PEO establishing new targets. In June 2005, the Ontario Society of Professional Engineers became PEO's sales agent. Although a decrease of 27 per cent, the 2005 advertising revenue was consistent with revenue in years prior to 2004; and
- ◆ an increase in revenue from PEO's investment portfolio by \$58,700 as the portfolio increased from \$13 million to \$15 million, an increase of 11 per cent over 2004.

Figure 1 - 2005 PEO Revenue Breakdown (\$16 Million)



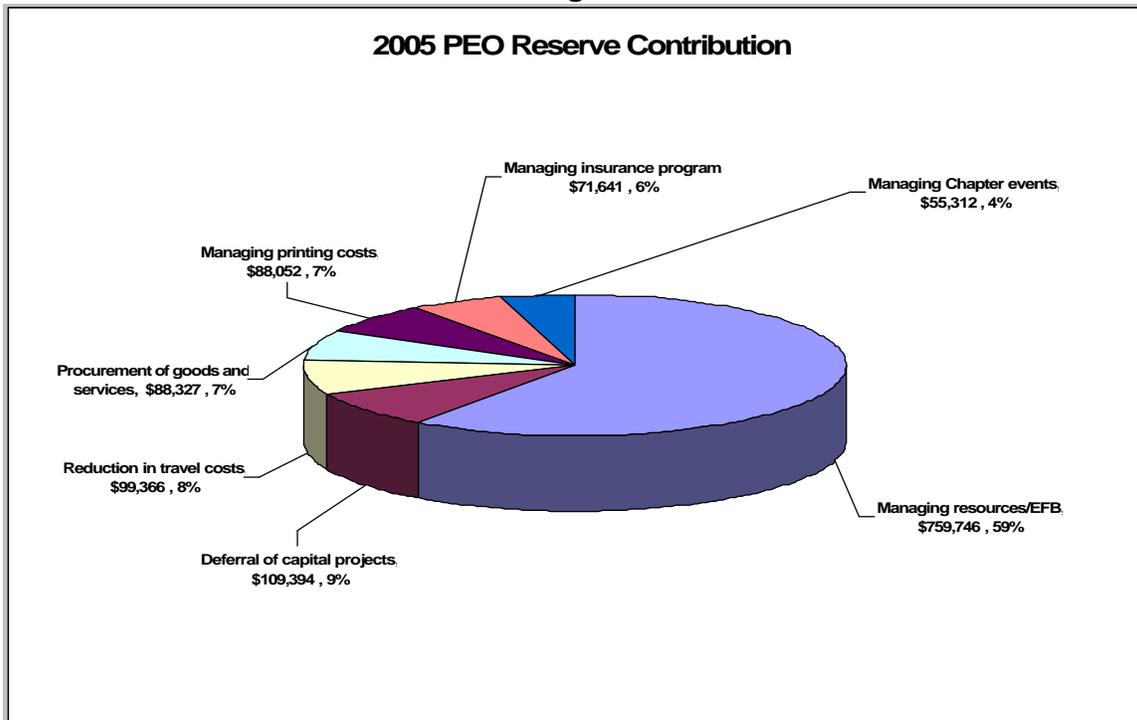
1.1.2 PEO experienced a surplus of \$1,271,838 in 2005. What factors contributed to this surplus? What plans does PEO have for this money?

PEO strengthened its financial position by ending the 2005 fiscal year with a second straight year of excess revenue over expenditure of \$1,271,838, after four years of incurring a cumulative deficit of \$4.7 million. This surplus was the result of a total team effort, as organizational effectiveness was a top priority for Council, the senior management team, and volunteers.

PEO achieved the surplus through a combination of cost reduction initiatives, including managing resources and future employee benefits, reducing printing and insurance costs, enhancing procurement processes, and deferring capital projects.

This positive performance moves PEO toward a stronger financial position with an enhanced balance sheet and an improved operating reserve of \$7.5 million. This contribution will be used to build PEO's operating reserve, as a part of PEO's Five-Year Financial Plan to strengthen the reserve.

Figure 2



1.1.3 Expenditures decreased by 1 per cent (\$123,000) in 2005 over the previous year. What accounted for the decrease?

- ◆ *Retiree and Full-time Staff Future Benefits:* A decrease of \$430,674 (27 per cent) was due mainly to changes in actuarial assumptions.
- ◆ *Contractor and Temporary Staff:* A decrease of \$127,214 (20 per cent) was due mainly to reduction in the use of temporaries through agencies. For more long-term assignments, the recruitment of temporary and contract staff was handled directly, reducing the cost of agency fees.
- ◆ *Office Supplies:* A decrease of \$67,901 (31 per cent) was due mainly to the need to purchase fewer supplies for membership cards and receipts than in 2004, and savings from enhanced procurement and control in supplies and selection of supply vendors.
- ◆ *Computers and Telephone:* A decrease of \$49,472 (18 per cent) was due mainly to \$19,000 savings in long-distance charges by switching from Bell to Sprint and \$22,000 savings in contract negotiations with Pitney Bowes.
- ◆ *Postage and Courier:* A decrease of \$36,374 (8 per cent) was due mainly to savings in postage and mailing achieved by (1) implementing email invoices and reminder notices for licence holders and (2) redesigning the *Gazette* portion of *Engineering Dimensions* to meet revised Canadian Post publications mail specifications.
- ◆ *Amortization:* A decrease of \$34,949 (9 per cent) was due mainly to completion of the leasehold improvement program in 2004, deferred 2005 capital expenditure, and completion of the amortization schedule for the original purchase of LicenceEase.
- ◆ *Insurance:* A decrease of \$20,577 (10 per cent) was due mainly to savings achieved by PEO's use of March Canada for Director and Officer's liability insurance, effective on July 1, 2005, as a part of the Canadian Council of Professional Engineers' national insurance program.

These decreased expenditures were partially offset by increased costs in other activities, resulting in a net expenditure reduction of \$123,000, a decrease of 1 per cent over last year.

1.1.4 What areas in PEO's operation experienced savings? What accounted for the decreased cost as compared to 2005 budget?

Cost reductions, efficiencies in procurement of goods and services, and prudent management practices resulted in tightly controlled costs in the following areas:

- ◆ Modifications of actuarial assumptions for *Employee Future Benefit* (EFB) expenses and managing the replacement of vacant positions resulted in a total cost saving of \$760,000.
- ◆ Although staff engaged in a greater number of activities representing PEO, e.g. relating to building codes, government liaison program, the total *staff travel* expenses were reduced by \$99,000.
- ◆ Review and renegotiation of *contracts with suppliers* through the procurement process resulted in savings of \$88,000.
- ◆ *Insurance expenditures* were reduced by \$72,000, due to the creation of the *officers insurance* program through the Canadian Council of Professional Engineers.
- ◆ Accommodation and mileage costs for *chapter events* were \$55,000 lower than expected.

1.1.5 What areas in PEO's operation experienced higher cost as compared to 2004? What accounted for the increased cost?

- ◆ *Full-time Staff Salaries and Benefits:* An increase of \$170,509 (3 per cent) was due mainly to salaries and benefits premium increase as authorized by Council.
- ◆ *Volunteer Business Expenses:* An increase of \$166,985 (30 per cent) was due mainly to: (1) the Government Communications Program that was established in 2005; (2) increased meetings with government departments on building code issues; (3) discipline hearings, due to one fully contested hearing that ran for 11 days and higher meeting costs; and (4) the formation of a Licensing Process Task Force with new activities.
- ◆ *Advertisement Expenses:* An increase of \$64,419 (54 per cent) was due mainly to a change in the cost recovery policy for advertising expenditures in 2005 to properly record sponsorship and advertising sales as revenue and cost of sponsorship and sales as expenses. The actual 2005 expenditure was \$182,733 vs. \$185,314 in 2004.
- ◆ *Occupancy Costs:* An increase of \$61,276 (5 per cent) was due mainly to an increase in the costs of utilities (e.g. heat, light, and power), on-site storage, and parking, which was offset by reduced expenditure for planned office maintenance, 2005 property taxes and completion of credit for 2004 leasehold inducement.
- ◆ *Consultants:* An increase of \$37,634 (10 per cent) was due mainly to incurred expenses of \$96,000 for the Government Communications Program and \$25,000 for Strategic Plan projects that were approved by Council after the initial approved budget. The overall costs of consultants for 2005 planned operational activities were lower than those in 2004.
- ◆ *Legal and Tribunal:* An increase of \$36,329 (5 per cent) was due mainly to incurred legal costs for the Bill 124 legal challenge, which amounted to \$60,000 and was partially offset by lower 2005 general corporate legal expenses.
- ◆ *Purchases Services:* An increase of \$33,097 (4 per cent) was due mainly to higher printing activities in 2005, including a new handbook for the Complaints Committee, a new public information guide for alternate dispute resolution, a new professional practice guideline on the *Use of the Professional Engineer's Seal*, printing in connection with Engineering for Ontarians Day, development of *Revision Bulletins* for the Discipline Committee Handbook, and an upgraded Ontario Professional Engineers Awards gala recognizing a higher number of award recipients.
- ◆ *Chapters:* An increase of \$23,083 (5 per cent) was due mainly to an increase in the chapter allotment of \$20,000 and higher costs for the chapter licence certificate presentation program.

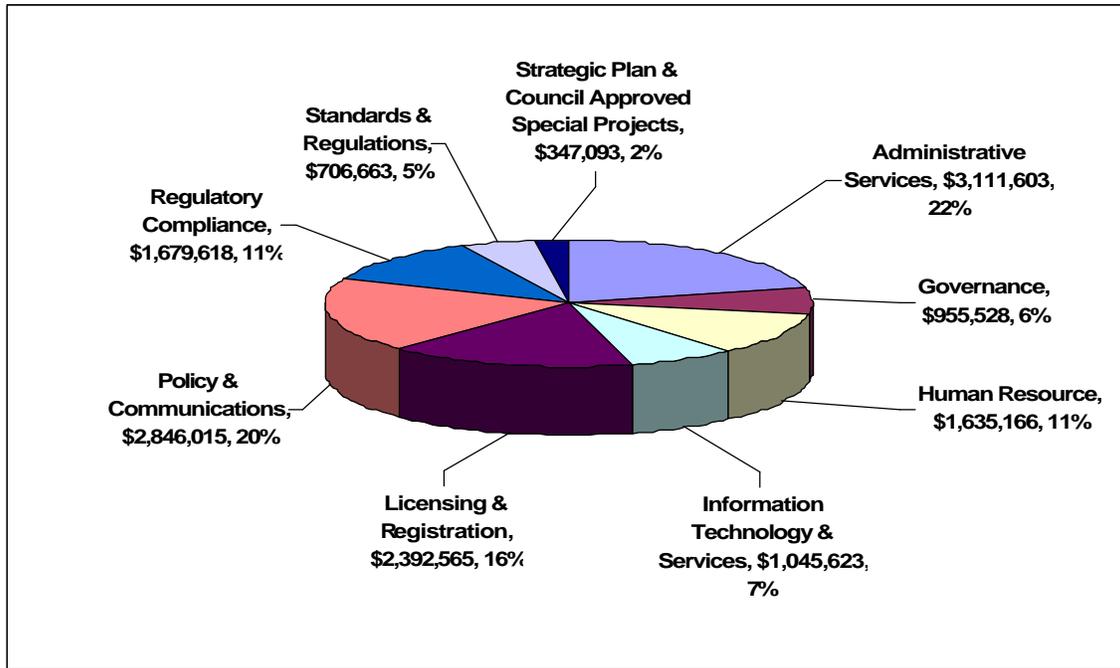
1.1.6 How much of PEO's 2005 expenditure was spent on regulatory activities?

Of PEO's \$14.7 million expenditure, \$10.3 million was spent on regulating the practice of professional engineering and governing members, holders of certificates and licences in accordance with the *Professional Engineers Act*, Regulation 941/90 and By-Law No. 1, so that the public interest may be served and protected. The remaining \$4.4 million was spent on programs authorized by Council to provide trusteeship and leadership of the engineering profession through such activities as education outreach, chapters, awards, student membership program, etc.

1.1.7 What are the 2005 figures for expenditure by department?

The following figure illustrates 2005 expenditures by PEO department.

Figure 3



1.1.8 I hear chapter funding has been slashed again in 2005. Is this correct? What are the reasons?

Chapter funding was not slashed. In fact, the allotment to chapters was increased by \$20,000 in 2005.

PEO incurred \$23,083 (5 per cent) higher non-labour expenses in 2005 on chapter activities, compared to 2004. In addition, PEO hired a chapter coordinator in 2005 to provide additional support to chapters.

1.1.9 How much did it cost PEO in 2005 to fund its chapters?

As published in the 2005 Audited Financial Statements, PEO spent \$929,000 on the direct costs of its chapters (excluding overhead expenses for information technology, facility, etc). During the year, PEO paid chapter expenses totalling \$485,510 (2004 - \$462,427), including \$331,161 (2004 - \$301,895) in allotments to individual chapters. In 2005, PEO also incurred additional costs of \$443,491 (2004 - \$279,505) relating to chapter operations, including staff salaries and benefits, staff and volunteer business expenses, START II, and support

activities. These amounts were included in the various Operating Fund expenses reported on the audited Statement of Revenue and Expenses.

