

CAPE Defense Fund Review

OBJECTIVE:

In accordance with the Defense Fund Terms of Reference (TOR), the Finance Committee has undertaken an in-depth review of the merits of continuing to maintain the Defense Fund as currently structured.

BACKGROUND:

- Fact checking found no evidence that work related labour disruptions of any type have ever occurred at CAPE.
- To date, no situations have arisen necessitating the withdrawal of monies from the Defense Fund.
- The Defense Fund was established in 2016 with an initial capital input of \$1 million.
- Current value of the Defense Fund is approximately \$9 million, which represents a 900% growth rate since inception.
- 75% of any annual surplus, as reported in the Audited Finance Statements of the Association, are allocated and transferred to the Defense Fund.
- No allocation to the Defense Fund occurs when there is a deficit.

CONSIDERATIONS:

- CAPE revenue sources are membership dues and investment income.
- Current dues paying membership approximately 22,000.
- Annual dues revenue per member \$576.
- Annual dues revenue at current membership level ($\$576 \times 22,000 = \$12,672,000$).
- Current Operating Fund Reserve approximately \$7 million. (50% of current budgetary requirement)
- Budgetary deficits are projected for the next two (2) fiscal years. This will cause additional demands on the fiscal viability of the Association and its ability to deliver the programs, support and resources demanded by the membership.
- Currently, there are no major outstanding issues which could cause work force disruptions. (One might argue the planned public service strategic review that was announced in B21, or the on-going Covid-19 pandemic may have impacts.)
- CAPE is now a member of the CLC which provides another voice to deal with labour issues.



- With the state of current economic conditions in Canada (inflation, interest rate increases, supply chain issues, labour force shortages etc.) CAPE must be more focused on its fiscal responsibilities and financial viability.
- The agreement between the Liberal Government and the NDP, whereby the NDP has pledged to support the Liberal Government until the end of its current mandate, ensures that there will not, in all likelihood, be a federal election until 2025.
- CAPE membership has voted to support *binding arbitration*, to settle any impasse which might arise during the current round of contract negotiations, which effectively takes any work disruptions or actions off the table.

OPTIONS:

The Committee reviewed, discussed and considered the following options for the Defense Fund:

1. Do nothing, allow the Defense Fund to continue as is,
2. Total abolition of the Defense Fund,
3. Freeze the Defense Fund at its current level and cease contributing 75% of surplus,
4. Use the Defense Fund to address deficit situations. Defense Fund reimburses 75% of any deficit,
5. Cap the Defense Fund at a set level and maintain it at that level.

CONCLUSION:

As previously stated, CAPE revenue sources are membership dues and investment income only. A resolution to increase revenue via dues, for the first time in eight (8) years was rejected by the membership in a December 2021 vote. This leaves the Finance Committee and management with the conundrum of how to continue to effectively finance CAPE's operations given the ever-evolving membership demands for more support services. It is fair to say that having millions of dollars sitting in a Defense Fund, to which we have no access to for operational purposes, is not a sound business situation to be in. It is difficult to believe that the objective for the creation of the Defense Fund is to freeze millions of dollars away which could be better used for membership support.

- The majority consensus of the Finance Committee is that the current monetary level of the Defense Fund is excessive.

- That it is inhibiting CAPE's ability to finance its operations effectively and efficiently, as evidenced by the forecasts of fiscal deficits, and to fulfill its fiduciary responsibilities.
- That it is putting undue stress on CAPE's ability to meet the budgetary requirements that were developed after management's in-depth review and analysis of membership needs and demands.

RECOMMENDATIONS:

It is generally accepted as a sound business practice and fiscal responsibility that CAPE should have in reserve the equivalent of at least one (1) years' worth of expenses in the Operating Fund.

To help reach that goal, the Finance Committee hereby recommends that a motion be put forward for the following revisions to the TOR of the Defense Fund and fund allocations:

- The Defense Fund be capped at \$5 million, until such time as an alternate source of operational revenue funding is identified (e.g., dues increase),
- That amount currently in the Defense Fund in excess of \$5 million be transferred to the Operating Fund in order to achieve a balance equivalent to one (1) years' worth of expenses,
- The Operating Fund be used to offset budgetary deficits,
- Any budgetary/investment surpluses be transferred to the Operating Fund,
- Should the Defense Fund drop below \$5 million, the Operating Fund will be used to offset such deficits,
- The addition of a clause stating that the National Executive Committee (NEC), based on recommendations from the Finance Committee, has the authority to approve use of Defense Fund resources should it be deemed necessary for the financial well-being of the Association if the Operating Fund falls below the one (1) years' worth of expenses threshold.

COMMENT:

The Finance Committee is committed to its fiduciary responsibilities of ensuring the fiscal health and welfare of the Association. A review of the Defense Fund will continue to be conducted in a timely manner.



Submitted by:

CAPE Finance Committee
June 20, 2022