



# Minutes

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## **Finance Committee** **September 7, 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 September 7, 2016 commencing at 5:00 pm.

### **In attendance:**

#### **Finance Committee Members:**

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

#### **Staff:**

Gerard McDonald, P.Eng., MBA, Registrar  
Scott Clark, Chief Administrative Officer  
Linda Latham, Deputy Registrar, Regulatory Compliance  
David Smith, Director, Communications  
Johnny Zucco, Deputy Registrar, Tribunals & Regulatory Affairs  
Zico Sarmento, Director, Information Technology  
Michael Price, MBA, P.Eng., FEC, Deputy Registrar, Licensing  
Chetan Mehta, MS, MBA, Director, Finance  
Peter Cowherd, Manager, Financial Services & Procurement  
Lucy Capriotti, Administrative Assistant

**Regrets:** Changiz Sadr, P.Eng., FEC

## 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) Variance Analysis

2) Highlight of past 5-year actuals

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 R. Gupta.

### **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) on the budgeting process with the committee and staff. The key points covered in his talk are summarized below:

- Overall budgets are set to serve the strategic plan.
- The SMT has the operational responsibility for PEO which is led and directed by the Registrar.
- The Registrar with the SMT makes the strategic operational decisions to meet Council's objectives.
- The FIC does not manage PEO operations.
- The mandate of the FIC is to ask questions and make comments on PEO finances to help the SMT set the budgets and run the business.
- As an independent entity, the FIC may offer advice to the SMT as it sees fit.

- The FIC, FIC member or any Councillor shall not direct PEO staff to do, or not do anything.
- The FIC can ask staff for information and to this date, this has been very well responded to by the Controller and other staff.
- The FIC shall maintain confidentiality on commercial, HR and strategic matters.
- FIC is obligated to protect member's tax dollar, aka "membership dues"
- After the November meeting, the FIC is obligated to bring the next year's budget to Council

R. Jones stated that as FIC chairman, he is obligated to report to Council whether the FIC did or did not approve the draft budget and elaborate on any issues that may be discussed "out of camera."

In addition, R. Jones stated that the FIC has always paid particular attention to budget line items over \$100k and that it was his preference to see budgets prepared using zero based budgeting. It was also his desire to see that budget to forecast comparisons be used when preparing budgets instead of budget to budget comparisons. R. Jones indicated that he would like to know of the costs and projections of the Aptify S/W and Licensing S/W implementation.

In regards to IT expenditures, R. Jones advised that he had spoken with C. Sadr who could not attend this meeting but had provided his comments. These include questions related to the \$500k IT capital spend for the online licensing system, such as: what was the scope and specs whether an RFQ had been issued prior to arriving at this estimate. R. Jones advised that C. Sadr would be speaking to this item in November.

R. Jones then proceeded to speak about the following items in the income statement for the 2017 budget:

- Payroll cost increase

Why was this cost of approx. \$12m higher by 3.8% than the 2016 forecast? With increase in automation (Aptify, new SharePoint, online licensing, etc.), why was there a need for an increase in recruitment. R. Jones advised that the committee

would want to discuss this in further detail and requested that a breakdown of salaries and headcount by department be provided to the committee.

R. Jones said that he was pleased to hear that leasing negotiations for the 2<sup>nd</sup> floor space was proceeding well and that there was surplus reported for the 2017 budget. He also congratulated staff for maintaining a freeze on membership fees for the past several years but cautioned that we should be seeking cost savings in all areas.

- Chapters cost increase

R. Jones inquired as to why was there a 13.7% increase over the 2016 forecast for Chapters and advised that he was doing some research on Chapter bank accounts vs Chapter budgets and hoping to present per Chapter data at the next FIC meeting. He also said that the committee needed to discuss what level of Chapter bank accounts as a percentage of the budget are appropriate.

R. Jones indicated that the committee needed to review the progress on the investment policy to effect the recommended changes (FIC Investment S/C recommendations still stand.) R. Jones then proceeded to thank staff for their work and efforts in the preparation of the 2017 draft operating and capital budgets.

### **3. Approval of Minutes from May 27, 2016**

The Minutes for the FIC meeting held on May 27 were presented and reviewed by the committee members. The Chair requested 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 May 27, 2016 meeting as presented be approved.