1.1.10 How does PEO manage its expenditures?

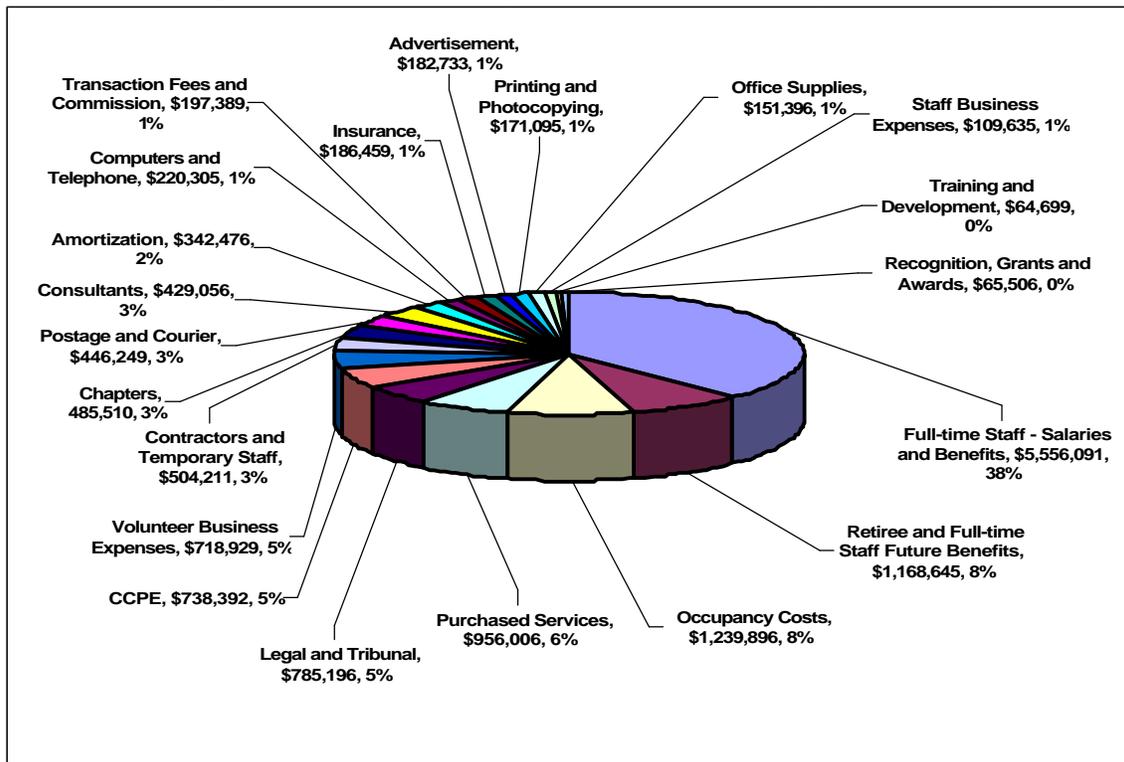
Please see the answers to questions 1.1.2, 1.1.3, 1.1.4, 1.3 and 1.6.

1.1.11 How is my annual PEO licence fee spent? Can you give me a breakdown of PEO’s expenditures?

The annual licence fee is only one component (71.7 per cent) of PEO’s total revenue. The breakdown of PEO revenues is illustrated in Figure 1. In addition to annual fees, PEO also receives revenues from application, registration, examination and other fees (21.5 per cent). Advertising and investment income were 6.8 per cent of revenue in 2005.

Figure 4 illustrates the approximate areas in which the annual licence fee is spent.

Figure 4 - 2005 PEO Expenditure Breakdown (\$14.7 million)



1.2 Operating Reserve

A new operating reserve policy was developed in 2004 to replace the then-current policy. The new policy was approved by Council at its January 2005 meeting. PEO's operating reserve of \$7.5 million as of December 31, 2005, exceeds the 2005 upper limit requirement of \$5.1 million for the operating reserve set by Council.

1.2.1 What is purpose of having an operating reserve?

An operating reserve in a non-profit organization is similar in nature to retained earnings or owners' equity in business enterprises in that it comprises cumulative operating surpluses.

Like business enterprises, non-profit organizations must maintain a balance between revenue and expenditures to survive. The operating reserve provides the necessary funding capacity to deal with such uncertainties as a decrease in revenue and increased costs.

1.2.2 Why did PEO need a new operating reserve policy?

Adhering to an operating reserve policy ensures financial resources and demands effective planning and control, as an integral part of the business planning and budgeting process. PEO requires financial flexibility to better plan, control and manage the allocation of its financial resources.

Council reviewed and revised its operating reserve policy to enhance its financial flexibility and planning in implementing new initiatives, replacing outdated assets and/or programs, or satisfying needs to expand certain activities. The previous policy was based on having a reserve of no less than 50 per cent and no more than 100 per cent of operating expenditure and did not offer any planning framework. These set targets did not express any meaningful correlation among revenue received, operating expenditure, operating reserve, capital assets, and Council's strategic intent.

Since PEO's past policy did not clearly determine the real funding needs for unexpected events, the operating reserve could, in fact, have been set too high or too low. If the reserve level is set too high, PEO might be unable to undertake some programs, in an effort to keep costs down, so that it might inadequately fulfil its mandates and achieve its objectives. If the reserve level is set too low, PEO might be short of funds to deal with unanticipated situations and be unable to respond to possible future growth and increased costs. In either case, the past policy did not effectively satisfy the intended purposes of an operating reserve.

1.2.3 How does PEO's operating reserve policy meet its short- and long-term objectives?

The operating reserve policy has two major components as shown in Table 1.

Table 1 - Operating reserve elements
<u>Internally restricted funds for specific long-term purposes</u> <ol style="list-style-type: none">1. Wind-up costs2. Funding to carry out mandates in the event of catastrophe3. Invested in fixed assets (net book value on balance sheet)
<u>Membership fee stabilization funds appropriated at the discretion of Council</u> <ol style="list-style-type: none">1. Future capital asset purchases2. Funding for strategic initiatives3. Legal reserve for Act/Regulation/By-law changes4. Council contingency funding and changes/additions of programs5. Carry-over projects6. Other funds as planned and specified by Council

- ◆ *Internally restricted funds for specific long-term purpose:* Used to deal with future uncertainties and to manage long-term liabilities.
- ◆ *Membership fee stabilization funds appropriated at the discretion of Council:* Used to serve as a planning mechanism beyond normal business planning to meet short-term needs and equalize levels of revenue and expenditure. These funds are intended to:
 - ◇ increase PEO's financial capacity and flexibility and support Council's direction for carrying out PEO's mandate in a longer term;
 - ◇ establish proper financial planning for the future so that fee increases are evened out over a number of years; and
 - ◇ make the annual fee structure reasonable and acceptable.

1.2.4 Does PEO review its operating reserve policy on an ongoing basis?

Council's operating reserve policy requires the level of the reserve be monitored on an ongoing basis and formally reported to Council by Finance Committee during the:

- ◆ business planning and budgeting cycle; and
- ◆ when the year-end financial statements are issued.

The policy requires an ongoing dynamic assessment of both the internally restricted funds and the membership fee stabilization funds components of the operating reserve, and the amounts required to reflect new circumstances and future needs. As a part of PEO's Five-Year Financial Plan, a timetable to build up the operating reserve is developed if the required reserve levels are not met.

1.3 Internal Control

An internal control system is a set of internal accounting control procedures and policies that provide reasonable assurances PEO can achieve its objectives. The system helps PEO make maximum use of its financial resources and assures PEO operating expenditures are controlled completely, reliably, and relevantly.

The ultimate responsibility for internal control rests with Council and management in its role of planning, controlling, and decision making. The Audit Committee is responsible for overseeing management's efforts to create a strong control environment. The Audit Committee periodically asks the auditors to conduct a more detailed review or cycle audit to ensure appropriate controls are in place.

1.3.1 What has PEO done to strengthen its internal control system?

PEO has established a new internal control system for its expenditures and purchase of goods and services on a value basis, to strengthen Council and members' confidence that PEO's financial resources are being used effectively and according to sound and consistent procedures.

PEO reviewed and enhanced the following policies to establish a more comprehensive internal control system:

1. Banking Policy;
2. Expenditure Approval Authority Policy;
3. Extraordinary Expenditures Policy;
4. Expense Report Policy;
5. Procurement Policy;
6. Investment Policy; and
7. Operating Reserve Policy.

The policies help PEO establish authorities, responsibilities and accountabilities as the key components of its internal control mechanism for entering into contracts and for spending money, according to the approved budget and in compliance with the *Professional Engineers Act*, Regulation 941/90, By-Law No. 1, and other policies and procedures. For more information, visit PEO's website at www.peo.on.ca/registrar/operations_home.htm.

1.3.2 How does PEO manage its expenditure?

It is PEO policy that all the expenditures must be within the Council-approved budget. Any proposed expenditure related to an approved activity must be related to an appropriate line item in the approved budget before the expense can be incurred.

PEO management ensure planned departmental expenditures are from an appropriate budgeted line item and do not exceed the approved budget before a purchase order to release funds can be issued or money spent.

PEO management regularly review their department budgets to ensure the expenses are charged accurately against the appropriate general ledger accounts.

Invoices and transactions for payment of all department or committee budgeted expenses incurred in the conduct of the affairs of the association are reviewed for accuracy and appropriateness by committee staff advisors or management staff of the related department and signed by the appropriate authorities before a payment is made.

PEO accounts payable staff review all expenditures before making payments. The CEO/registrar and the treasurer authorize the payments from the bank. The President may also review the cheque register from time to time to monitor expenditures. It is anticipated that a subset of the Audit Committee will perform this function in the future. Payments for unapproved expenses are not authorized.

Each department head receives a budget comparative report monthly, which details variances, for internal control and cost analysis. As well, the Finance Committee reviews variances once every three months and seeks explanations on significant variances. Council is provided the financial statements quarterly.

PEO considered adopting procurement processes and systems in which quality-based selection criteria are used to acquire goods and services that add value to PEO and to ensure procurement is driven by the approved budget.

As part of PEO's internal control system, a protocol was established to enhance reporting to Council regarding financial impact on operating reserve through a Treasurer's Budget Changes/Additions Log.

1.3.3 What has PEO done to establish checks and balances to control expenditure?

Council strengthened PEO's internal control system by approving a set of policies at its September 2005 Council meeting. These policies help maximize utilization of financial resources by controlling expenditures and financial commitments. They will ensure all of PEO's financial transactions are auditable and within limits of authorization, and that financial information related to PEO's operations is complete, reliable, and relevant. Initiatives will be undertaken in 2006 to implement fully Council's internal control policies. All briefing notes prepared for Council meetings must address financial impacts on PEO, if any, so that Council could make informed policy decisions.

As part of PEO's internal control system, a protocol was established to enhance reporting to Council regarding financial impact on operating reserve through a Treasurer's Budget Changes/Additions Log. This report outlines all items that Council approved throughout the business calendar year in addition to the approved budget and their funding from the contingency fund of the operating reserve. The financial reports released to Council in September 2005 provided breakdown of expenses that were planned as part of 2005 planning and budgeting and also those additional items Council approved above and

beyond the normal operating budget. This reporting mechanism offers higher visibility in the use of PEO's financial resources and increases transparency, relevance, and consistency in financial reporting.

Please also see the answer to question 1.3.2.

1.3.4 Why did PEO change the format of its financial statements?

In its June 1984 Council meeting, Council approved the following motion:

“Preparation of financial reports by function should be continued. Such reports should be confined to use as a management tool (for benefit of Council and staff) and not for the purpose of financial statement preparation.”

Note: There is no evidence that the above Council's motion was rescinded.

The old financial statement format did not convey adequate information to either Council or the PEO membership on such typical expenses as salaries and benefits, legal, insurance, consultants, other professional services, postage, etc. In past annual general meetings, members have frequently asked questions related to the cost of legal, consultants, insurance, etc.

The old financial statement format showed only the partial (non-labour) costs for each department and excluded departmental salaries and benefits, as well as such other indirect costs as facilities, computers, depreciation, etc. associated with each department. Therefore, the cost information did not represent the total expenditure incurred in each department. The cost reporting was also a mixed presentation of costs reported by natural and functional accounts in the same statement.

The old financial statement format did not clearly separate expenses that are drawn from Council's approved normal operating budget from those funded from the operating reserve, as directed by Council. The reporting on the excess of revenue over expenditure identified only that expenses for the reporting period exceeded the planned operating budget, rather than showing their cost categories, e.g. salaries and benefits, legal, consultants, professional services, etc. and so did not offer visibility and transparency regarding cost information.

Finance and Audit committees reviewed and discussed the format of the financial statements on November 1, 2005 and passed the following motion:

“That Council approve the format of new financial statements as recommended by the Audit and Finance committees.”

The new format of the Statement of Revenue and Expenditure illustrates that the funding for normal day-to-day operations comes from either general funds generated from operating revenue or from reserve. Information displayed in the natural account format is easy to interpret and enables stakeholders to find answers to many of the typical questions raised in the past.

PEO's newly designed financial statements will increase the transparency, relevance and consistency of PEO's financial reporting.

1.3.5 Does PEO generate and publish financial management reports related to its department operations?

Financial management reports are issued to the Finance and Audit committees and Council in an activity-based costing format.

Complementary to PEO's financial statements, a summary of management financial reports related to PEO's annual department activities is included in this document. See answer to question 1.1.7.

1.3.6 Why doesn't PEO provide quarterly financial statements to the membership so they are informed of PEO's financial position?

PEO's quarterly financial statements published in an activity-based costing format will be published on PEO's website.

