



Minutes

Finance Committee

October 25, 2016

Minutes of a meeting of the Finance Committee (FIC) held in the offices of the association, 40 Sheppard Avenue West, North York, Ontario, on October 25, 2016 commencing at 5:00 pm.

In attendance:

Finance Committee Members:

Roger Jones, P. Eng.
Ravi Gupta, P.Eng.
Christian Bellini, P.Eng., FEC
Nick Colucci, P.Eng., BAsC., MBA, FEC
Warren Turnbull, P.Eng. (via conference)
Ken McMartin, P.Eng.
Changiz Sadr, P.Eng., FEC

Staff: Gerard McDonald, P.Eng., MBA, Registrar
Chetan Mehta, MS, MBA, Director, Finance
Peter Cowherd, Manager, Financial Services & Procurement
Fern Goncalves, CHRL, Director – Human Resources, Chair – Investment Sub-committee
Lucy Capriotti, Administrative Assistant

Regrets:

1. Approval of Agenda

R. Jones called the meeting to order and asked the members if they wished to have changes to the agenda as presented.

R. Gupta requested two items be added to item 7 “Other Business”.

1) Aptify

2) Trend analysis

The members were in unanimous agreement with approving the revised agenda as proposed and a motion was passed to that effect.

MOTION

That the revised agenda be accepted with modifications to item 7 “Other Business”.

Moved by K. McMartin and seconded by C. Sadr.

MOTION CARRIED

2. Chairman’s remarks

R. Jones started the meeting by stating that as Chair he wanted to share his thoughts (the Chairman’s remarks). The key points covered in his talk are summarized below:

- Recommend the draft 2017 budget “as is”.
- Recommend changes.
- Ask for more time to analyze the budget.
- Or not recommend it, with reasons.
- FIC is not obligated to “approve” the budget.
- Only Council can approve the budget after hearing FIC’s report, the CEO and SMT reports and/or doing its own diligence.
- One result from this meeting will be a briefing note to Council, written by Finance Director C. Mehta and moved in Council by the FIC Chair, as directed by the FIC.
- All Councilors on FIC can vote at #509 Council in any way they wish.
- FIC is a channel for management to take a budget to Council for approval.
- PEO management has full responsibility to lease space not occupied by PEO.
- FIC does not seek or receive commercially sensitive financial data (e.g. contracts and rentals in negotiations) or levels of so-called “leasing inducements.”

- R. Jones stressed that budget line item variances against current year forecast are what matters. We now do this routinely.
- R. Jones sent FIC members the Ontario inflation data where he stated that it is lower than they thought at 1.3%.
- FIC spends more time on line items over \$100K and variances over 10% as these are “alarm levels” on spending.
- The Chair and Vice-Chair with the assistance of Director C. Mehta and other staff examined the larger expense and capital items to ensure that diligence has been applied.

3. Approval of Minutes from September 7, 2016

The Minutes for the FIC meeting held on September 7, 2016 were presented and reviewed by the committee members. The Chair asked the members for their comments but there were none and the committee unanimously agreed to approve the minutes as presented.

MOTION

That the Minutes of the September 7, 2016 meeting as presented be approved.

Moved by K. McMartin and seconded by N. Colucci.

CARRIED

4. Matters arising from the Minutes

The committee members were asked and agreed that there was no further discussion to be had on matters arising from the Minutes.

5. 2017 Draft Operating Budget and Capital Budget Review

Further to the request by R. Jones, C. Mehta then proceeded to walk the committee members through the key highlights of the draft 2017 Operating Budget.

R. Jones asked why salaries and benefits are up by 3.8 percent when inflation is down to 1.3 percent while referring to inflation data that he had emailed to staff and the other committee members the day before. G. McDonald responded by saying that the 2017 salary and benefits budget figure was prepared based on the analysis and recommendations made by the external consultant hired to do this per the finance committee's directive to staff. This 3 percent increase consisted of a 2 percent increase for CPI and 1 percent increase for performance. He also indicated that as we are comparing the 2017 budget to the 2016 forecast there are a number of elements in the 2017 budget that wouldn't translate into a strict 3 percent increase in the forecast. For 2017, there are two additional positions added to the roster. Another factor is that the 2016 forecast we were not fully staffed for the headcount for the year and there is an amount in the year depending on departures and vacant positions that would not be reflected in the forecast which is why you see a higher percentage increase than the 3 percent approved by the committee.

With regard to the Chair's comment on the 1.3 percent inflation, G. McDonald advised that the inflation figure of 1.3 per cent that R. Jones was alluding to was for the entirety of Canada. If we are to do an inflation estimate for this organization, it would be more accurate to use inflation figures for Ontario or Toronto as that's where the majority of our money is spent.

The link that R. Jones sent was for 1.3 percent for Canada, whereas the inflation for Ontario was 1.8 percent and the inflation for Toronto was 2.1 percent. Inflation is looking backwards, if trying to calculate for what your reflective CPI increase for employees might be you should be looking at the economic forecast for the coming year. G. McDonald handed out the Statistics Canada – consumer price index to the FIC members which showed inflation from RBC and BDO were 2.4 percent and 2.1 percent, respectively. The inflation number of 2% used for 2017 the salary calculations is below these forecasted estimates.

