

**NATIONAL SECRETARY-TREASURER'S REPORT
TO THE
NATIONAL EXECUTIVE BOARD**

Ottawa, Ontario
March 11 - 13, 2014

Sisters and Brothers:

Overall, 2014 has gotten off to a good start.

Last week, I was in Saskatoon, Saskatchewan for the first of this year's CUPE division conventions. Our sisters and brothers in that province are struggling with a government that is intent on taking a legislative hammer to the power of unions, including using essential services to weaken our ability to strike, and on privatizing as many services as it can. Our members are committed to protecting both services and their rights.

Members everywhere are also taking seriously the need for financial accountability within our own organization. In January, I was pleased to attend "Dollars & Sense," a conference for local secretary-treasurers and trustees hosted by CUPE Ontario. About 250 local leaders attended practical, skills-oriented workshops, which you will hear more about at this meeting from Sister Candace Rennick. Interest in all topics was high, including the closing panel discussion on putting members' dues to work on political action. This is an event that other regions may wish to replicate.

Together with Brother Paul, I also attended a meeting of North American PSI affiliates, where we shared our common experiences and strengthened ties with our sister unions in the United States.

Solidarity was the word of the day when CUPE members joined with Unifor in Kitchener, Ontario on February 16 to support the organizing drive with Toyota workers. Like so many of our own members, these workers want a union to defend health and safety in the workplace and to stop their employer from imposing two-tier wages and benefits that mean younger workers get less.

Another highlight of the new year was our town hall call with local presidents across Canada to talk about upcoming events, like the National Sector Council, as well as the 2014 budget.

At our last NEB meeting, where we discussed and approved that budget, Board members had a glimpse of what we have before us in the financial statements for the end of 2013.

As expected, we ended the year with a net operating deficit of \$1 million. While this may appear insignificant on a budget of more than \$177 million, and certainly is not an emergency situation, we have a responsibility to be mindful of two numbers in particular.

Per Capita revenue is under budget by \$1.7 million, although total revenue is only under budget by \$745,000 due to higher than expected investment earnings. Meanwhile, expenditures were \$3.2 million over budget, although almost two-thirds of those expenses were funded from restricted equity funds.

It is not unusual for unexpected and unbudgeted expenses to come up during any given year. In 2013, for example, we took on the Fairness project both inside CUPE and with the Canadian Labour Congress. However, the slower growth in revenue that we are now experiencing leaves us less of a cushion for the unexpected.

When we put together the 2014 budget, we reviewed all lines to assess where we have been underspending and overspending in the last few years. Adjustments were made to better reflect actual expenditures. It is now incumbent on us to be aware of how well we are adhering to the budget as the year goes on.

While most of the spending in the General Fund is operational, there are some lines that are campaign oriented including Elections and Strategic Directions. In both cases, provincial divisions are asked to submit plans to be considered for funding. Our focus in looking at these plans is on member involvement and mobilization. This is in line with our strategic directions mandate to strengthen and build our movement.

The same holds true for the National Defence Fund, where we have also gone well over budget in the last two years on approvals for cost-shared campaigns. In 2014, we have an obligation to stay within the budget of \$2.6 million while ensuring that funds are available throughout the year for local and division campaigns.

There is no doubt these campaigns are necessary and important. The political attacks on our pensions and our bargaining rights, the tough bargaining under government austerity programs, and the relentless global race to the bottom are hitting us right across the country. We heard all of these challenges in our meetings with staff in every region of the country during January and February.

We also heard that bit by bit the Fairness project is taking hold. Leadership training has happened in most parts of the country and many areas have moved on to communicator training. And, as we receive cost-shared campaign requests, we are seeing more locals incorporating Fairness practices into campaign plans that centre on motivating and mobilizing members.

These are all the important activities that motivate us to maintain a prudent approach to our union finances.

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Preliminary unaudited financial statements have been prepared for the year ended December 31, 2013. Note that these financial statements illustrate preliminary results for the year and will change prior to the final close for the audit in April. However, we do not expect the overall financial picture to change significantly.

General Fund

The total assets in the General Fund at December 31, 2013 were \$182.0 million compared to \$177.5 million at September 30, 2013 and \$170.2 million at December 31, 2012.

The bank balance at December 31, 2013 was \$10.3 million compared to \$15.5 million at September 30, 2013 and \$9.5 million at December 31, 2012. The bank balance includes \$6.7 million of cash reserved for retirement payouts, future employee benefit funding, the 2013 convention, a property maintenance reserve and the Regional Building Fund. The total investment set aside to fund Employee Future Benefit Expenses is \$45.5 million at December 31, 2013.