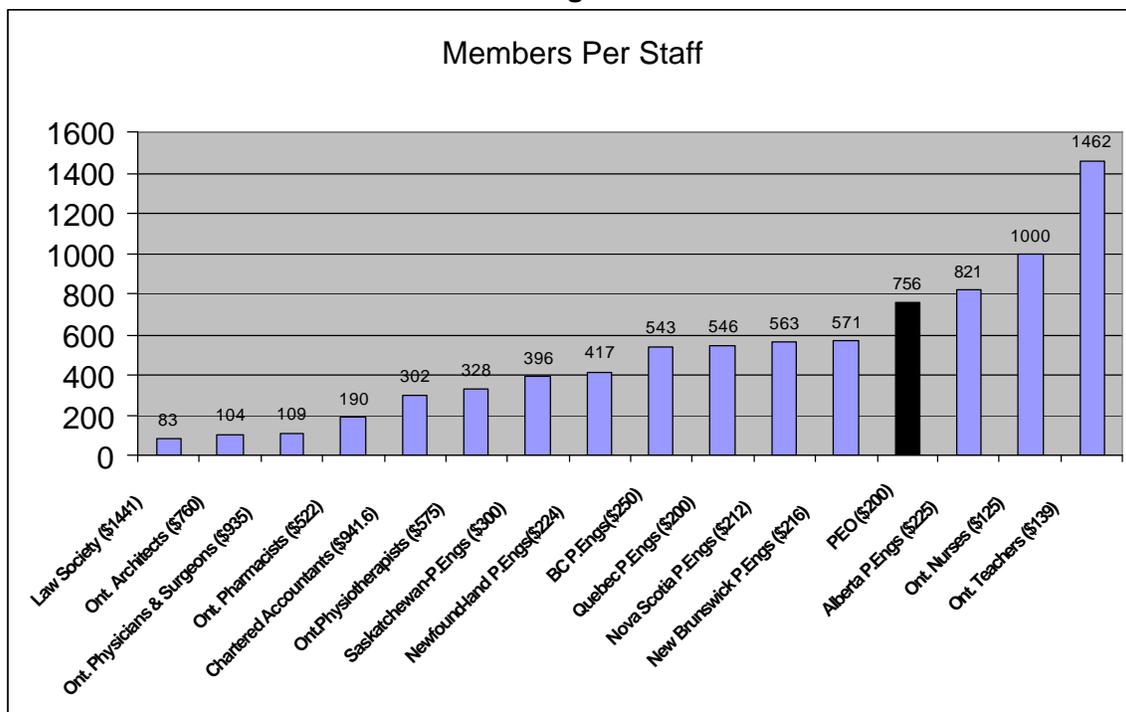
1.4 Staffing and Salaries and Benefits

PEO employs staff and a larger contingent of volunteers to conduct its daily regulatory functions, as mandated under the Professional Engineers Act, effectively and efficiently. PEO also utilizes temporary staff, contractors, and consultants.

Web research benchmarked the staffing of other self-regulatory organizations, including other engineering associations in Canada. The key performance indicator, “members per staff” is defined as the average number of licence holders per staff member and represents a measure of organizational efficiency. The greater the “members per staff”, the more efficient the organization. The effect of volunteers is not considered in this measure.

As Figure 5 illustrates, there is one PEO staff member for every 756 professional engineers. The ratio of P.Engs to staff at PEO is high among benchmarked associations. This observation is consistent with PEO striving to operate efficiently and effectively.

Figure 5



Notes:

1. Dollar figures after the associations' names are 2004 annual renewal dues for full membership, excluding GST. 2005 data is not available.
2. All members of the Quebec engineering association (OIQ) must pay a contribution of \$20.20 to the Office des professions du Québec in addition to the annual dues. OIQ members, except those registered as retired, must pay a contribution to the group professional liability insurance plan (\$13.30 for engineers)
3. The engineering associations in Alberta, British Columbia, New Brunswick, Newfoundland-Labrador and Saskatchewan also regulate geoscientist and geologists.

4. In all engineering associations except PEO, members-in-training are members of the association. PEO has about 3500 EITs; if they were included in the total, the number of staff to members increases to 794.
5. The nurses association includes registered nurses and registered practical nurses.
6. The figures have not been adjusted for associations that perform both regulatory and advocacy activities.

In Figure 5, PEO's staffing includes regular full-time staff, contractors, and temporary staff, which are defined as:

- ◆ *Regular full time staff.* Are employees who work a normal work week for PEO.
- ◆ *Contractors.* Are employed by PEO for a set period. Normally, contractors are part of PEO payroll and will work a normal work week.
- ◆ *Temporary staff.* Are hired for short-term assignments to replace absent staff (for example, disability, maternity leaves, backlogs, and special projects). Normally, temporary staff are employed by a third party (agency) for the time they are with PEO and will work a normal work week.
- ◆ *Consultants.* Are hired for a specific project and will bill PEO for services rendered.

The number of volunteers engaged in activities has not been factored into the above ratio. The strong support PEO receives from its volunteers helps maintain PEO at the upper end in this category.

1.4.1 At last year's AGM, a PEO member used the \$7 million figure for staff salaries and benefits from the 2004 Financial Statements and divided the figure by 74 (number of full-time staff) to conclude that each and every staff member at PEO makes \$100,000. Is this right?

The \$7 million figure for salaries and benefits included \$1.6 million of employee future benefits and pension, as noted in section 4, "Salaries and Benefits" on page 8 of the 2004 Financial Statements. Staff are not paid these future benefits. PEO must comply with the Canadian Institute of Chartered Accountants (CICA) Handbook with respect to employee future benefits and record expenses on an accrual basis in accordance with Generally Accepted Accounting Principles.

So as not to create any confusion, Tables 2 and 3 are reconstructed to illustrate the figures for the actual salaries and benefits.

1.4.2 I hear that more than 100 people work at PEO. Is this correct?

Table 2 shows both actual and budgeted staffing levels, including temporary and contract positions. As of March 31, 2006, the actual staffing level is 72 regular full-time staff, which is fewer than the approved budgeted headcount of 79 for 2006.

In 2005, PEO staff contributed in excess of 9600 hours of un-paid overtime.

Table 2

Year	Approved regular full-time staff (number in approved budget)	Actual average full-time staff (excludes contract and temporary)	Actual staff salaries and benefits	Actual average staff (including contract and temporary)
2000	78	69	\$4,137,995	74
2001	79	67	\$4,487,394	76
2002	78	68	\$4,762,355	78
2003	82	70	\$5,405,148	82
2004	78	74	\$5,386,207	87
2005	78	73	\$5,556,091	86
2006	79	72 (As of March 31, 2006)		84

Note: Figures for salaries and benefits do not include the cost for employee future benefits.

Table 3

	2006 Budget	2006 Actual (As of March 31, 2006)
Regular full-time staff	79	72
salaries and benefits	\$6,220,650	
Contract staff	12	9
	\$333,840	
Temporary staff	Unknown	3
	\$34,400	
Legal	\$592,702	
Consultants	\$369,650	

1.4.3 I understand PEO utilizes temporary staff, contractors, and consultants in addition to full-time staff. Why?

Like other businesses, PEO utilizes temporary staff, contractors, and consultants in addition to full-time staff and volunteers to conduct its daily regulatory functions, as mandated under the Professional Engineers Act, efficiently and effectively.

PEO employs such resources as legal and management consultants because of a need to use their expertise to support both regulatory and support activities. It is usually much more economical to outsource such services required than hire staff on a regular full-time basis.

PEO employs contractors and temporary staff for short-term assignments and to replace absent staff (for example, disability, maternity leaves, backlogs, and special projects). The complement and costs for contractors and temporary staff fluctuate from year to year. This resourcing strategy offers organizational flexibility, helps PEO meet its staffing needs, and avoids unnecessary, longer-term staffing costs. In 2005, PEO used:

- ◆ **contract staff** primarily in the Information and Technology Services, Administrative Services, and Licensing and Registration departments. The projects handled by IT contract staff continue to enhance and support PEO's websites (main PEO website, chapter sites and services, and student membership site), and internal support for software and report writing. Licensing and Registration contractors were hired to handle the backlog in Experience Requirements Committee interviews. Administrative Services contractors were hired to undertake the regular duties of full-time staff who were on sick leaves and maternity leaves in 2005. The cost of contract staff decreased 3.5 per cent in 2005 from 2004.
- ◆ **temporary staff** primarily in Licensing and Registration to cover maternity leave and increased workload due to additional applications and interviews. In 2005, PEO reduced the cost of temporary staff by 46 per cent.
- ◆ **consultants** for the following projects:
 - ◇ to conduct a survey at the request of the Equity and Diversity Committee;
 - ◇ to provide pension management data related to future benefits, at the request of the Finance Committee;
 - ◇ to assist in the government communications program;
 - ◇ to help PEO for the Bill 124 legal challenge
 - ◇ to assist with Strategic Planning; and
 - ◇ to upgrade PEO's LicenceEase database system.

1.5 Employee Future Benefits

Commencing in 2000, the Canadian Institute of Chartered Accountants' Handbook rules changed from a cash basis of accounting to an accrual basis. Under the new rules, an annual expense is recorded; however, the expense is no longer the cash paid but rather an amount calculated actuarially, which represents the cost of a future benefit earned through service in the current period.

PEO staff prepared a booklet *Employee Future Benefits Background* in November 2004, which is available at www.peo.on.ca/registrar/operations_home.htm. An information session on this subject was organized on November 19, 2004, prior to the Council meeting, for the members of Council, and the Pension, Audit, and Finance committees with the following objectives:

- ◆ to ensure that members of the committees and Council understood the pension and employee future benefits provided by PEO and how they must be accounted for;
- ◆ to ensure that members of the committees and Council understood the options for budgeting and administering employee future benefits; and
- ◆ to provide a framework and scope for further consideration by committees or a task force of potential future changes to pension and/or employee future benefit plans.

1.5.1 What are employee future benefits?

Employee future benefits are defined in Paragraph 3461.005 of the Canadian Institute of Chartered Accountants' Handbook as benefits earned by active employees that are expected to be provided to them when they are no longer providing active service, pursuant to the terms of an entity's undertaking to provide such benefits.

1.5.2 What are the components that make up employee future benefits?

PEO's employee future benefits are shown in Table 4.

Table 4 - PEO Employee Benefits

Employee Future Benefits components	Offered benefits
Pension and other retirement benefits (retiree future benefits)	Benefits to retirees and their beneficiaries after retirement include: <ul style="list-style-type: none"> • Pension income • Health care and dental care benefits
Post-employment benefits (while actively employed)	Benefits to full-time employees and their beneficiaries after retirement include: <ul style="list-style-type: none"> • Pension income • Health care and dental care benefits

1.5.3 The accounting rules for calculating benefits cost changed in 1999. What was changed and why?

Prior to 2000, the most common accounting practice for non-pension post-retirement benefits was simply to record the cost of providing those benefits as they were incurred or a pay-as-you-go approach.

In 1999, the Accounting Standards Committee (AcSC) issued section 3461 (Employee Future Benefits) of the Canadian Institute of Chartered Accountants' (CICA) Handbook. The new section replaced the previous section 3460 on pensions, and extended the principles of pension accounting to other types of post-retirement benefits, effective January 1, 2000. The new section changed the CICA Handbook recommendations for pension accounting to an approach that is consistent with U.S. practice, and to proposals put forward by the International Accounting Standards Committee.

In 2000, PEO started to perform accounting valuations of its post-retirement benefits to comply with section 3461 of the CICA Handbook.

1.5.4 Why does PEO have to comply with the accounting rules for calculating benefits cost?

If PEO does not follow the CICA Handbook with respect to employee future benefits, its annual financial statements would not be prepared in accordance with Generally Accepted Accounting Principles. This would force the auditor to provide a reservation in their audit opinion.

1.5.5 Why have the expenses for employee future benefits increased dramatically in the past few years? What factors contributed to the increase?

PEO is not the only business that is experiencing a high cost for employee future benefits. "A majority of Canadian Chief Financial Officers (CFOs) believe a pension crisis exists, but do not see it as permanent."¹

Many factors explain the increase in benefit expenses. An important factor is the decrease in the discount rate used to calculate both the liabilities (causing actuarial losses) and the current service cost (causing an increase in that component of the expenses).

¹ according to a 2004 survey released by The Conference Board of Canada and Watson Wyatt, which polled 68 chief financial officers of Canadian organizations, representing six public-sector pension plans and 62 private-sector plans totaling over 20 per cent of private-sector pension assets in Canada. These companies have pension assets ranging from \$2 million to \$43 billion.

1.5.6 Why did expenses for employee future benefits decrease dramatically in 2005?

Retiree and Full-time Staff Future Benefits experienced a decrease of \$430,674 (27 per cent) due to changes in actuarial assumptions approved by Council to more accurately represent historic staffing trends at PEO.

However, in future years, should reality prove more costly than anticipated by underlying benefit assumptions, it will again put upward pressure on the benefit expense as gains and losses are recognized.

1.6 Process Improvement and Cost Savings

In 2003, Council carried a motion that “an ongoing process improvement savings program within the approved annual budget be established by the CEO/Registrar and tied into pay for performance”. The Treasurer’s Report has been published and posted at http://www.peo.on.ca/registrar/operations_home.htm to provide details on PEO’s financial position.

