

Balance 2004 budget, Council directs

By **CONNIE MUCKLESTONE**

Following a presentation by PEO CEO/Registrar Kim Allen, P.Eng., on the process used to create four alternative versions of a draft 2004 budget and several hours of debate, Council declined to approve any of the draft budgets. Instead it approved a series of motions to define a PEO business planning process, increase revenues or recover costs, and direct that PEO's 2004 budget be balanced.

The four budget scenarios presented for discussion were:

1. an annual licence fee increase of \$10 in 2004, deferred staff hiring and PEO programs well funded, resulting in an excess of expenditure over revenue of \$1,060,611 and PEO's operating reserve declining to 26 per cent of the annual budget from the 2003 year-end forecast of 34 per cent. PEO's operating reserve policy is that the reserve be between 50 per cent and 100 per cent of the annual operating budget;
2. an annual licence fee increase of \$10 in 2004, deferred staff hiring and PEO programs partially funded, resulting in a balanced budget and PEO's operating reserve remaining at 34 per cent of the annual budget;
3. no licence fee increase in 2004, deferred staff hiring and very few new programs, resulting in a balanced budget and the operating reserve growing to 35 per cent of the annual budget; and
4. an annual licence fee decrease of \$10 in 2004, deferred staff hiring and a likely reduction in current PEO programs, resulting in a balanced budget and the operating reserve growing to 35 per cent of the annual budget before steadily declining in succeeding years to a low of 3 per cent in 2007.

In all of the scenarios, "PEO programs" are defined as PEO's core business of licensing and registration, setting standards for

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and regulating engineering practice, and complaints, discipline and enforcement, support to this business, and implementation of initiatives already approved by Council as a result of recommendations of the Admissions, Complaints, Discipline and Enforcement (ACDE) Task Force, the 2001 Strategic Plan, and the 2002 Chapter Structure and Revitalization Team (START) II Report. The approved initiatives of the ACDE Report, Strategic Plan and START II are intended to enhance PEO's effectiveness, efficiency and transparency in its core

functions, increase the relevance of licensure and hence PEO, and recognize the chapter system and its volunteers as vital to PEO operations.

Scenario 1 proposed 2004 implementation of all outstanding approved initiatives (to date, implementation of approved initiatives has been phased, depending on opportunity, budget and external factors). Scenario 2 proposed partial implementation of the outstanding approved initiatives. Scenario 3 proposed maintenance of the status quo with little implementa-

ERC, Awards plans approved

To deal with a growing backlog of licence applicants waiting for interviews with the Experience Requirements Committee (ERC) (about 2100 already assigned an interview and about 1500 to be assigned soon), Council approved a proposal that two-person panels of the ERC conduct the interviews, rather than three-person panels as has been the practice. The two-person panel interview procedure will be reviewed in six months to determine its effectiveness in reducing the ERC interview backlog. The motion also directed that work be undertaken to "develop and evaluate long-term alternatives that will provide more effective, shorter duration assessments of applicants while maintaining PEO's high licensure standards."

At present, licence applicants who are graduates of an engineering program that is not accredited by the Canadian Engineering Accreditation Board (CEAB), or a program that has been recognized as being substantially equivalent, are assigned a program of four exams to confirm that they possess satisfactory academic preparation for licensing. If they have at least five years of overall engineering experience, however, the program is assigned provisionally and they are invited to an ERC interview for an assessment of whether their experience warrants any relief from the assigned exams. In 1999 when PEO began offering ERC interviews to confirmatory exam program candidates with at least five years experience, based on a recommendation of the Admissions, Complaints, Discipline and Enforcement Task Force, ERC conducted 458 interviews a year and 30 per cent of applicants were non-CEAB graduates. Today, 70 per cent of licence applications are from non-CEAB graduates and ERC conducts about 850 interviews a year.

Engineers Awards to remain joint event

Council approved a proposal presented by Awards Committee Chair Márta Ecsedi, P.Eng., that PEO and the Ontario Society of Professional Engineers continue to jointly administer the Ontario Professional Engineers Awards, which are presented annually for engineering achievement and community service. PEO will continue to administer the Professional Engineers Ontario Order of Honour to recognize service to the profession through PEO Council, committees, task forces and chapters, and nominate professional engineers for external awards. The Society will implement its own service award program when appropriate.

tion of outstanding approved initiatives. Scenario 4 proposed no implementation of approved outstanding initiatives and some cutback of current activities.