Moved by W. Turnbull and seconded by C. Bellini.

**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. Review 2017 Draft Operating and Capital Budgets**

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. The overview provided is summarized as below:

Starting with the consolidated income statement, C. Mehta stated that the 2017 budgeted revenue is planned to be \$25.99m representing an increase of \$1.22m or 4.9% over the 2016 forecasted revenue. The increase is largely due to:

- An increase in 40 Sheppard revenues of \$481.82k or 23.4% due to the leasing in 2017 of vacant space on fourth and eighth floors.
- An increase in application, registration, examination and other fees of \$422.43k or 6.5% due to an increase in examinations written, and CofA applications and registrations;
- An increase in P.Eng. revenue dues of \$264.05k or 1.7% due to natural growth in P.Eng. membership based on the historical trend; and

P.Eng. license fees are the lowest in Canada and will remain frozen for the ninth consecutive year. All other fees remain frozen for the seventh consecutive year. The 2017 budget assumes that all fees remain unchanged.

On the expenses side, the 2017 budgeted expenses are planned to be \$25.38m which represents an increase of \$861.09k or 3.5% over 2016 forecasted expenses. The increase is largely due to:

- An increase in employee salaries and benefits and retiree and future benefits of \$453.02k or 3.8% due to several factors: an approved 3% increase in staff salary for merit increases and CPI adjustment. This increase is per the recommendations of an external consultant who was hired (per the instructions

of the FIC) to provide an independent salary increase assessment. The remaining increase is largely due to two new positions in 2017 resulting in a total headcount of 108 vs 106 in 2016. The new positions are for an IT manager and an assistant manager for registrations in the Licensing Department.

G. McDonald explained both of these new positions are to ensure better succession planning and for business maintenance reasons.

R. Jones requested that salaries be broken by headcount and department. G. McDonald indicated that staff would provide this information.

- An increase of \$120k for Chapters due to an increase in allotments per RCC directive and higher travel budget for attendance at various meetings;
- An increase of \$113.63k for Volunteer Business Expenses due to higher costs for travel to Thunder Bay for the AGM and related events. In addition, there is an increase in costs for meals, mileage, accommodation and travel expenses for attending various committees, conferences and meetings.
- An increase of \$93.88k in Amortization largely due to the completion of Phase 1 of Aptify in early 2016;
- An increase of \$83.58k in Purchased Services largely due to higher costs for event meals and related expenses for AGM and OOH at Thunder Bay; costs for attending the regulatory professions conference; higher costs for marking and setting exams due; higher costs for producing and printing Dimensions and costs for a survey for policy development.

The above were partially offset by:

- A reduction of \$160.50k in Consultants due to the conclusion of the membership database project (Aptify);
- Reduction of \$54.71k in Contract staff since no contractors are expected to be hired in 2017 for IT and one contract position in Licensing is to be converted to a full-time position in 2017.

- Reduction of \$16.93k in Legal costs due to a decrease in requirements for independent legal counsel for complaint reviews; lower expenses for hearing related activities and the elimination of costs for investigations related to the Repeal of the Industrial Exception Task Force.

C. Mehta then proceeded to walk the committee through the projected financials in the income statement, balance sheet and cash flow statement for the next five years. He pointed out that PEO's cash reserve position was expected to be well above mandated requirement of \$4.5m.

After the above overview, C. Mehta requested the various department heads to walk the FIC through their respective departmental budgets.

S. Clark proceeded to walk the committee through the highlights of the program expenses for the Corporate Services department and indicated that the increase of 6.7% in the 2017 Corporate Services budget was largely due to the decision by Council to hold the AGM in Thunder Bay. S. Clark then proceed to provide an update on the status of the vacancies and lease negotiations planned for the vacant spaces on the 8<sup>th</sup>, 4<sup>th</sup> and 2<sup>nd</sup> floors in the building.

Z. Sarmiento walked the committee through the key highlights of the ITS budget and advised the committee that the 2.5% increase over the 2016 forecast was largely due to a full year of going live with Aptify and the related support costs, the online expense solution, increase in email blasting capabilities, infrastructure monitoring tools, a new video conferencing system and the centralizing of mobile and photocopying costs in IT.