1.6.1 What has PEO done 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. Not only has PEO committed itself to develop and implement a zero-deficit budget for its operation, but it **increased its operating reserve by \$1,270,000 (\$21.68/member), as a part of its Five-Year Financial Plan to rebuild the reserve.**

PEO is committed to ongoing cost efficiency programs. Implementing a new activity-based-costing system and upgrading the Financial System will help PEO better track and manage the costs of its activities and processes. This will help streamline business processes and facilitate cost control initiatives.

PEO has also established a new internal control system for its expenditures and purchase of goods and services on a value basis to strengthen Council and members’ confidence that PEO’s financial resources are used effectively and according to sound and consistent procedures.

As published in past Treasurer’s Reports and Financial Statement Analysis, over the past two years, PEO’s volunteer leadership and management team have together initiated important measures to control costs and ensure maximum value is received for monies spent. These include:

- ◆ Funding the \$200,000 Ontario Professional Engineers Awards program from cost savings and offsets from other operating budgets in 2005;
- ◆ Meeting expenses for PEO functions were reduced by \$52,000 in 2004;
- ◆ Adopting an online recruitment process in place of conventional newspaper advertising helped PEO achieve cost savings of \$42,000 for staff recruitment.
- ◆ Legal costs for counsel to represent PEO in discipline and registration hearings and for enforcement activities were reduced by \$40,000 by engaging a contract litigator at a reduced hourly rate. PEO also employed more junior counsel as the Independent Legal Counsel to discipline hearing panels, and staff represented PEO at selected discipline hearings and court appearances.
- ◆ Implementing process improvements in financial services achieved cost savings of \$14,000 in budgeted audit fees.
- ◆ Implementing single-member discipline panels where there is agreement on facts, a guilty plea, and a joint submission on penalty has saved costs and reduced demands on volunteer time;

- ◆ Introduction of an alternative dispute resolution process for less serious complaints that do not allege incompetence, raise issues of public safety, or relate to incidents involving serious injury or loss of life will both reduce investigation costs and speed up resolution of complaints;
- ◆ Implementation of the LicenceEase case management module for complaints, discipline and enforcement matters, and migration of historical data into the system is providing efficiencies in handling issues and searching for information;
- ◆ Implementation of a system by the Discipline Committee to track the issuance of discipline decisions has greatly reduced the time to issue decisions;
- ◆ Introduction on May 10, 2005, of electronic invoices and electronic reminder letters to members to pay annual licence fees online, without mailing a printed copy of the annual fee invoice had resulted in a \$3,000 saving in printing and mailing costs as of September 2005. This process improvement has reduced paper use, phone calls, and the number of licence terminations;
- ◆ Introduction in early 2006 of additional payment methods, including telephone, personal computer and automatic teller machine (ATM) has added convenience for licence holders and will reduce PEO's costs for online credit card payments. In addition to annual licence fee payments, the additional payment methods will be available for paying membership fees for the Ontario Society of Professional Engineers and for making donations to such registered charities as the Ontario Professional Engineers Foundation for Education, and the Canadian Engineering Memorial Foundation. It is expected that many now using online credit card payment for their licence renewals will switch to one of the alternative payment methods and that the alternative methods will appeal to those who have not yet paid their fees online, significantly reducing the printing and mailing costs associated with invoicing;
- ◆ Negotiating with a third party for online credit card payment will help PEO lower its service charges and achieve approximately \$25,000 in annual cost savings, thereby reducing the cost for the online credit card payment process; and
- ◆ Use of conference call technology for committee meetings whenever feasible has reduced volunteer business costs. For example, the Accommodation Task Force (ATF) is using web technology to view real estate market opportunities and conference calls to conduct task force activities. This process has helped improve communication among task force members as they search for PEO's building facilities, and has decreased costs for their meetings.

1.6.2 Are we going to continue seeing process improvements and, more specifically, cost savings from PEO in the future?

As outlined in answer to question 1.6.1, PEO has embarked on a set of automation initiatives and is taking measures to reduce costs, like other responsible corporations. PEO continues its commitment to ongoing improvement by reviewing business processes and identifying and implementing cost-effective means of operation.

2 PEO Business Planning Process

2.1 PEO Business Planning

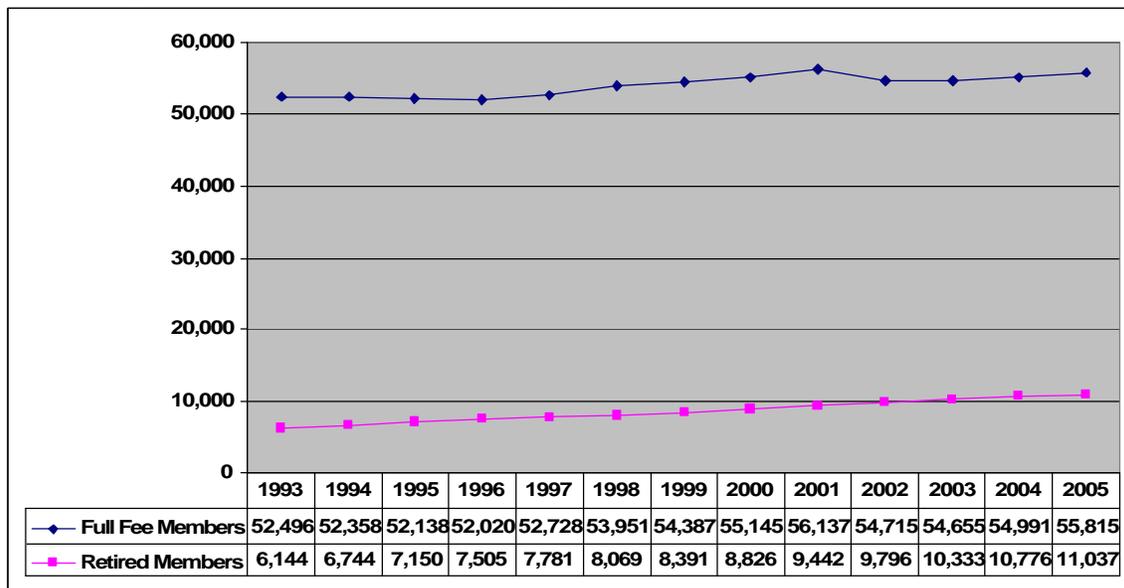
2.1.1 What is PEO’s financial state, based on the 2005 financial statements?

PEO again strengthened its financial position by ending the 2005 fiscal year with an excess of revenue over expenditure of \$1,270,000, the second consecutive year for an operating surplus after a series of operating deficits. This positive performance, which is mainly attributable to reduced expenditures of 8 per cent as compared to 2005 budget, moves PEO toward a solid financial position with an enhanced balance sheet and an improved operating reserve of \$7.5 million.

2.1.2 Can you provide historical information about membership growth over the last 10 years?

The growth in P.Eng. licences is estimated to be an average 1-1.5 per cent on an annual basis, as shown in Figure 6. 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 several factors, including economic trends, unemployment, an aging population, number of retirees, immigration, and PEO processes for issuing licences (e.g. improved Experience Requirements Committee interview process).

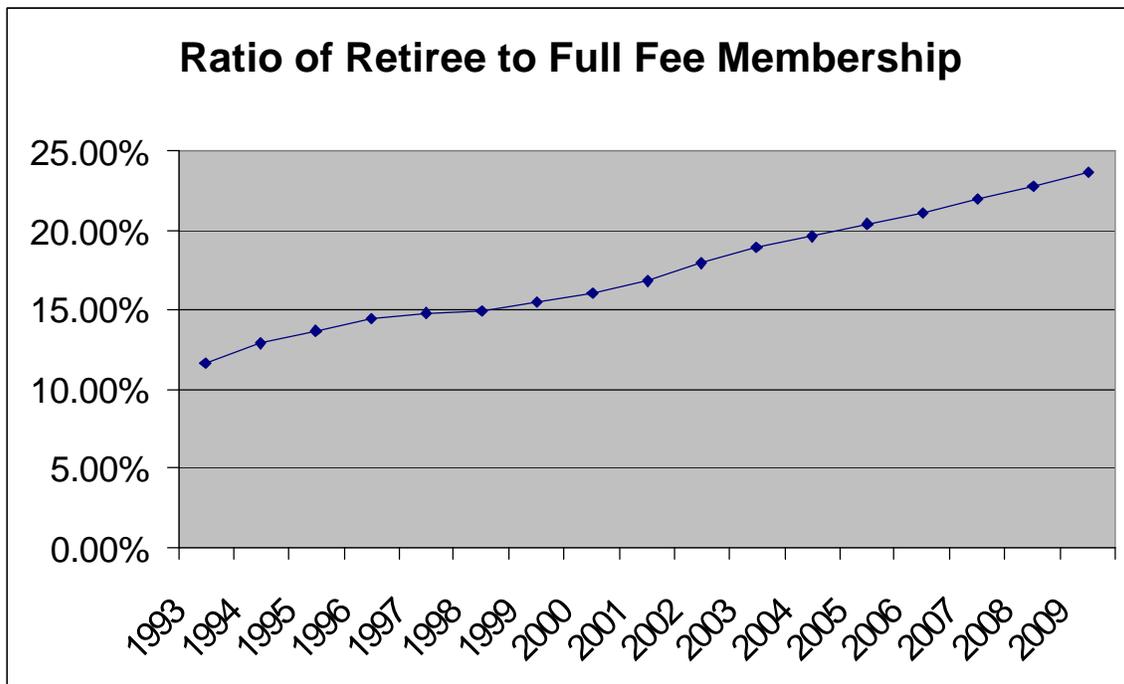
Figure 6 - Historical Data of P.Eng. Full-Fee Member vs. Retired Member



The number of retirees is expected to continue to increase over the next five years at a constant rate of 5.4 per cent as compared to the 1-1.5 per cent growth of full-fee members. There is still a net increase in the number of retirees, despite those whose membership ended for various reasons.

The number of retirees increased at a higher rate from 1998 to 2004, as compared to 1993 to 1998, as shown in Figure 7. In fact, the net effect is an increase in the ratio of retirees over full-fee members from 12 per cent in 1993 to approximately 19 per cent in 2004. It is expected that this ratio will increase to an estimated 23 per cent in 2009. In other words, for 2004, each full fee member had to absorb 19 per cent of the membership fee of a retiree, as compared to a mere 12 per cent in 1993, to maintain PEO's revenue requirements, assuming that member fees had remained the same over the period.

Figure 7



2.1.3 What is PEO doing to increase membership? Would it be possible to reduce annual licence fees, while maintaining a balanced budget, if membership increased?

PEO is not mandated under the *Professional Engineers Act*, R.S.O. 1990 to increase membership, but rather to regulate the practice of professional engineering and to govern its members and various licence holders. However, to address the concerns on the value of license and the relevance of the profession, the 2005-2009 Strategic Plan includes two initiatives:

- ◆ increase the public's confidence in the P.Eng. licence; and
- ◆ increase the public's confidence in PEO as a regulator.

In addition, Council also approved the "Seamless Transition" initiative in 2005.

These initiatives are intended to serve as building blocks to:

- ◆ attract/engage unlicensed engineers;
- ◆ retain licensed engineers who no longer practise engineering; and
- ◆ increase uptake of graduates of Canadian Engineering Accreditation Board-accredited engineering programs.

It is expected that such initiatives as PEO promoting the relevance of the profession to engineering graduates, raising awareness among employers of the added value licensed engineers provide, and increasing the public's confidence in the licence will be an incentive for qualified individuals to become licensed by PEO and maintain their licence.

However, these initiatives are not likely to result in immediate increase of membership. It would take several years for any impact to be observed.

2.1.4 What is PEO doing about having its own building and office facilities?

The Accommodation Task Force completed its analysis of PEO's occupancy options and provided recommendations to Council, which was approved at the September 2005 Council meeting.

At its September 2005 meeting, Council approved an ownership option for PEO's office facilities with a net investment not to exceed \$12.5 million, and authorized a maximum down payment of \$5 million for the purchase of the building. With the new building, PEO will have an opportunity to develop its own image, which aligns with PEO's branding objectives, and will benefit from lower gross occupancy costs year over year.

The Accommodation Task Force and its consultant CBRE continue to explore real estate opportunities while committee members visit sites and review the options to achieve its objectives.

2.1.5 What are the financial benefits for PEO owning its office facilities?

The current leased occupancy of 30,585 sq. ft. at 25 Sheppard Ave. West expires in December 2009. PEO's annual gross rent is approximately \$1,225,700 for fiscal year 2006 and projected to be approximately \$1,450,000 in 2009.

PEO's cumulative gross rental expense was over \$13 million from 1994 to 2005. The present office space is insufficient to meet the current and forecasted office space needs and renovation will not be cost effective. Requirement for meeting space is acute, with particular pressure from the current demand for Experience Requirements Committee (ERC) interviews of internationally trained applicants and the increased number of meetings by both staff and volunteers. It is predicted that PEO will have limited options for expansion at the existing location beyond 2009.

PEO's annual cost for parking is \$54,000 for the current 30 guaranteed building parking spaces. Parking in the building and vicinity remains a challenge for staff, volunteers, and visitors (\$18/day). In addition, PEO spent approximately \$25,000 in 2005 for staff and volunteers' business parking expenses.