Fixed assets have increased \$2.0 million in the quarter. The building envelope replacement work on the Ontario Regional Office is now substantially complete with \$4.1 million spent to date. While holdbacks are remaining to be paid, the project is expected to complete on budget. The fit up of the new North Bay office was completed in the fourth quarter of 2013 at a total cost of \$798,000. A \$40,000 tenant inducement allowance receivable from the landlord at December 31 was received in January.

The total liabilities in the General Fund were \$127.4 million at December 31, 2013 representing an increase of \$2.1 million from the previous quarter. Much of the increase is due to the accrual of various expenses relating to the year end as well as the effect of new mortgage financing for the National Office expansion building. This is offset by a decrease in the provision for the 2013 Convention as most of the expenses relating to the event have now been paid.

The provision for Employee Future Benefit expenses stands at \$70.3 million at December 31, 2013. As of the December 31, 2012 audited financial statements, the true actuarial liability was \$239 million, still leaving a significant gap of \$169 million unrecorded in our financial statements. Calculations to determine the true actuarial liability as of December 31, 2013 will be prepared shortly and we will be able to determine the exact amount of the gap as at the end of 2013. Projections presented

at the last National Executive Board meeting suggested that the money we are continuing to put toward this liability, in accordance with our roadmap, is allowing us to make slow and steady progress toward the target of recording the full liability on our balance sheet.

The Fund Balance at December 31, 2013 is \$54.6 million of which a total of \$3.2 million is restricted as follows: Convention and National Events Assistance Fund (\$1.0 million); Fightback Fund (\$428,000); and the Regional Building Fund (\$1.75 million). Of the remaining Fund Balance, we have invested \$52.0 million in fixed assets, leaving an unrestricted deficit of \$578,074. This means that all of the equity in the General Fund is spoken for either in terms of being allocated for a restricted purpose or invested in fixed assets.

The operating deficit before provision for the Regional Building Fund and before taking into account unrealized gains on investments, is \$3.0 million. Per Capita revenue is under budget by \$1.7 million, although total revenue is only under budget by \$745,000 due to higher than expected investment earnings. At the same time, expenditures for the year to date were over budget by \$3.2 million. The expenses figure includes \$2.0 million of costs that are funded from the Restricted Equity Funds.

Below are some of the more significant variances in expenditures:

1. Total spending for the Fightback Campaign as at the end of 2013, was \$1.8 million, all of which was spent out of the restricted equity amount carried forward from prior years. The balance remaining in this budget consists of the remaining \$428,000 carry over, in addition to \$1.0 million allocated for the current year.
2. The CLC Fairness Project and CUPE Fairness Project, both of which were unanticipated in the budget for this year, currently sit at the total commitment for the year of \$994,831 to the CLC and \$153,000 in the CUPE project for a total spend of just under \$1.2 million
3. The Strategic Directions – AP Fund is \$426,000 under budget as at the end of the year. However, invoices related to this budget line are still being processed.
4. Office expenses are \$360,000 under budget for the year.
5. Election spending remains \$110,000 under budget for the year to date due to the timing of elections during the year.
6. HR Professional Fees are \$637,000 over budget. This is partially due to the ongoing costs of using a consultant on the Avanti project, as well as the transition costs related to knowledge transfer from the retired HR Manager.

7. Retiree Health Benefits is over budget by \$592,000. There were 42 new retirees in 2013 and demographics are such that this level of annual retirement is expected to continue into the future. In addition to the growing retiree population, health care costs continue to rise at a level in excess of general inflation at an average rate of greater than 10%.
8. In Union Development, Staff Development is overspent by 61.4% or \$422,000. A big contributor to the overspend was the Senior Management Leadership Training project, as well as increasing Law Society requirements for continuing legal education for our legal staff. Both of these have been more closely analyzed as part of the 2014 budget process.
9. Professional Fees in Saskatchewan are \$137,000 over budget, in large part due to the costs associated with the pension fight at the University of Regina.

National Defence Fund

Assets in the National Defence Fund as of December 31, 2013 totaled \$8.1 million, compared to \$7.7 million at September 30, 2013. Liabilities totaled \$6.4 million, leaving a Fund Balance of \$1.6 million. Total revenue for the year is \$8.9 million against expenditures of \$9.3 million, leaving a deficit for the year of \$381,000. We also incurred unrealized losses on investment income of \$177,000 leaving a total deficit for the year of \$558,000.