G. McDonald provided an overview of the Executive Office budget and advised that the 0.6% increase in 2017 the budget was largely due the annual payment to Engineers Canada.

M. Price advised that the 2017 budget was largely in line with the 2016 forecast and there was a 0.4% decrease in the 2017 budget vs the 2016 forecast. This is largely to the conversion of a contract staff position to a permanent position. This decrease is partially offset by an increase in fees to markers and exam setters.

D. Smith provided an overview of the Communications budget and advised that there was a small increase of 1.6% in the 2017 budget over the 2016 forecast largely due to higher commissions for advertising in Engineering Dimensions as well a slight increase in postage costs. In addition, the budget included costs for printing for “newcomer” brochures for the newcomer campaign as required by the strategic plan.

G. McDonald pointed out that a proposal for a public information campaign will be considered by Council during the upcoming meeting on Sept 22-23. The estimated cost for starting this work is expected to be \$100,000 and this amount has not been included in the 2017 budget presented to the FIC. The 2017 operating budget will be updated to reflect this cost if this proposal and spend amount is approved by Council.

C. Mehta provided an overview of the budget for the Finance department. There is an increase of 3.2% increase in the 2017 budget vs the 2016 forecast largely due to an increase in credit card fees, commissions and service charges due to an increase in the number of members paying by credit card. There was also an increase in insurance premiums for the D&O, E&O, etc. policies along higher cost for meals, mileage and other travel related expenses for the FIC in 2017.

For the Tribunals department, J. Zuccon indicated that the increase of 8% in the 2017 budget was largely due to a lower forecast for 2016. The increase was largely due to the costs for a survey of clients and employers of engineers as part of the Practitioner Centered Research project. There was also an increase in travel and accommodation costs in the 2017 budget for traveling to places like Thunder Bay for explaining the practice advisory role of PEO as part of the strategic plan.

L. Latham provided an overview of the budget for the Regulatory Compliance department and advised the committee members that the 2017 budget was lower than the 2016 forecast by 3.5%. She indicated that the work of the department was largely driven by complaint files. Although the number of complaint files was relatively consistent year over year, it was difficult to predict the nature of



complaints that would come up the next year. And since the budgets are prepared based on the prior year's activity, there could be some variability in the spend.

R. Jones then asked C. Mehta to walk the committee through the 2017 Capital Budget.

C. Mehta proceeded to walk the committee through the key highlights of the 2017 Capital budget. The overview provided is summarized as below:

The total capital budget for 2017 is \$2.45m and is comprised of the following parts: Capital improvements to 40 Sheppard - \$1.38m, Information Technology - \$1.05m; and Facilities - \$20k for the purchase of furniture.

The break-down of capital improvements to 40 Sheppard is as follows:

- An amount of \$561.99k has been budgeted for leasehold improvements (or inducements). These are incentives by way of cost for renovations that are provided to potential tenants for signing leases for the vacant space on the 2nd, 4th and 8th floors.
- An amount \$817.71k has been budgeted for capital improvements that are considered to be Common Area Maintenance costs (CAM) and are therefore, recoverable from tenants and were recommended by BGIS in the Asset Funding Needs Report prepared in August, 2016. These planned improvements in 2017 include: \$713.86k for the upgrade of the three elevators in the lobby; \$63.75k for the replacement of insulated glazing units of exterior windows; \$22.22k for a heat pump replacement; and \$17.90k for 5th floor wall finishes (painting).

The significant IT projects planned for 2017 include:

- \$500k to build an online licensing system; \$150k to upgrade the PEO website; \$130k to upgrade the internal facing intranet; \$104k for Aptify enhancements; and \$82k for various hardware upgrades.

R. Gupta requested clarification for the rationale for the \$500k spend for the online licensing system; costs for IT hardware and software and asked if these estimates were accurate.

Z. Sarmiento responded that the costs for the hardware and software upgrades were accurate as these were based on quotes provided by PEO suppliers. For the online licensing system, a quote of \$250,000 for high level requirements had been provided by a vendor in 2015. However, it was subsequently discovered that these requirements were larger. We are now in the process of gathering these additional requirements with the various business units and as a result, the exact costs are not known at this point in time. To provide a placeholder or provision for the expected costs, an estimated cost of \$500,000 has been budgeted. This number will be firmed up once the requirements gathering process is complete and an RFP is issued.