All scenarios also assumed \$20 fee increases annually from 2005 onward to build the annual operating reserve to levels of between 51 per cent and 58 per cent of the annual budget by 2010-2012. The maximum fee proposed was \$340 in 2012 in Scenario 4, which also forecast the lowest level of operating reserve before recovery.

Activity-based costing

In his presentation, Allen described activity-based costing (ABC) as an opportunity for PEO to manage costs and eliminate non-value-added activities, generate meaningful management information on cost performance, establish cost transparency and fairness in the eyes of PEO licensees and applicants, benchmark costs, and evaluate outsourcing. The 2004 budget scenarios were

prepared using ABC, which assigns costs to activities based on use of resources. Budgets for PEO's products, functions, processes and projects were then prepared based on their use of activities. The PEO budget was built from 87 activity elements, he said.

As an example, Allen walked Council through a cost analysis of PEO's discipline process, which indicated that the unit cost for a discipline hearing is \$37,512. As an example of the cost of an approved new initiative resulting from the ACDE Task Force, Allen noted that securing the necessary legislative change to enable appeals of admissions/licensing decisions had cost \$169,900 since 1999, or \$2.84 per P.Eng.; the ongoing annual cost is estimated at \$77,140 (\$11,020 for each of seven hearings), or \$1.29 for each P.Eng. One-third of the draw down of PEO's operating reserve since December 31, 1999, is attributable to the cost of such approved programs, he said.

The Registrar also presented information on the licensing fees paid by other professions in Ontario, including the chartered accountants (\$1,500), certified management accountants (\$672), lawyers (\$1,489), doctors (\$880) and dentists (\$1,460). In approving a budget, Council must decide whether PEO should "do less with less" or be "just a regulator," Allen said, or "do more with more" to provide "regulatory excellence, leadership, trusteeship and service." Scenario 1 would move PEO well toward the latter option, while Scenario 4 would represent a clear choice for a strict regulatory role. The Finance Committee recommendation is Scenario 2, he said.

Allen concluded his presentation by highlighting areas within each department where the budget could be trimmed and the implications of each possible cut, before presenting several draft motions for Council consideration.

PEO, Society separate but equal

On January 1, 2004, PEO and the Ontario Society of Professional Engineers will mark an important milestone when they become two entirely separate and financially independent organizations, Society President Danny Young, P.Eng., told PEO Council on November 13.

During the three-year transition from when "engineers made the ethical choice to establish a separate advocacy and member services body in 2000," members of the profession have invested millions of dollars in the Society, he said, and "have seen many new programs, initiatives and advocacy achievements on their behalf." Now, the Society is totally focused on promoting the interests of Ontario engineers, he said, while PEO's mandate is regulating the engineering profession for the benefit of the public.

By the very nature of these mandates, however, PEO and the Society are "bound to be at odds with each other from time to time," Young noted, reminding Council of a recent "impasse" regarding PEO accepting paid advertising in *Engineering Dimensions* from a supplier of a service in competition with a service offered by the Society. "This is a fundamental issue that is paramount to the long-term division of responsibilities between PEO and the Society," he said. "We believe that the clear division of responsibilities between the two organizations precludes PEO from promoting competing non-regulatory programs."

Young warned that if Council chose not to accept the decision of the PEO/Society Joint Review Board and the advice of the PEO Executive Committee that PEO cease accepting such advertising, the Society would be forced to take the issue to binding arbitration, which it did not want

to do. "Our commitment is to work with you as you fulfil your role and we fulfil ours," he said. "We want to ensure that PEO does not sacrifice advertising revenue. We want to share information with PEO in an open and ethical manner, respectful of engineers and the laws of our province. We want to remove the burdens of non-regulatory programming, so PEO can focus wholeheartedly on its responsibilities to the public."

Referring to the Society's General Assembly the week before, Young said that Society members had said they want to be involved in developing requirements and standards for the profession, and that the Society is committed to helping PEO to consult with engineers on such issues as continuing education, practice standards and other requirements. "Engineers want to be involved in discussions on regulation. They want to be proactive, not reactive, particularly when it comes to practice standards," he stressed. "The Society is the voice of engineers in Ontario. As such, we need to be at PEO's table—to participate in the debate and represent our constituents."