Table 5 illustrates that the costs of various options, e.g. lease and ownership, would not be expected to exceed the current established occupancy budget. It is not expected that the cost of ownership would impose any increase in annual operating costs. The benefits of PEO owning its facility are the following:

- ◆ PEO benefits from financial investment in the range of 4 per cent to 6 per cent.
- ◆ "Not for Profit" organizations like PEO that have overall return rates less than 6 per cent will enjoy an immediate and long-term financial advantage from ownership.
- ◆ If PEO invested in a typical office building with 60 per cent mortgage financing, its net gross occupancy costs would be lower in every year of its occupancy.
- ◆ The Net Present Value (NPV) of PEO's projected gross occupancy costs over a 20-year period are estimated at over \$18 million dollars in a lease scenario.
- ◆ The NPV of PEO's projected gross occupancy costs of ownership over a 20-year period are estimated at \$13.5 million.
- ◆ The NPV savings to PEO over the 20-year period would amount to over \$4.7 million.
- ◆ When the mortgage is paid off after year 20, PEO's gross occupancy costs would be cut in half with annual savings of \$885,355. PEO's commitment would be only the expenses for the property taxes, utilities, insurance, and property management.
- ◆ Investing \$5 million for a down payment would result in an immediate loss of annual investment income of approximately \$225,000. This would eventually be offset with future occupancy cost savings.

Table 5 - Typical Cash Flows of Various Options

	Year 1	Year 2	Year 5	Year 10	Year 15	Year 20
Direct Lease						
Annual Gross Occupancy Costs	\$1,631,366	\$1,451,840	\$1,515,854	\$1,631,788	\$1,760,464	\$1,726,980
Annual Gross Occupancy Cost/Square Foot	\$40.78	\$36.30	\$37.90	\$40.79	\$44.01	\$43.17
Ownership 60% Financing						
Annual Gross Occupancy Costs	\$1,549,246	\$1,375,725	\$1,441,583	\$1,566,050	\$1,711,845	\$1,697,664
Annual Gross Occupancy Cost/Square Foot	\$38.73	\$34.39	\$36.04	\$39.15	\$42.80	\$42.44
Net Present Value of Gross Occupancy Costs						
Direct Lease	\$18,286,959					
Ownership 60% Financing	\$17,548,179					
Reversionary value of improvements	(\$3,985,241)					
Ownership model with Residual Value	\$13,562,938					

Residual value considers hypothetical sale of property to provide an indication of the complete value of the investment

2.1.6 Does PEO have sufficient funds to consider an ownership option for its office facilities?

PEO Council is responsible for the prudent management of its reserves and cash funds for a reasonable return without excessive risks. Council and its management must see that PEO's investments are sound and yet practical for the best protection of assets and its members' interest and to ensure PEO's financial soundness. Council is responsible to control annual costs and this includes occupancy costs, given PEO's revenues are primarily from fees (72 per cent) and, to a lesser degree, its investment revenues (4 per cent). Some view renting property space as simply another investment; however, PEO is not in the office building rental business, so its selection of investments in buildings must not lose sight that PEO's prime activities are regulating the practice of professional engineering and governing licence and certificate holders. Clearly, taking on unnecessary investment risk to reduce fees is not one of PEO's investment goals.

PEO has a total asset of \$17.3 million, as of December 31, 2005. PEO also has a total liability of \$9.8 million, leading to a total reserve of \$7.5 million (see PEO's Audited Financial Statements). From a cash flow perspective, PEO has \$15 million marketable securities and portfolio investments that could be potentially converted into cash for a down payment on purchase of a building. However, one should not assume that PEO can consume its total assets of \$17.3 million; as this figure includes two major liability components: (1) \$7 million in fees in advance and deposits, (2) \$1.96 million in Employee Future Benefits, and a third liability component \$855,000 for the accounts payable and accrued liability. Therefore, the affordability should be planned based on PEO's operation reserve of \$7.5 million.

PEO can afford a net investment up to \$12 million (this net investment excludes potential revenue generated from additional space that may be available for rental purposes). Under an ownership option, PEO must finance the purchase of property from its operating reserve. A 40 per cent equity and 60 per cent debt financing would be expected. PEO could utilize up to \$5 million from its reserve for cash investment in a building purchase, which includes any possible upfront investment that PEO might need for renovation, depending on the physical condition of the building. Although PEO has adequate cash to accomplish the purchase objective, it would face financial challenges in the future in rebuilding its reserve, since members did not confirm the approved amendment to section 39(2) of By-Law No. 1 that would have increased the annual licence fee in 2006 and 2007.

3 Fees

3.1.1 Why did PEO seek to increase the annual licence fee for 2006 and 2007?

PEO's Finance Committee annually prepares a Five-Year Financial Plan to deliver regulatory activities and Council approved programs. To deliver all of the approved programs and manage within PEO's operating reserve policy, the plan showed that additional revenues would be required in 2007 and beyond. Because PEO renews licences on anniversary dates throughout the year, the increase would be required in 2006 and 2007.

In March 2005, PEO Council unanimously approved a \$5.4 million dedicated fund to implement its 2005-2009 Strategic Plan. Council accepted and directed that Strategic Plan activities must be carried out alongside core activities, not at their expense. To achieve these results, strategic activities must be resourced adequately as investments in PEO's future.

Council also approved the purchase of a building, with a cost not to exceed \$12.5 million and a down payment not to exceed \$5 million. Although its own building would provide PEO an opportunity to develop its image, which aligns with PEO's branding objectives, it would experience an immediate loss of annual investment income of approximately \$225,000 if it invested \$5 million in a down payment. This loss would eventually be offset by future occupancy cost savings.

3.1.2 Why does PEO need more revenue?

Even if there were no inflation and PEO's operating practices remained constant, it would still experience increased operating costs as a result of significant increases in the complexity of the regulatory environment in which PEO must operate. Recent examples of this increased complexity include:

- ◆ the need to respond to increases in external regulatory activity that affects professional engineers, such as Bill 124, Brownfields legislation, the Electrical Safety Authority, etc.;
- ◆ implementation of an appeals process, following the approved recommendations of the Admissions, Complaints, Discipline and Enforcement Task Force;
- ◆ large increases in the number of foreign-trained applicants for licensure, which require additional resources for the admissions process. PEO's Experience Requirements Committee (ERC) conducted 587 interviews in 2000; in 2005, it conducted 1600 interviews, an increase of 172 per cent.
- ◆ the need to establish a privacy policy;
- ◆ the need to expand PEO's public register;
- ◆ the need to improve governance;
- ◆ the need to adopt tighter internal financial controls and more detailed (activity-based costing).

Such significant changes have resulted in escalation of PEO's operating costs over the last five years, including increases in:

- ◆ salaries and benefits ? 34 per cent, \$1.4 million;
- ◆ employee future benefits ? 84 per cent, \$535,000;
- ◆ occupancy costs ? 34 per cent, \$329,000;
- ◆ applications for licensure; 41 per cent;
- ◆ legal costs ? 74 per cent, \$288,000;
- ◆ information technology ? 68 per cent, \$286,000;
- ◆ the cost of the Canadian Council of Professional Engineers assessment by \$186,000 (34 per cent);
- ◆ meeting costs ? 23 per cent, \$136,000; and
- ◆ chapters ? 62 per cent, \$357,000 (operation and allotments only, excludes PEO's overhead costs).

If we consider the projected cost of strategic initiatives together with the operating costs to maintain the status quo, they will exceed PEO's revenues from all sources for the next four years. While PEO has sufficient reserves to accommodate this imbalance in 2006, it is obvious the imbalance cannot continue for long – either costs must decrease and/or revenues must increase to avoid eventual insolvency.

3.1.3 Why did PEO ask for increases in fees when it just had a million-dollar-plus surplus?

There are several reasons:

- ◆ Costs of operating any business rise with inflation;
- ◆ The world of the regulator is getting steadily more complex;
- ◆ The P.Eng. licence fee is very low compared to the licence fee of other professions; and
- ◆ In the absence of a strong self-regulating profession, professional engineers might pay a lot more to various government agencies for the licences and certifications they would need to practise in their chosen discipline, and all with little or no say in how their practice is regulated.

An exclusive right to practise and engineering's privilege as a self-regulating profession is not guaranteed, and must be promoted and defended vigorously. Many others occupations are seeking to have exclusive rights to practise and self-regulating status. One can view it like owning a registered patent of great value: The holder must be prepared to defend the patent.

PEO needs to generate additional revenue in order to:

- ◆ rebuild its operating reserve;
- ◆ maintain its position as a responsible regulator of the profession in the face of increasing complexity in its business environment (**PEO recently launched a legal action against government to clarify the application of new requirements relating to qualification and registration of professional engineers in the *Ontario Building Code***);
- ◆ fund important strategic initiatives to maintain the self-regulating profession; and
- ◆ keep abreast of inflation in its operating costs.

If PEO is to continue to fulfill its regulatory mandate and deliver the related, established, non-core programs in addition to undertaking the Strategic Plan initiatives and other new programs, it might not be able to rebuild the reserve. This is simply because the projected revenue growth from all sources would be inadequate to offset the effects of inflation and the costs associated with the likely increased complexity in the regulatory environment.

PEO's commitment to implementing the cost efficiency measures and achieving ongoing cost saving will not be adequate to meet revenue shortfalls, if PEO is to accomplish what Council believes must be done.

Over 90 per cent of PEO's revenues come from fees of two types, as shown in Figure 1:

- ◆ fees set out in Regulation 941/90, such as application fees, examination fees, Certificate of Authorization fees, etc. (21 per cent); and
- ◆ the annual P.Eng. licence fee set out in section 39(2) of By-Law No. 1 (72 per cent).

PEO must sustain its financial flexibility and capability in self-regulating the profession. While PEO increased fees set out in Regulation 941 to offset PEO's costs of providing the associated services and to keep abreast of inflation, it is not possible to generate significant additional revenue without also increasing the annual P.Eng. licence fee.

3.1.4 What are the impacts on PEO after members did not confirm the by-law amendment to increase the P.Eng. licence fee?

The Finance Committee will restate PEO's Five-Year Financial Plan and provide Council with advice on the funding levels PEO can sustain. Council will have decisions to make on reducing programs and/or seeking a fee increase in 2007 or beyond.

The levels of funding in the original Five-Year Financial Plan were essential to fulfill PEO's regulatory mandate and deliver the supporting programs Council has approved, including the Strategic Plan initiatives and the purchase of a new building. Otherwise, PEO cannot expect to be able to re-build its reserve, given the effects of inflation and the increased complexity of the regulatory environment.

With these financial pressures, Council will need a new plan to ensure the operating reserve is not drawn down to below the level established in PEO's operating reserve policy.

With the failure to secure confirmation of the by-law amendment to increase the annual licence fee, PEO is faced with an estimated loss of revenue of \$3.7 million from 2006 to 2009. This will mean rethinking the approved Five-Year Financial Plan, which was premised on the licence fee increase being used to fund a series of initiatives to elevate the value of licence over the next five years.

If these initiatives are to carry on, PEO requires a minimum annual revenue increase of \$2.1 million (The 2005 operating reserve includes \$1,271,838 surplus reported for that fiscal year). The increased fees in Regulation 941 will generate additional annual revenue of approximately \$600,000 in 2006 and \$1 million starting in 2007. However, this will not be adequate to meet PEO's needs.

It is also unlikely that PEO can make up the shortfall from an increase in the number of professional engineers it licenses, since this number increases by only about 1-1.5 per cent annually.

PEO is committed to implementing the cost efficiency measures outlined in the 2004 Annual Report. However, even these ongoing cost saving will not be adequate to meet revenue shortfalls, if PEO is to accomplish what Council believes must be done.

PEO has initiated programs and pulled out all its resources to educate government and defend self-regulation through all means, including legal actions. These initiatives require strong financial capabilities and support. If the Strategic Plan initiatives are curtailed or partially delayed due to resource constraints, PEO's position with key stakeholders (government, employers, clients, licence holders and prospective licence holders) will continue to weaken. This loss of influence will not happen overnight, but eventually the P.Eng. licence might no longer be required and engineering might no longer be a self-regulating profession.