Cost-shared campaigns approved by the National Executive Board for the year totaled \$3.2 million, which is \$562,000 over the annual budget. Major Organizing expenses were \$2.5 million, while National Strategic Initiatives totaled \$1.9 million. Spending on Regional Strategic Initiatives totaled \$1.6 million.

National Strike Fund

Total Assets in the Strike Fund as of December 31, 2013 were \$73.0 million, compared to \$70.4 million at September 30, 2013. These assets consisted of \$12.8 million in cash, \$1.9 million in per capita receivable, \$58.3 million in investments.

Under Liabilities, there were accounts payable and accrued liabilities of \$159,000. Therefore, at December 31, 2013 the Fund Balance was \$72.9 million, compared to \$70.0 million at September 30, 2013.

Revenue into the Strike Fund, including investment income, was \$15.1 million for the year. Expenditures for the year were \$2.5 million. This results in a net surplus for the year of \$10.4 million, before taking into account unrealized investment losses of \$2.3 million.

INVESTMENTS

At our September 2013 meeting, the National Executive Board approved a new investment strategy, which we have been working to put into effect.

Eckler Consultants were hired as our independent investment advisor and have helped us devise a detailed transition plan, including reviewing performance of all existing investment brokers. As a result of this performance review, there were some changes in the investment managers handling our funds. Most of the investment changes to the new managers were made on February 24.

As at December 31, 2013, CUPE's total investment assets across all three funds stood at \$113 million. Moving forward, we will be putting a more robust governance structure in place that will see an annual meeting held by the National Officers with each Investment Manager to review the performance of each investment account in detail. In addition, an annual report will be prepared for the NEB to provide an update on performance of each fund as well as highlight any key areas of concern. We expect this report will be presented to the NEB every March.

STRIKES, LOCKOUTS AND SETTLEMENTS

Local 4616-02, Township of Bonfield, Ontario – 16 members on strike since August 1, 2013. Efforts to reach a settlement have run into a mayor who will not budge, especially on the termination of five striking members.

Local 3890, Chignecto Central Regional School Board – After one day of a strike by 420 members on January 27, 2014, the employer agreed to send the one outstanding issue of contracting-out language to mediation.

Local 389, North Shore Winter Club, British Columbia – 16 members locked out since May 3, 2013 by an employer intent on concessions ratified a new collective agreement on December 24, 2013.

Local 1281, Continuing Education Students' Association of Ryerson – two members locked out since September 30, 2013 ratified a new collective agreement on January 31, 2014. The employer continued with an illegal lockout until a further agreement was reached effective February 6, 2014.

Local 4893, Town of Kensington, Prince Edward Island – six members locked out on December 3, 2013 reached a settlement on December 13, 2013.

PER CAPITA ARREARS

For the quarter ended December 2013, the total arrears were \$6,719,460, which was an increase of \$560,832 or 6.80% from the previous quarter ended September 2013. Total arrears have decreased 13.66% as compared to December 2012.

TECHNOLOGY REPORT

In January, the Information Management/Information Technology (IMIT) Steering Committee met for an update on 2013 IT Projects and discussions of the tremendous amount of work on the plate for 2014.

The re-design of cupe.ca website is well underway with a release date set for May 2014.

The Desktop Computer/Laptop Rollout project has commenced. This ongoing initiative will replace any CUPE desktop/laptop computer older than three years during the first quarter of each new year.

The Video Conferencing project has begun with a target for completion in early April 2014. This initiative will add video conferencing capability to the following CUPE locations: Calgary, Dartmouth, Edmonton, Fredericton, Regina, Saskatoon, St. John's, Winnipeg and Sudbury. Video conferencing capability already exists at CUPE National, British Columbia Regional Office, Ontario Regional Office and all sites in Quebec.

The new CUPE Mobility Policy that will see the introduction of iPhones, Androids and Windows smartphones as well as a Bring Your Own Device strategy is almost ready for implementation. Following a presentation for staff unions in late February, CUPE IT is moving forward with a detailed implementation plan to be in place toward the first half of May 2014.

The initial release of the Fairness System was completed in early January. This system has been developed to support the Fairness project that looks to connect CUPE with its 627,000 members. The system is currently in use in Ontario, B.C., Alberta and Saskatchewan. The next regions on the schedule for roll out are the Atlantic and Maritimes.

The request for proposal (RFP) for launching the Electronic Document Management System (EDMS) project was issued at the beginning of February with work set to begin early March. This is one of the largest projects on the list for CUPE this year and will see the implementation of a standard approach to document management and storage across all regions of the country.