The committee members after some additional discussion agreed that the increase for the 2017 salary and benefits was reasonable.

R. Jones then proceeded to question the increase for the costs for Chapters. C. Sadr proceed to provide a detailed explanation on how the Chapters did their budgeting using a

mathematical model and there were some additional monies in that line item which were spent on Chapters but not controlled or budgeted by the RCC. After additional discussion, the committee members agreed that they had no further questions and that were okay to approve the recommendation of the 2017 draft operating budget to Council for approval.

MOTION

That the 2017 Operating Budget as presented, be approved and be recommended to Council for approval.

Moved by K. McMartin and seconded by C. Sadr.

MOTION CARRIED

The committee then proceeded to have a discussion on the draft 2017 Capital Budget and since there were no changes to this budget (from the version presented in September), the committee agreed that it be presented to Council for approval.

MOTION

That the 2017 Capital Budget as presented, be approved and be recommended to Council for approval.

Moved by N. Colucci and seconded by C. Bellini.

MOTION CARRIED

6. Borrowing Resolution

C. Mehta informed the committee members that PEO's Borrowing Resolution was due for renewal. This resolution is presented to Council for approval around this time each year and is to allow PEO to renew overdraft protection for \$250k along with credit facilities for \$120k with Scotiabank for PEO's corporate credit cards. PEO corporate credit cards are issued to senior volunteers and a few select PEO staff. C. Mehta pointed out that PEO has not had occasion to use the overdraft protection in the past and this facility is retained merely as a

precaution. He also stated that both these amounts had remained unchanged for the past several years. The committee members unanimously agreed to present the Borrowing Resolution to Council for approval.

MOTION

That the Borrowing Resolution as presented, be approved and be recommended to Council for approval.

Moved by K. McMartin and seconded by R. Gupta.

MOTION CARRIED

7. Minimum Cash Balance Requirement Policy

C. Mehta advised the committee members that each year the Minimum Cash Balance Requirement Policy was presented to the FIC members for their feedback review. After a discussion, the committee members agreed that no changes to this policy were necessary.

8. Report from Investment Sub-committee

F. Goncalves, Chair of the Investment Sub-committee provided a recap to the FIC on the developments since March 2016. PEO has two investment portfolios – one for its reserve fund and the other for its registered employee pension plan. These investment portfolios are maintained by two separate investment firms and managed in accordance with the individual mandates. The reserve fund is managed by Scotia Institutional Asset Management (SIAM). The registered employee pension plan must meet the requirements of the Pension Benefits Act and is managed by Mackenzie Investments.

PEO approved the creation of the Investment Sub-committee with a mandate to monitor the performance of these funds and to ensure that investment policies are kept up to date and recommend any changes as required. A priority for the Investment Sub-committee this year was to review PEO's investment polices as they had not been reviewed for a number of

years. The committee met in February with representatives from the two management firms who presented various recommendations and these recommendations were approved by the Investment Sub-committee and were presented to and approved by the Finance Committee at its meeting on March 3, 2016.

The intention was to have these recommendations incorporated in the respective investment policies and present these to the March Council meeting. However, these updated red-lined policy documents were not received in time for presentation the March Council meeting. The Investment Sub-committee had reaffirmed its decision to make these recommendations to Council at the November 18th Council meeting.

R. Jones advised that the committee members that he and F. Goncalves had spoken with the portfolio manager from SIAM (Scotia Institutional Asset Management) this morning and that SIAM has confirmed that their recommendations to the asset mix for the operating fund portfolio remain unchanged. R. Jones also said that he has requested F. Goncalves to arrange a meeting with Mackenzie Investments to review their recommendations for changes to the asset mix for the pension plan portfolio. F. Goncalves advised that she would arrange to have a meeting set up in the next week but that they had confirmed to her in telecom this week that their recommendations also remained unchanged. In addition, a draft briefing note on changes to both the investment policies will be sent to the members of the Investment Sub-committee for their feedback. The committee members agreed with the approach recommended by R. Jones and F. Goncalves.

9. Review of the Q3 Financial Statements

P. Cowherd walked the committee members through the Q3 Financial Statements and answered questions from the members. R. Jones complimented the Finance Department saying the information, cooperation and assistance that the Finance Department has provided has been excellent and thanked C. Mehta and his staff for their help.

10. Other Business

a) Aptify – R. Gupta asked if there are any lessons to be learned from the Aptify implementation. G. McDonald responded that the primary lesson is you don't get something for nothing and that there should have been more due diligence before a decision was made to select the product. There wasn't enough analysis done on the business requirements at the front end to assess whether the product was a good fit. R. Gupta relayed to the committee that the information that he had requested at the last meeting on the Aptify costs had been provided to them and this information will be very useful and will show what the trend had been. This will give us a good tool for the future. R. Gupta thanked the Finance Department. R. Jones again advised the committee members that the information, cooperation and assistance provided by the Finance Department has been excellent and spoke directly to G. McDonald and the committee that he and Vice-Chair Gupta are exceedingly happy with the information provided by the Finance Director C. Mehta.

11. Date of Next Meeting

The committee members agreed that a doodle poll will be sent out to schedule the next meeting.

12. Adjournment

The members agreed to adjourn and the meeting was adjourned at 7:20 p.m.