3.1.5 What policy options and reserve impacts did Council consider regarding fee increases?

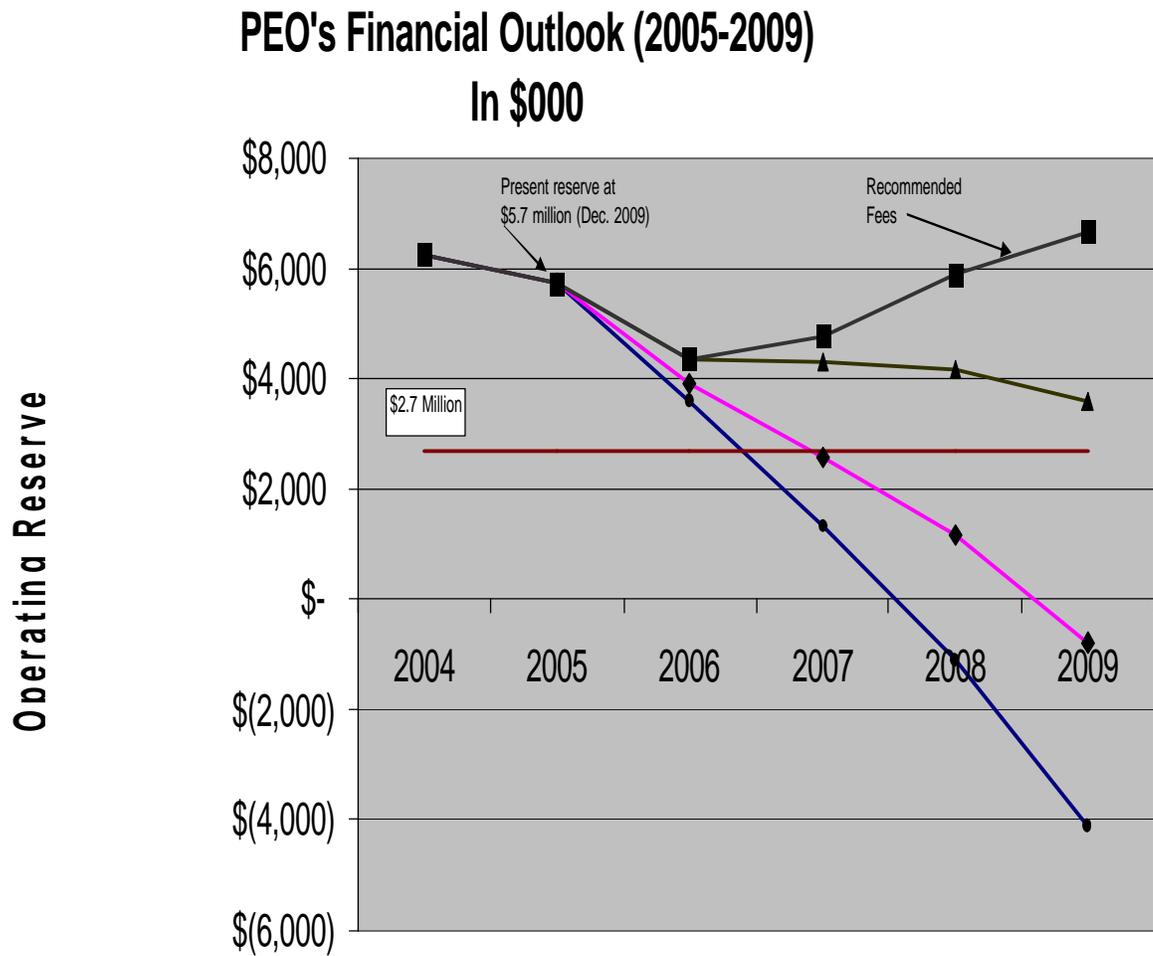
There were several policy options Council considered in making its decision to approve fee increases. They are outlined in Figure 8 and Table 6, which also show the impact of each financial policy decision on the reserve.

PEO's Five-Year Financial Plan approved by Council in December 2005 clearly stated and outlined the following business risks:

- ◆ Council's 2005-2009 Strategic Plan cannot be fully implemented if the \$5.4 million Strategic Investment Fund is not established in the operating reserve for the next five years.
- ◆ PEO will not be able to make strategic changes, add value to the licence, and govern as an effective regulator unless its 2005-2009 Strategic Plan is implemented.
- ◆ PEO will not be in compliance with its operating reserve policy in 2007 if the reserve is not rebuilt.
- ◆ PEO's operating reserve will not be maintained in a healthy financial position.
- ◆ Subsidization of non-members by members will continue until such time as Council reviews all costs and policies related to fees. Subsidization will continue if no decision is made by Council at its December 2005 meeting.
- ◆ PEO is not complying with Council's June 1984 policy, which requires cost recovery of fees.
- ◆ Higher future increases in fees for both members and non-members may be required if no decision is made by Council at its December 2005 meeting.

As a policy making body, Council is responsible for PEO's long-term financial plan and must deal with policy decisions regarding revenues and expenditures, as well as fees to support revenues and expenditures. The Finance Committee will provide recommendations to Council for its review in 2006.

Figure 8 - Source: PEO's 5-Year Financial Plan - December 2005



	2004	2005	2006	2007	2008	2009
Do Nothing	\$6,242,176	\$5,721,676	\$3,586,458	\$1,327,922	\$(1,108,699)	\$(4,099,887)
Non-member fees adjusted by 30% consumer price index (CPI)	\$6,242,176	\$5,721,676	\$3,893,146	\$2,581,354	\$1,147,142	\$(783,284)
P.Eng. fee increase (\$220 in 2006 and beyond) & non-member fees adjusted by 30% CPI	\$6,242,176	\$5,721,676	\$4,371,134	\$4,284,997	\$4,151,509	\$3,601,024
P.Eng. Fee increase (\$220 in 2006 and \$240 in 2007 and beyond) & non-member fees adjusted by 30% CPI	\$6,242,176	\$5,721,676	\$4,371,134	\$4,765,161	\$5,877,668	\$6,650,128
Minimum Reserve Requirement	\$2,700,000	\$2,700,000	\$2,700,000	\$2,700,000	\$2,700,000	\$2,700,000

Note: This Figure that was originally published in PEO's 5-Year Financial Plan – December 2005 has not been updated, yet.

Table 6 – Financial Policy Decisions
(Source: PEO's Five-Year Financial Plan – December 2005)

Policy Decision	Pros	Cons
1. <i>Do Nothing in 2006 (Status Quo)</i>		<ul style="list-style-type: none"> • Council's Strategic Plan will not have adequate funds for implementation after 2006. • Operating reserve will be depleted by 2007. • Subsidization of non-members by members will continue. • PEO will not be able to govern as an effective regulator. • PEO will be required to reduce services. • Higher future fee increases may be required to recover cost of operations.
2. <i>Do not increase non-member fees now and increase in 2007 by rationalizing fee structure</i>	<ul style="list-style-type: none"> • better justification to government for fee increases • PEO may not need to change the fees in the next three years unless adjusting for inflation. 	<ul style="list-style-type: none"> • Fee increase will be realized in 2007. • Council's Strategic Plan will not have adequate funds for implementation after 2006. • Operating reserve will be depleted in 2007 if no action is taken. • Subsidization of non-members will not cease until 2007. • PEO will not be able to govern as an effective regulator. • PEO will be required to reduce services. • Higher future fee increases may be required to recover cost.
3. <i>Only increase non-member fees now by 30 per cent</i>	<ul style="list-style-type: none"> • Subsidization of non-members by members will be reduced. • increase of revenue by \$310,000 in 2006 and \$1 million afterwards on an annual basis • Reserve would be rebuilt. • less cost pressure on PEO • Higher future non-member fee increases may not be required to recover cost. 	<ul style="list-style-type: none"> • Council's Strategic Plan will not have adequate funds for full implementation. • Operating reserve level would be depleted in 2007 if no action is taken. • PEO will not be able to govern as an effective regulator. • PEO will be required to reduce services. • Higher future fee increases may be required to recover cost of operations.
4. <i>Increase P.Eng. fee by \$20 only in 2006 and non-member fees by 30 per cent</i>	<ul style="list-style-type: none"> • increase of revenue by \$785,000 in 2006 and \$2.1 million in 2007 • Some of Council's strategic plan initiatives can be implemented. • Subsidization of non-members by members will be reduced. 	<ul style="list-style-type: none"> • Operating reserve level will not be rebuilt to the required level (\$3.6 million in 2009 as compared to a level of \$6.2 million as of December 2004). • Higher future fee increases for non-members may be required to recover cost of operations. • PEO members may not support fee increase if a good business case is not provided.
5. <i>Increase P.Eng. fee by \$20 in 2006 and \$20 in</i>	<ul style="list-style-type: none"> • increase in PEO's revenue by \$785,000 in 2006 and \$2.6 million in 2007 • operating reserve rebuilt to the 	<ul style="list-style-type: none"> • PEO members may not support fee increase if a good business case is not provided.

Policy Decision	Pros	Cons
2007 and increase non-member fees by 30 per cent	required level by 2009 <ul style="list-style-type: none"> • Higher future increases in fees may not be required. • Subsidization of non-members by members will be reduced. • Council's Strategic Plan can be fully implemented. • PEO will be able to maintain its current services. • PEO will be able to govern as an effective regulator. 	

Note: PEO's 5-Year Financial plan was approved by Council in December 2005

3.1.6 In general, what are the key indicators for Council's decision regarding a fee increase?

The operating reserve, as the major driver of long-term financial planning, is the key indicator for Council's decision regarding a fee increase. The operating reserve can be understood as nothing but cumulative revenue over expenditure. Therefore, revenue and expenditure are two major variables that impact the reserve level on an on-going basis. Consequently, impacting factors from these variables are analyzed in a long-term window, e.g. five years, rather than looking at just one or two years' financial results. Table 7 illustrates the factors that impact the operating reserve and, ultimately, Council's decision regarding a fee increase.

Table 7

Key Indicator, Variables & Impacting Factors		
Revenue	-	Expenditure
		=
		Operating Reserve \$\$\$
<u>Impacting Factors</u>		<u>Impacting Factors</u>
<ul style="list-style-type: none"> •Sluggish Increase of membership •Aging population & membership •Purchase of Building (Potential loss of investment income) •Increase uptake 		<ul style="list-style-type: none"> •Inflation •Increased complexity of regulatory environment •Council discretionary projects •Purchase of Building •Bill 124 Legal Challenge •Strategic Plan Initiatives •On-going cost management and process improvement

3.1.7 What are the impacts on PEO's reserve if no action is taken?

It is highly unlikely that Council will not take action. Since the regulation of the practice of professional engineering and the governing of certificate and licence holders is required under the *Professional Engineers Act*, these regulatory activities must continue. In 2005, the cost for these activities was about \$10.3 million, and it cannot be reduced by much. In fact, these costs are likely to increase. If additional revenues are not secured, the costs of supporting programs (education outreach, chapters, awards, student memberships, etc.) will have to be curtailed. Council will have to determine if it wants to fully recover the costs of licensing new engineers, and providing the student membership and intern programs, etc.

As PEO's Five-Year Financial Plan outlined, the current reserve is not adequate for PEO to undertake programs to increase the value of the licence, enhance PEO's regulatory effectiveness and maintain its current programs, face challenges such as recent legal action, and purchase its own office facilities.

Figure 9 shows projections for PEO's operating reserve (The 2005 operating reserve includes \$1,271,838 surplus reported for that fiscal year). This figure illustrates that PEO will not be in compliance with its operating reserve policy by 2008 if the reserve is depleted (Additional annual revenue of \$1 million generated from fees set out in Regulation 941 is included in the figure). Thus, PEO must take the following actions to build and sustain the operating reserve:

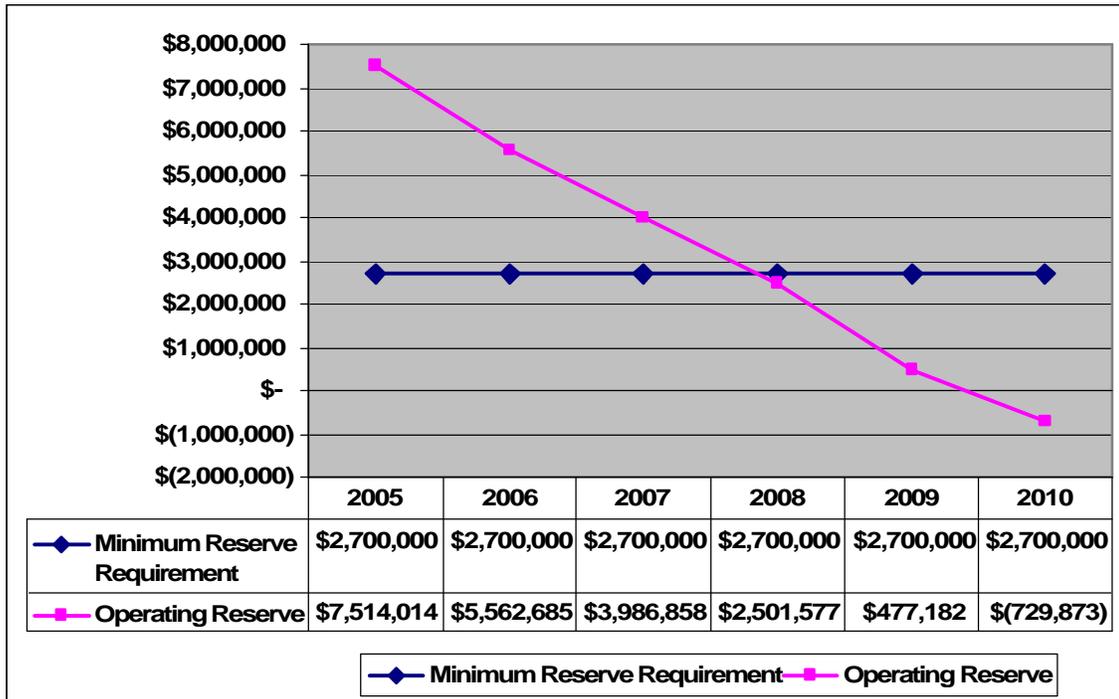
- ◆ increase revenue; and
- ◆ reduce expenditures.

PEO is committed to implementing cost efficiency measures, as outlined in the 2004 Annual Report and achieved for the last two years. **PEO's Council and management have taken solid initiatives to reduce expenditures for the last two years and build the reserve by \$2,198,000.** However, ongoing cost savings are not adequate to offset revenue shortfalls to meet PEO's long-term needs.

Although PEO had planned \$500,000 (\$8.54/member) in its 2006 reserve policy to deal with unknowns and contingencies, such as the current legal action against government, PEO must ensure sufficient financial capabilities and reserve to fulfill its regulatory mandate and serve as an effective regulator, while also supporting existing programs like chapters.

Therefore, expenditure reduction alone will not increase PEO's financial resources enough to enable PEO to face its regulatory challenges and serve as an effective regulator. At the same time, PEO must increase revenue to increase its financial capabilities and flexibility and re-build its reserve to meet the challenges of today and tomorrow's regulatory environment.