Development work continues on LUIS II (Local Union Information System II). This system manages CUPE's local, local executive and member information. With new resources added to the project, the timeline has been shortened significantly, with an estimated delivery completion date within the current calendar year,

The Wide Area Network (WAN) Expansion/Enhanced Security Rollout project has kicked off with a target timing for completion of end of March 2014. This initiative will enhance IT Security on CUPE's WAN and Internet Connections for all CUPE offices with five or more users.

The Server/Software Upgrade project is under way with an estimated completion date of end of April 2014. This initiative will upgrade hardware and Windows software at CUPE's 11 largest offices across the country. This will allow CUPE to proceed with its full implementation of its password policy.

Preparations continue for work scheduled later this year that include upgrades to the Financial Accounting System and CAIS (Collective Agreement Information System).

PROPERTIES AND LEASEHOLDS

Properties

Construction work on the exterior cladding of the Ontario Regional Office in Markham is substantially complete, with only minor seasonal work remaining to be completed in the spring. Destructive work done during the building envelope replacement determined that the skylights are at the end of their useful life. Although the original scope of work did not foresee the need to replace the skylights, it has been strongly recommended that CUPE do so. This work will be scheduled for a future year and, in the meantime, the skylights will be monitored for leaking.

The interior renovations and staff re-allocation project at the National Office is in its final stages and on budget. There are minor adjustments and deficiencies remaining, which we expect to be completed by mid-March.

Leaseholds

Discussions continue in Red Deer for our area office to take up tenancy in a new building being purchased by Local 417. The proposed space will satisfy a growing requirement to provide meeting space for CUPE members in the Red Deer area, ideally situated between Edmonton and Calgary.

The lease for the Victoria Area Office has been renewed for an additional five-year period beginning February 1, 2014.

The lease for the Fort McMurray Area Office has also been renewed for an additional five-year term, coming into effect August 1, 2014. The current market conditions in Fort McMurray have dictated a 60% increase in our rental rates.

A project has begun to explore relocation opportunities for the BC Regional Office in Burnaby, BC. Although the lease does not expire until 2018, we expect the relocation of an office this size to be a significant project that will require considerable planning. We have outgrown the existing space and if an early relocation with suitable financial parameters can be found we would consider early relocation. A needs assessment is underway to determine the appropriate number of square feet required to house the existing staff plus allow suitable room for growth into the foreseeable future. A realtor has been hired who will canvass the market to determine suitable opportunities once the needs assessment has been completed.

We are exploring options for lease renewals or relocation for the Timmins Area Office in Ontario, the Prince Albert Area Office in Saskatchewan and the Grande Prairie Area Office in Alberta.

NATIONAL CONVENTION AND OTHER CONFERENCES

Our 2013 National Convention has been awarded “Business Event of the Year” by the Quebec City Convention Centre and the Quebec Chamber of Commerce. As more evidence of how workers contribute to the economy, the presentation at a gala event this month stated that most hotels in the city were sold out for the week, with 7,500 hotel nights booked. The total economic impact of our convention on Quebec City was valued at \$5.2 million. Thanks to everyone who helped to make our convention a success for delegates, our union and Quebec City.

There is other good news from convention. We have received an interim report from CarbonZero on greenhouse gas emissions and other environmental findings at the 2013 CUPE National Convention. While CarbonZero is still collecting travel data for delegates, guests and staff, preliminary numbers show that travel emissions decreased from 1.406 carbon equivalent tonnes in 2011 to 0.804 carbon equivalent tonnes in 2013. Part of that reduction can be attributed to Quebec City’s more central location, compared to Vancouver, which meant that 59 of 354 CUPE staff for whom travel data is available for 2013 convention travelled by rail. In 2011, no staff travelled by rail.

Data collection was expanded from travel and venue data collected in 2011 to include paper and waste data in 2013. We were able to recycle or compost 2,750 kilograms of materials from convention with 1,579 kilograms going to landfill. This means approximately 64 per cent of materials collected in the waste stream at the convention centre were recycled or composted. We will have a final report from CarbonZero once all data have been collected.

CUPE kicked off the New Year with a number of departmental meetings taking place at the Delta Ottawa City Centre. The National Services Department held a joint meeting as well as six individual branch meetings. CUPE education representatives from across Canada and National also met in Ottawa to discuss issues affecting the Union Development Department.

The 2014 All-Committees Meeting will take place in Ottawa from April 1 - 4 at the Ottawa Convention Centre. Members will meet with their individual committees to address issues unique to their group, and will also have the opportunity to meet in a plenary session and discuss topics that relate to all committees.