G. McDonald added that in accordance with our procurement policy, an RFP would be issued to get the best price for PEO and depending on the quotes obtained, the actual figure could be higher or lower than the \$500k current budgeted.

There were a few additional clarifications requested by the committee members which were answered by staff.

R. Jones then asked the committee members if they had any further questions. The committee members stated that they had none and agreed to pass the following motions.

**MOTION**

That the 2017 Draft Operating Budget be forwarded to Council for receipt and information purposes.

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

**MOTION CARRIED**

**MOTION**

That the 2017 Draft Capital Budget be forwarded to Council for receipt and information purposes.

Moved by K. McMartin and seconded by W. Turnbull.

**MOTION CARRIED**

**6. Financial Statements for the six months ended June 30, 2016**

P. Cowherd walked the committee members through the Q2 financial statements and answered questions the members had.

W. Turnbull asked if Q3 statements would be available at the next FIC meeting. C. Mehta responded that these statements would be provided.

**7. Discussion on moving PEO Fees from Reg. to By-Law**

G. McDonald stated there was a change to the Act in 2010 and we were given authority to move our fees to by-laws. This required a regulatory change in association with an associated by-law change so both change at the same time.

The Finance Committee back in 2013 and 2014 undertook this project and they decided they wanted to see more changes to the by-laws with respect to fees than what was perhaps authorized of them by Council. They took their proposal to the Legislation Committee which told the FIC that they had exceeded their bounds and that they should reconsider what they were doing. The memo went into limbo and was never responded to. It came to our attention that we had no response to it and we still have the outstanding issue of changing our fees back to by-laws. We would like to have the Legislation Committee go back to Council with the proposal to change the regulations but before the Legislation committee can do that, they need to close the loop with the Finance Committee on that memo. We are proposing that the Chair of the FIC write back to the Legislation Committee saying we had lost the memo but given that we agreed at the original Finance Committee that approved this overstepped their bounds what should be done is a one for one change regulation to by-law. If Council decides they want to change any of the by-laws with respect to fees they would have the ability to do so.

G. McDonald stated that we are asking the Finance Committee to authorize the Chair of the FIC to write back to the Chair of Legislation Committee to undertake the fees to by-laws changes on an exact copy basis and that will pave the way for

the Legislation Committee to pursue the Regulatory and by-law changes as required.

R. Gupta inquired if this would remove the need for a member referendum for the annual membership fee change. G. McDonald responded that it would not change without the explicit approval of Council and that is not what was being proposed at this time.

The committee members had a brief discussion on this matter and agreed with the request made by G. McDonald.

### **MOTION**

A motion was proposed to move the fees to by-laws.

Moved by W. Turnbull and seconded by R. Gupta

### **MOTION CARRIED**

## **8. Other Business**

R. Gupta proceeded to elaborate on the items he had requested be included in this agenda item.

Variance analysis – R. Gupta stated that he would like to use the variance analysis to fine tune the budget and that he was not sure if the budget could be fine-tuned further since if we were doing so then we should not be seeing double digit variances.

G. McDonald stated that staff do pay a great deal of attention to the budget and we try to ensure our variances are as low as possible. But there will always be expenditures that cannot be anticipated in a year or things that cannot be accurately forecasted. As an example, an employee could fall ill or there could be a spike in court cases, etc. That being said, we try to reduce our costs wherever we can as can be seen in the reduction in Michael's and Linda's budget.

R. Gupta suggested that if the FIC were to work more closely with the staff then perhaps, there may be more savings that could be achieved. G. McDonald said that staff would be happy to answer any questions the FIC may have but the job of managing the organization fall to him and the staff.

R. Jones agreed with the observations made by G. McDonald.

Highlight of past 5 years' actual data – R. Gupta requested that a report with the prior five year actuals be provided. G. McDonald agreed that staff would provide this document to the FIC.

R. Jones asked the committee members if there were any other items that the committee members wanted to discuss. All of the members agreed that they had no additional items they wished to discuss.

**9. Date of Next Meeting**

The committee members agreed that a doodle poll will be sent out to schedule a meeting sometime in October or November.

**10. Adjournment**

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