Figure 9 - PEO's Operating Reserve Projection (2006 to 2010)



* Operating reserve figures are projection for ending of each year and updated with the fees affected by the Regulation amendments as of April 10, 2006

3.1.8 The cover of the March/April 2006 issue of Engineering Dimensions declared “IT’S WAR – PEO defends self-regulations through legal action”, which I think is essential action for PEO’s survival. However, does PEO have the financial capability to take on government and face legal bills that could total millions of dollars?

In that issue’s Editor’s Note, “PEO to province: See you in court”, Jennifer Coombes said: *“Building code reform has been one of the more egregious, not to mention infuriating, attempts to undermine the authority PEO has been granted to license engineers and carry out the objects of the PEA. Having made no headway over several years of negotiations with the government on this issue, Council decided there is no other option at this time but to launch a legal assault. Specifically, PEO will be seeking a judicial pronouncement to get clarification from the court on just where the PE Act ends and the OBC Act begins as far as regulating the practice of engineers.”*

PEO’s Council motion specified and authorized an expenditure of up to \$500,000 to support the legal action, which will be funded from reserve. Council had planned \$500,000 in PEO’s 2006 reserve policy for Council contingency funding and changes/additions of programs and emerging issues, as a part of membership fee stabilization funds appropriated at the discretion of Council. To meet the objectives of the legal action, PEO will pull together all its financial resources to support Council’s decision if more funding is required beyond this allocated amount.

3.1.9 What factors made it necessary to increase the fees in Regulation 941?

PEO is committed to implementing cost efficiency measures as outlined in the 2004 Annual Report. However, ongoing cost saving are not adequate to meet revenue shortfalls.

For the most part, the fees in Regulation 941 have not been changed (even to account for inflation) since 1992; however, the cost to process applications and other activities has increased significantly. Using the actual inflation rate for the last 13 years, the accumulated impact of inflation on 1992 miscellaneous fees is approximately 30 per cent.

PEO's study on costs, cost recovery and fees collected identified that various groups of licences and registrations are cross-subsidized by PEO members. PEO members are subsidizing non-members and paying a higher proportion of the operating costs than they did 13 years ago.

As a part of PEO's Five-Year Financial Plan, the Finance Committee recommended to Council that these fees immediately be increased by an average of 30 per cent until such time as Council reviews all costs and policies related to fees.

Increasing the fees in Regulation 941 will generate additional annual revenue of approximately \$600,000 in 2006 and \$1,000,000 in 2007 and beyond. The fees affected by the Regulation amendments as of April 10, 2006 are:

- ◆ application fee for P.Eng;
- ◆ registration fee for newly approved P.Eng.;
- ◆ EIT annual fee;
- ◆ Temporary Licence application/reapplication;
- ◆ application for Provisional Licence registration;
- ◆ Limited Licence application;
- ◆ Limited Licence registration;
- ◆ Limited Licence annual fee;
- ◆ Certificate of Authorization application;
- ◆ Certificate of Authorization annual fee;
- ◆ Certificate of Authorization certificate replacement;
- ◆ Technical Exams (first exam);
- ◆ Technical Exams (subsequent);
- ◆ Submission of thesis;
- ◆ Professional Practice Exam;
- ◆ application for designation as a Consulting Engineer;
- ◆ Consulting Engineer designation (five-year) fee;
- ◆ Application for Redesignation as a Consulting Engineer;
- ◆ Examinations for designation as a Consulting Engineer (if required); and
- ◆ Permission for firms to use "Consulting Engineers".

Note: To enable a smooth transition to the new fees, PEO staggered its implementation beginning April 10, 2006.

3.1.10 How much are the other engineering associations charging their members for annual licence fee?

Web research was conducted to compare how the annual licence fees are charged in various provinces. As Table 8 illustrates, PEO has one of the lowest rates for annual licence fees among Canadian professional engineering associations. Due to the advantages of economy of scale, P.Engs in Ontario are paying less compared to their peers in other provinces.

Table 8 - Provincial Engineering Associations' Annual Licence Fees – 2006

Association	Number of Members	Annual Renewal Fee (P.Eng.)
Association of Professional Engineers and Geoscientists of Saskatchewan <i>(Professional Member: Annual membership fee \$85; Annual licence fee \$215)</i>	5,170	\$300.00
Association of Professional Engineers and Geoscientists of Manitoba <i>(prorated annual fee for 2006)</i>	4,080	\$254.21
Association of Professional Engineers and Geoscientists of British Columbia	22,000	\$240.00
Association of Professional Engineers, Geologists and Geophysicists of Alberta	44,476	\$235.00
Association of Professional Engineers and Geoscientists of New Brunswick	4,000	\$226.00
Association of Professional Engineers and Geoscientists of Newfoundland and Labrador	2,500	\$224.00
Association of Professional Engineers, Geologists and Geoscientists of Nunavut and the Northwest Territories	Not Available	\$220.00
Association of Professional Engineers of Nova Scotia	4,500	\$212.00
Ordre des Ingénieurs du Québec	50,000	\$200.00
Professional Engineers Ontario	68,000	\$200.00
Association of Professional Engineers of Prince Edward Island	236	\$200.00
Association of Professional Engineers of Yukon	220	\$191.50

Note: These fees do not include taxes. Unless noted, statistics are for 2005/2006.
(Source: Provincial Engineering Association websites.)

4 PEO's 2005-2009 Strategic Plan

PEO developed a three-year Strategic Plan in June 2001. In April 2004, Council approved the initiation of a process to create a plan for the next five years. Council unanimously approved PEO's 2005-2009 Strategic Plan at its meeting on March 4, 2005.

4.1.1 Where can I get a copy of the new Strategic Plan and its background documents?

To save printing costs, the entire Strategic Plan is posted on the PEO website in a PDF format, and can be downloaded from www.peo.on.ca/registrar/StratPlan/2005/stratplan_home.htm.

Background documents referred to in Appendix B of the Strategic Plan can be requested by contacting: Policy Unit, Professional Engineers Ontario, 25 Sheppard Avenue, Suite 1000, Toronto, ON M2N 6S9. Email: consultations@peo.on.ca

4.1.2 How was the 2005-2009 Strategic Plan developed and approved?

The development of the Strategic Plan was carried out as a rigorous process based on a Council-approved schedule and approach. The plan is a result of various stakeholders' involvement and contribution, which includes more than 600 suggestions from online members' consultation, eight sessions of SWOT analysis by Council, management team and staff, eight research reports, an independent survey of PEO's regulatory effectiveness, and a tremendous amount of staff and volunteer effort. The plan strived for, and largely achieved, consensus on priorities to shape the future of PEO.

The initiatives have been structured in such a way that a group of projects are proposed to achieve a common objective and then a common strategic goal. In addition, the strategic objectives are related to each other to achieve the same strategic goals. Last but not least, the strategic goals are all linked to each other to fulfill PEO's Mission defined by the *Professional Engineers Act*.

Each of these strategic objectives has associated with it one or more key initiatives. For each such initiative, a steering committee, project team, and project has already been established to develop an action plan for approval of Council.

4.1.3 Why did PEO develop and implement the 2005-2009 Strategic Plan?

Canada's professional engineers can justifiably take pride in the quality and innovativeness of their work, for which they have earned an enviable international reputation. They can also be proud of the way they take professional responsibility for their work and its consequences for the safety and well-being of people and of the environment. In terms of complaints and disciplinary actions, professional engineers are subject to far fewer per capita than either their legal or medical counterparts. So we are obviously doing something right as a profession.

That said, we have already alluded to the fact that the regulatory environment in our society is changing significantly. For one thing, there are many more regulators, and they are subject to more public scrutiny. For another, there are many paraprofessional groups, like technologists, paralegals, interior designers, and building officials, to name a few, who are seeking self-regulatory status like that of engineers. At the same time, the lines between occupational and professional groups are blurring with the evolution of new disciplines, such as biomedical engineering, software engineering, building science, water resource protection, etc.

These external forces represent both a challenge and an opportunity for the engineering profession. The profession cannot maintain the status quo and expect to retain its preferred professional status. At the same time, there is an unparalleled opportunity to enhance significantly the value of the self-regulating engineering profession, both for its members, and for the public it serves and protects.

This is an opportunity to be more proactive in "regulating the practice of engineering in the public interest" by such means as:

- ◆ developing improved competence models for both initial licensure and continuing competence;
- ◆ implementing an annual report of engineering practice and professional development for all licence holders;
- ◆ establishing and enforcing standards of practice;
- ◆ making the Certificate of Authorization a more effective instrument for regulating the business of the provision of engineering services;
- ◆ making better use of the limited and provisional licences;
- ◆ enhancing our licensing model and processes;
- ◆ creating a system to monitor public confidence in PEO as a regulator;
- ◆ expanding enforcement activities; and
- ◆ providing critical input to the development of public policy as it relates to science, technology, and engineering.

If PEO fails to seize this opportunity, it risks being blown about by the winds of change (external forces), or worse, being left behind in the dust!

4.1.4 How will initiatives in the Strategic Plan address the concerns and increase the value of licence?

The highest priority elements in PEO's Strategic Plan are designed to enhance, by a variety of means, the effectiveness of self-regulation of engineering in Ontario, thereby increasing the value of the P.Eng. licence and the respect and influence of the profession.

The highest priority strategic objectives in the plan are:

- ◆ increase the public's (defined to include such stakeholders as professional engineers, engineering students, employers of engineers, clients, and government) confidence in the P.Eng. licence;
- ◆ increase the public's confidence in PEO as a regulator;
- ◆ make the Certificate of Authorization (CofA) a more effective instrument for regulating the business of providing engineering services;
- ◆ use Council's regulation-making powers to develop performance standards;
- ◆ secure the needed financial resources; and
- ◆ improve Council's decision making processes.

The initiatives have been structured in such a way that a group of projects are proposed to achieve a common objective and then a common strategic goal. In addition, the strategic objectives are supporting each other to achieve the same strategic goals. Last but not least, the strategic goals are all related to each other to fulfill PEO's mission defined by the *Professional Engineers Act*.

4.1.5 I think PEO's Strategic Plan addresses the fundamental initiatives that PEO rightfully should do. I understand that the cost of implementing the top priority initiatives of PEO's 2005-2009 Strategic Plan is estimated to be approximately \$5.4 million over the next five years. How will PEO fund these initiatives?

In approving the plan, Council also approved a \$5.4 million funding envelope, the Strategic Investment Fund, to carry out the initiatives contained in the seven priority strategic objectives.

The Strategic Investment Fund, as a part of the unrestricted component of the Operating Reserve, was planned to be funded from Operating Reserve. Council approved PEO's Five-Year Financial Plan in December 2005 that included the required funding of \$5.4 million. To ensure the overall operating reserve and the Strategic Investment Fund be maintained, an increase of P.Eng. license fee and the fees in regulation, which was part of the financial plan, was approved by Council. An increase of fees in regulation was approved by the government with changes in Regulation 941. However, members did not approve the increase for P.Eng. license fees and did not confirm the By-law amendment.

To fund the 2005-2009 Strategic Plan initiatives, a combination of increased in revenue from such sources as cost recovery, advertising revenue, fees, as well as shifting priorities and reductions to the annual operating budget, will be required to fund the strategic improvements to PEO's programs and services.

The finance committee will review PEO's Five-Year Financial Plan and provide recommendations to Council for its consideration.

4.1.6 What is the control mechanism to ensure that PEO does not spend more than the approved \$5.4 million on the Strategic Plan?

The key steps of PEO project management related to funding and costing control are as follows:

- ◆ Council approved the entire Strategic Plan with a dedicated fund of \$5.4 million.
- ◆ Senior Management team drafted project scope statements, assigned project managers and project teams.
- ◆ The President and the CEO/registrar form the steering committees, including inviting a Council Champion to each team.
- ◆ Project managers work with their teams developing the project charters and detailed work plans driven by major deliverables. The detailed work plans contain information on who does what, when, and for how much.
- ◆ Project managers present the draft project charters and draft project plans to individual project steering committees for approval.
- ◆ Steering committees approve the project and sign off the charter. Then they present the actual funding requirements to the Executive Committee for approval, if there are funding changes as compared to the original approved funding.
- ◆ The Executive Committee will decide if any request for a change is acceptable before any more action takes place and before approval by Council.
- ◆ Finance Committee will be asked to review the funding of each initiative as they are finalized, primarily to consider the initiatives as a group and the impact on the reserves.
- ◆ All expenditures must be made consistent with our internal control policy. Without proper approval, purchase orders will not be issued and invoices will not be paid by PEO.
- ◆ To control project scope creep over the lifecycle of projects, steering committees are responsible for seeking approval for major changes in project scope and reporting on variances to the Executive Committee.

4.1.7 What is the status of implementation of PEO's Strategic Plan?

In 2005, PEO completed the project planning process for 14 projects and 12 project teams started project work. Of these 12 projects, "Agenda Management" recommendations were approved by Council in December and the implementation phase started in January 2006 with training sessions for staff and volunteers. The March 2006 Council meeting was the first test of the agenda management process. In addition,

at its March 2006 Council meeting, Council also approved recommendations made by the “Meeting Management Guidelines” project.

To ensure the commitment of carrying out the projects within the total funding limit, synergies have been identified through a PEO-wide resource planning process. The total funding requirement will be controlled within the original estimates and resources should be sufficient to achieve the desired outcomes of the projects.