Planning continues for the first-ever National Sector Council meeting scheduled for October 6 – 9 at the Sheraton Centre in downtown Toronto.

TRAINING AND DEVELOPMENT

Dozens of member facilitators and staff were trained by UDD across the country to deliver the first round of local leadership and communicator training sessions last fall. Many locals are embracing this new approach to building ongoing relationships with their members. The education materials and training schedules require continual updating in order to build on success.

Our collaboration continues with the Education Department of the Canadian Labour Congress on their “Together Fairness Works” training for all affiliates.

A group of 25 staff, representing all regions, are returning in April for the next phase in their training as pension resource staff. The times we are in clearly call for equipping more staff to recognize the danger signs and know what responses are required. These regional staff will be able to assist other staff and members with advice and training.

The new approach to bargaining education has been mapped out, based on the concept that bargaining is a continual process and begins the moment a collective agreement is signed. A reference group of 35 staff from across the country are meeting in March to work with course writers on content. Some new material will be piloted at the Dave Saunders School in April with an expectation that the entire series will be launched in early 2015.

The Labour College’s Intensive Program was put on hold for 2014 due to conflicting schedules with the CLC Convention and news that the current model has not been financially sustainable. The Advisory Committee has been tasked by the Board of Governors to review the situation and make recommendations on what the future of the Labour College will be. Initial discussions reveal that only a few affiliates appreciate the contribution that the Intensive Program can make to leadership development. The Committee will be broadening the conversation to include perspectives that have not been considered in the design and delivery of the current model. The committee agreed that it is not helpful to design something different until we know what the needs and commitments of affiliates are to such a program.

The annual cycle of staff training is underway with dates, places and topics all under discussion. Pensions, bargaining, mental health and the usual array of legal topics are among the many choices offered to staff.

PENSION ADMINISTRATION

Effective January 1, 2014, I will be the Chair of the Joint Board of Trustees and Brother Brian Edgecombe will be Vice-Chair.

Effective January 1, 2014, Brother Mark Hancock, President, BC Division, will act as CUPE Trustee, replacing Brother Barry O'Neill. Brother Tom Graham has stepped down from his position of CUPE Alternate Trustee.

As mentioned in my previous report, the January 1, 2014 valuation must be filed this year. The Trustees, as administrator of the plan, will need to take important decisions on methods and assumptions to be used, which may have a significant impact on the final results of the valuation. Discussions will take place at the April, June and September meetings.

I am pleased to report that the fund gross rate of return for year 2013 is 18.55%. While the market value solvency ratio has increased from 78.3% as at January 1, 2013, to an estimated market value solvency ratio of 97.1% as at January 1, 2014, we still remain in a solvency deficiency position.

The Pension Administration staff are currently preparing for the 2013 year-end as well as the required membership data files for the January 1, 2014 valuation.

Deaths

Happily, no deaths were reported for this period.

Retirement

Brother Brian Ellis, Manitoba Regional Office – April 1, 2014
Sister Dorritta Fode, British Columbia Regional Office – April 1, 2014
Brother René Fréchette, Quebec Regional Office – April 1, 2014
Brother Richard Balnis, National Office – May 1, 2014
Sister Shirley Mathieson, British Columbia Regional Office – May 1, 2014
Brother Pierre Thériault, Quebec Regional Office – May 1, 2014
Sister Maureen Morrison, Manitoba Regional Office – June 1, 2014
Sister Susan Ruffo, National Office – July 1, 2014
Sister Ann Robins, Manitoba Regional Office – August 1, 2014
Sister Pat Daley, National Office – October 1, 2014

CONCLUSION

Whether it's reaching out to talk with members in the workplace, fighting back against regressive legislation or organizing in communities to defend public services, our union is bubbling with activity. I look forward to hearing more this spring at your division conventions.

We also have the Canadian Labour Congress convention coming up in May, where we will be working with all affiliates to rebuild and re-energize our movement. We have a date with the ballot box in just 19 months. In some ways we could call it a date with destiny because the future of our country hangs in the balance. We need to build the movement to say good-bye to Harper's anti-government, anti-people, anti-environment agenda and give hope to the new generation coming into our workplaces.

We'll have the opportunity to lay the foundation for change in many regions of the country with municipal and school board elections in British Columbia, Manitoba, Ontario and Prince Edward Island. A provincial election will take place next September in New Brunswick and could happen anytime in Ontario and Quebec.

We have the resources in our people and our finances to do the work that must be done with sound planning and preparation.

Respectfully submitted,

CHARLES FLEURY
National Secretary-Treasurer

:pmc/ceu