

CFO Report to the Finance Committee

2021 Operating Budget

Nov.17, 2020

PURPOSE

To provide directors with details of the 2021 operating budget based on feedback received at the last finance committee, executive committee, and board meetings and to ask the finance committee to recommend the 2021 budget to the executive committee for board approval.

OVERVIEW

Management was given a mandate to make substantial investments to increase the profile of the organization and place nuclear at the forefront of the public and the Federal and Provincial governments. The strategic plan to accomplish these goals was approved by the board in September. The 2021 budget and forecast for future years includes the necessary expenditures to meet the goals.

Management presented a draft 2021 operating budget and a future forecast for discussion at the September 17, 2020 finance committee meeting. Based on the discussions, the committee had several recommendations for changes to the budget. There was also a discussion on generating additional membership revenue. The membership revenue topic was further discussed at both the executive committee and the board of directors.

The recommendations from the committee and board members were as follows:

- Adjust the revenue projections for the annual conference to represent a decrease in revenue by 20%;
- Develop modeling that will allow management and the committee to assess the impact of implementing an increase in membership fees; and,
- Develop modeling that will allow management and the committee to assess the impact on the net assets over a five-year period.

The budget has been updated to reflect a planned decrease of 20% of net contribution from the annual conference. Also, one-time expenditures of \$90,000 that were planned for 2020 were moved to the 2021 budget. There were a few other minor changes to the budget based on additional information from the various members of the management team. These changes to the budget now reflect a planned deficit of approximately \$749,000. Attached as Appendix A is a copy of the budget. Note that it does not include any adjustment to membership fees.



Excluding any adjustment for inflation or additional membership revenues but addressing items in the 2021 budget that are either one-time expenses or planned changes for 2022, the revised ongoing annual excess of expenditures over revenue is projected to be \$413,000. Management also revised the projected net assets to reflect the forecasted surplus of \$85,000 as discussed in the report on the Q3 financial results and Q4 forecast. The projected opening net assets for fiscal 2021 is \$2,461,500. It will be necessary to bring the operations to a break even point over the next several years to ensure the net assets do not fall below the threshold level as determined by the Net Asset Reserve Policy.

Management developed a model that forecasts the financial results factoring an annual change to the membership revenues and including an annual inflation factor for operating expenses. The model assumes the base annual excess of expenditures over revenue is \$413,000 without any adjustment for inflation. An annual inflation factor of 2% is being used for modelling purposes.

In preparing the analysis, management took into consideration the fact that membership fees have not increased since 2012 in which year they decreased.

Based on management's analysis and using an annual expenditure inflation factor of 2% per annum, two alternatives for membership fee increases were identified for consideration by the committee.

One alternative is to have annual increases of five percent (5%) for the next five years beginning in 2021. Under this alternative, the organization is projected to be at a breakeven level by 2026 and still have net assets of \$1.24 million. The benefits to this alternative are:

- The increase is not significant, so it does not lead to "sticker shock" and potential member attrition which might shift greater burden to existing membership base.
- It is at a level that is not likely to give rise to attention (i.e. pre-evaluation of membership status) during budget review by organizations.
- It will allow members to plan for a modest and consistent annual increase.

The concerns for this alternative are the annual increase is marginally above inflation and continues for a period of five years.

The second alternative is to implement an annual inflationary increase along with a one-time large increase in 2022. Under this scenario, the annual inflationary increase would be only slightly above the expense inflation factor (i.e. 3% fee increase versus a 2% expense inflation factor). The one-time large increase would be 15%. The modelling indicates that the organization would be at a break-even budget by 2026, however, it would preserve its net asset balance to be approximately \$1.6 million at the end of that year.

The advantages to the second alternative are:

- Outside of the 2022 fee adjustment, the annual increases are closer to expected inflation levels.
- By presenting the planned increase early, businesses can prepare for the increase in their budget but also be able to explain that it is a one-time adjustment and that future increases are expected to be in line with annual inflation.
- The net asset balance is higher and provides the organization with the opportunity to address future one-time matters.

Clearly the concern with this option is that it does have the “sticker shock” and may raise concerns within organizations as they review expenditures in their budgeting process.

Management is seeking the committees input on the implementation of the membership fee increase. Under the first alternative, the budgeted deficit for fiscal 2021 would be \$645,430. Under the second alternative, the 2021 budget would be a deficit of \$686,830. Subject to the committee’s decision, management is seeking a motion for recommendation of the budget as outlined below.

MOTION

That the finance committee approve the 2021 operating budget for recommendation by the executive committee and approval by the board of directors.

APPENDICES

- **Appendix A** – 2021 Operating Budget