Although the projects will progress dynamically, it is critical to manage the project through a rigorous project governance structure and project management process. To serve this purpose, and to document and communicate project management discipline, a PEO project management handbook (draft) has been created to summarize the PEO’s project management standards and protocols. The handbook (draft) includes PEO’s project governance structure, roles and accountabilities, project change control process, project reporting protocols, and project funding protocols. It is planned to finalize and publish this handbook in May 2006.

5 External Relations

5.1 Canadian Council of Professional Engineers (CCPE)

5.1.1 What does CCPE do for PEO?

PEO, as one of the 12 constituent members, has three representatives on the 18-person CCPE board. PEO also has representation on the committees that actively participate in all undertakings, decisions and long-range planning at CCPE relating to all CCPE activities, except Member Services. This includes PEO's input into all the activities and functions described in the sections below.

CCPE's 2006 budget totals \$5.8 million, approximately 33 per cent of which cost is borne by the provincial/territorial associations/order. PEO's share for 2006 represented \$782,831. The assessment is based on a flat fee per registrant (prior to 2006 fees were assessed based on the type of membership held). Table 9 shows the fee structure for the past four years.

Table 9 - CCPE Assessment Fees

Membership	2003	2004	2005 (no increase)	2006
Full paying member	\$8.65	\$11.05	\$11.05	One flat fee per registrant, \$10.21
Partial paying member (retiree and fee remissions)	\$7.55	\$9.95	\$9.95	
Member-in-training	\$6.70	\$9.10	\$9.10	

CCPE conducts activities in support of constituent members' regulatory activities (admissions, practice, discipline and enforcement), at a cost of \$2.6 million. This includes:

- ◆ assuring that accredited engineering programs offered by Canadian universities meet or exceed the constituent members' educational standards via a sustainable accreditation model;
- ◆ in conjunction with Canada's universities, fostering improvement of the quality of engineering education;
- ◆ enhancing consistency of the high requirements for licensure as a professional engineer and the practice of engineering;
- ◆ enhancing consistency of discipline and enforcement practices by promoting the sharing of information by its constituent members;
- ◆ providing timely information on engineering human resources and the changing work environments that affect the engineering profession;

- ◆ facilitating communication on shared concerns and issues and an exchange of information between constituent members;
- ◆ assisting constituent members to achieve relevant regulation with respect to scope of practice, specialization, and certification (and admissions);
- ◆ ensuring proper use of the terms “engineer” and “engineering” and effectively preserving official marks held on behalf of the constituent members;
- ◆ assisting constituent members to ensure consistency in the application of the Inter Association Mobility Agreement; (IAMA);
- ◆ assisting constituent members in achieving national mobility for EITs;
- ◆ assessing the engineering education and accreditation systems of other countries and documenting the results for use by the constituent members;
- ◆ enhancing mutual recognition of qualifications at the educational level between Canada and other countries;
- ◆ support the constituent members in pursuing mobility with U.S. jurisdictions; and
- ◆ representing Canada in international engineering activities and identifying opportunities for consideration by the constituent members to maintain or enhance international mobility for Canadian engineers.

At the national level, CCPE augments constituent members’ efforts to ensure that all people practising engineering are licensed, at a cost of \$2 million, by:

- ◆ increasing employers’ recognition of the importance of licensure for engineering practice;
- ◆ supporting the efforts of the constituent members to integrate engineering students into the profession;
- ◆ increasing awareness of, and support for, the profession and the P.Eng. licence among engineers, academe, engineering graduates, government, industry leaders, and the public;
- ◆ raising awareness of key stakeholders about how self-regulation of the engineering profession benefits society by ensuring public safety and well-being;
- ◆ identifying emerging areas of engineering practice to allow for early integration into the regulatory system; and
- ◆ facilitating the integration of international engineering graduates into the engineering profession.

CCPE influences federal government public policy and decision making on matters related to the practice of engineering, at a cost of \$549,000, by:

- ◆ advising the federal government and initiating appropriate strategies regarding policy issues and development of legislation and regulations relevant to public safety and engineering;
- ◆ raising awareness that all engineering work done for or by the federal government should be performed by licensed engineers;
- ◆ educating federal decision makers about the engineering profession, its values and its activities; and
- ◆ supporting the efforts of constituent members, on request, to influence provincial and municipal decision makers.

Finally, CCPE creates and utilizes strategic partnerships and alliances to address issues of national and international scope and importance, at a cost of \$714,000, including:

- ◆ maintaining close working relationships and creating strategic alliances with other national and international organizations (engineering-related or other professional regulatory-related agencies);
- ◆ in consultation with constituent members, providing national leadership on public policy issues related to the regulation of the practice of engineering;
- ◆ enhancing the professional, social, and economic welfare of professional engineers by delivering member services programs at the request of constituent members;
- ◆ facilitating communication and exchange of information among the provincial/territorial women in engineering organizations with respect to shared concerns, issues and initiatives; and
- ◆ facilitating communication and exchange of information among the constituent members with respect to diversity and equity concerns, issues and initiatives.

5.1.2 Considering that (1) PEO's operating capital is tight and its reserves are low since the fee increase was not approved, (2) CCPE's reserves and operating funds are both more than adequate, and (3) OSPE is now looking after services and advocacy for Ontario engineers, can we negotiate a substantially lesser increase or revert back to the previous assessment amount until our (PEO) financial situation improves?

In fact, PEO worked with CCPE in 2004 to develop a more appropriate method of allocation of CCPE cost, and achieved savings of \$35,000 in PEO's 2005 assessment. This fee structure continues into the future. The assessment for 2005 was budgeted for \$739,000, which is an approximately 2 per cent increase, due to the increase in PEO's membership.

5.2 Ontario Society of Professional Engineers (OSPE)

5.2.1 Does PEO have any financial obligations to OSPE?

At the end of December 31, 2003, PEO's transfer of funds to the Ontario Society of Professional Engineers (OSPE) ended. Therefore, PEO does not have any further financial obligations to OSPE.

During 2004, PEO worked hard to improve its working relationship with OSPE. Senior representatives of both PEO and OSPE have been meeting regularly as the Joint Relations Committee to discuss and resolve issues of common interest and address concerns consistent with the PEO/OSPE agreement.

In its March 2005 meeting, Council approved the following motion:

“That Council authorize the President and the CEO/Registrar to execute an agreement (agenda Appendix C-427-3(b)(ii)A) between PEO, the Ontario Society of Professional Engineers (OSPE) and the Canadian Council of Professional Engineers (CCPE) wherein PEO assigns all its rights, titles, and interest in the collection of administrative expenses to OSPE under CCPE's Manulife group insurance policy No. SP-212 and CCPE's Maritime Life group insurance policy No. G-507.”

OSPE assumed the administration of the CCPE Affinity programs with Manulife. The transfer of the annual administrative fee of approximately \$200,000 to OSPE was made retroactive to 2004 and continues.

In its January 2005 meeting, Council approved the following motion:

“That PEO approve the appointment of the Ontario Society of Professional Engineers (OSPE) as PEO's agent for advertising in Engineering Dimensions and sponsorships, replacing Dovetail Communications.”

5.2.2 OSPE is currently seeking volunteers to participate in a new Political Action Network initiative (PAN). The network will engage in government relations activities on a local level advocating issues of importance to engineers on behalf of OSPE and its membership. Volunteering for PAN will allow members to become directly involved in OSPE's advocacy work and help strengthen the voice of professional engineers in Ontario.

What is the impact of two voices when talking to government about engineering issues, one from PEO's government communications program and the other from OSPE's Political Action Network (PAN)? Will it confuse politicians when there are two voices on the same engineering issues?

PEO's role is to administer the *Professional Engineers Act* by licensing practitioners and setting standards for and regulating engineering practice in Ontario in order that the public interest is served and protected. One of its objects under the Act is to raise awareness of the role of PEO. It is within this mandate and object that PEO communicates with government. OSPE's mandate is to advocate on behalf of engineers and engineering and to be the voice of professional engineers. It is within this mandate that it communicates with government. Often, PEO's and OSPE's messages to government will be complementary, but not necessarily. Far from confusing government, making a clear distinction between PEO and OSPE enhances the credibility of PEO's messages as coming from the engineering body authorized by public statute in the public interest.

5.3 Ontario Association of Certified Engineering Technicians and Technologies (OACETT)

5.3.1 What is the Licensed Engineering Technologist (LET) initiative costing?

A project plan was prepared by PEO in collaboration with OACETT to implement the Council-approved recommendations of its Technologist Licensure Task Group (TLTG), including the holding of a Certificate of Authorization by suitably qualified Limited Licence holders. The three-phase plan approved by Council in 2005 with a \$100,000 budget comprises:

- ◆ Phase 1, introduce a “Gold Card Approach” for OACETT members applying for limited licences;
- ◆ Phase 2, develop draft Regulation changes for LET Implementation; and
- ◆ Phase 3, Act changes, if any, for LET Implementation.

5.4 Government Communications Program

5.4.1 I heard that PEO called for volunteers to be PEO spokespeople for a government communications program. What is this all about?

The Engineering for Ontarians Program is designed to ensure that the provincial government and the public continue to recognize PEO's regulatory mandate and support the role of the self-regulating profession in serving and protecting the public. PEO has undertaken this government communications program to unite the government with engineers. This grassroots initiative aims to prepare spokespeople to deliver key messages to government on the role and value that self-regulating professions like engineering provide in protecting the public. The focus of the program is on the self-regulatory mandate of PEO.

It is critical that government understands and appreciates the distinct role played by the self-regulating body in maintaining the highest level of professionalism among licensed practitioners to protect the public.

The Engineering for Ontarians program aims to proactively develop ongoing relationships with Members of Provincial Parliament as a mechanism for sharing valuable information, insights, and current and pending initiatives. The objective is not to advocate or lobby the government on any one particular issue of concern.

The main messages during the information campaign are:

1. PEO has a legislative mandate under the *Professional Engineers Act* to regulate the practice of professional engineering in order “*that the public interest may be served and protected*”.
2. The self-regulating engineering profession has been successfully protecting the public for more than 80 years.
3. PEO has unique knowledge and expertise and it is in the best interest of government to consult with it before considering any new policy directions that may have the potential to impact the regulation of the practice of professional engineering.

PEO is committed to a long-term information and communications program to ensure PEO's mandate and key message stay on the Ontario government's radar screen.

5.4.2 PEO launched a government relations/communications program. What are the benefits of this program and how do we measure the value of results?

Launched by Council just over a year ago, the Engineering for Ontarians program has been successful in raising the profile of the self-regulating engineering profession in the eyes of MPPs. By mobilizing a base of members to serve as government spokespeople, the program has cultivated a greater level of proactivity and outreach by PEO, resulting

in new relationships with government. MPPs have come to better know PEO's representatives and the knowledge and expertise that can be tapped for future policy making. Also, a new network of contacts and communications is being established between engineers and their local MPPs, and among PEO members themselves, which is likely to endure over the long term. This is beneficial to both the public interest and to the stature of the engineering profession.

There are several measures that demonstrate the success of the program. One is the nature and frequency of meetings held with public officials. Since the program's launch, PEO representatives have met with close to half of Ontario's 103 MPPs, highlighting the role and concerns of PEO for legislators from all political parties. PEO has met with several key cabinet ministers, close to 15 parliamentary assistants and various opposition critics holding relevant portfolios (e.g. Energy, Public Infrastructure Renewal, Training, Colleges and Universities, Citizenship and Immigration, etc.).

Another positive indicator is the level of knowledge and interest expressed by members in the program. Many chapter representatives have participated in meetings with MPPs at Queen's Park or in their constituency offices. This level of engagement will continue to grow as PEO rolls out a protocol for the local presence component of the Government Liaison Program. Further training sessions will be held to prepare spokespeople to get in front of MPPs and to ensure they maximize their engagements with them. Council has already approved several position statements, on issues ranging from the brownfields legislation to the process by which appeals are made on PEO's regulatory decisions, to help guide spokespeople in their discussions with government.

Overall, the government outreach initiatives of the past year have resulted in a much greater level of awareness of professional engineering within government. This is evident in the fact that the MPPs with whom PEO meets have expressed their commitment to ensuring that professional engineers are consulted early on in the policy making process.

5.4.3 How do we determine budget for spending on a government relations and communications program?

In early 2005, Council approved a pilot project for a government communication plan that was then extended to the end of 2005. Brown & Cohen Communications and Public Affairs Inc. provided the services associated with developing and launching this Grassroots Government Relations program. Its main objectives included:

1. establishing regulatory advocacy recruitment criteria;
2. developing messaging around government incursions into PEO's self-regulatory jurisdiction and the role and value of the licensed professional engineer; and
3. identifying vehicles for spokesperson training and regulatory advocacy.

For 2006, Council decided to operationalize a Government Liaison Program.

Table 10 - Acronyms

ACDE	Admissions, Complaints, Discipline and Enforcement Report (2001)
AcSC	Accounting Standards Committee
AGM	Annual General Meeting
CCPE	Canadian Council of Professional Engineers
CFO	Chief Financial Officer
CICA	Canadian Institute of Chartered Accountants
ERC	Experience Requirements Committee
MPP	Member of Provincial Parliament
OIQ	Ordre des Ingénieurs du Québec
OACETT	Ontario Association of Certified Engineering Technicians and Technologists
OSPE	Ontario Society of Professional Engineers
PEO	Professional Engineers Ontario