"The true test of how the Society and PEO work together will be how we overcome such obstacles and maintain forward momentum," Young concluded. "I am confident that the work both organizations have done over the past three years will result in a better, stronger profession, served by two bodies with competing but compatible mandates."

When Council later considered the matter of accepting paid advertising in *Engineering Dimensions* from a competing service provider to a Society provider, it directed that PEO negotiate a settlement with the Society, if possible, and that the matter be tabled until such settlement is achieved or otherwise.

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– Kim Allen, P.Eng., PEO CEO/Registrar

Motions provide direction, define process

At the request of Councillor David Sims, Council dealt with each of the motions separately, beginning with the one aimed at establishing an annual business planning cycle for PEO. According to the approved motion, Council will now:

- review/revise PEO’s strategic direction in April;
- review, revise and approve a five-year plan and supporting programs in June;
- review and approve an annual action plan, goals, metrics and budget in September; and
- review the previous year’s results in February, revising, as needed, the metrics for the upcoming year.

Council next approved several motions aimed at enhancing PEO’s bottom line by either increasing its revenues or recovering more of its costs. The first of these was a motion to engage professional investment services to manage PEO’s investment portfolio, with a view to maximizing its return according to PEO’s approved investment policy. In the past, PEO’s treasurer has managed its investments, according to a policy that limits the treasurer’s investment options to minimize risk. Although some Councillors said they saw no need to change the current portfolio management procedure, others noted the potential for the treasurer to turn attention to generating process improvement savings if freed from portfolio management duties. The Finance Committee’s budget scenarios each included steadily increased savings to be generated from PEO process improvement.

The next approved motion called for setting the fee for limited, provisional and temporary licences at 100 per cent of the P.Eng. annual fee. At present, the fees for

these licence types lag considerably behind the annual P.Eng. fee and are specified in Regulation 941/90. Implementing this motion will require an amendment to the Regulation.

Next approved was a motion calling for a full review and analysis to be conducted in 2004 and recommendations included in the 2005 budget of:

- fees (Certificate of Authorization, exams, applications, publications, etc.);
- recoverable costs (hearings, events, guidelines, etc.); and
- advertising and sponsorships.

Council then approved a motion that PEO charge all third parties 5 per cent of the revenue it collects on their behalf. At present, PEO licensees can make contributions to the Ontario Professional Engineers Foundation for Education and the Canadian Engineering Memorial Foundation via check-off boxes on their annual licence fee invoices that enable them to add the amount to their licence fee payment. They can also join the Ontario Society of Professional Engineers the same way. The 5 per cent fee to be charged in the future is primarily intended to recover PEO staff time involved in administering the fee collection and the credit card merchant fee, now that PEO has implemented credit card fee payments.

The motion on which Councillors appeared to be the most divided, but which was approved nonetheless, concerned the holding of a referendum to remove the \$200 annual licence fee cap in section 39 of *By-law No. 1*, in conjunction with PEO’s 2005 Council elections. The motion also proposed undertaking a communications program in support of the referendum. By a referendum in 1993, Council was authorized to set the annual P.Eng. licence fee to a maximum of \$200, by increases of no more than \$20 annually. At present, PEO’s annual fee is \$190.

Surprisingly, several Councillors speaking against the motion were in favour of removing the \$200 fee ceiling, but against a 2005 referendum. These Councillors felt PEO should hold the referendum as soon as possible. Others speaking against the motion said they were not convinced of the need for a fee increase beyond \$200, some of them favouring another look at the budget with a sharper pencil, others advocating greater marketing of licensure to increase PEO’s membership. Some Councillors speaking in favour of the motion noted that a referendum to enable a higher fee level does not necessarily mean an immediate fee increase, while others declared themselves in favour of both an enabling referendum and an immediate fee increase to allow PEO to move toward the leadership budget scenarios. Whether pro or con, however, all Councillors agreed on the importance of presenting clear information to members on how licence fees are being spent and the return on investment for the profession.

To reduce the need for future fee increases, or at least establish their credibility if needed, Council then approved a motion directing the CEO/registrar to establish an ongoing process improvement savings program within the approved annual budget, such program to be tied into pay for performance. Although several Councillors proposed either dollar figures or percentage targets for process improvement savings, it was the consensus view that some history under the new organizational structure and budget process would be necessary before realistic targets could be set.

In the final motion of the debate, Council directed that a balanced budget be developed for 2004. Council agreed to debate the balanced budget at a special meeting on January 10, 2004. ❖