

Section 5 Budget Introduction

During the planning period preceding the development of the Strategic Plan for 2011-2014, IFAC (a) conducted extensive external and internal consultations, (b) carefully considered the pressures on the organization, and (c) monitored the environment and global expectations on the organization's future. These factors led to the development of a strategic plan which includes a number of enhanced and new services, as well as an increase in the level of activity in many of the existing services. Many of the activities which were deferred in recognition of the impact of the global financial crisis have been brought forward into the Operational Plan for 2011.

Senior management has developed detailed activity work plans and budgets for 2011. While the budgets that support these work plans have been determined from a zero base, the expense increases generally relate to one of the following five categories: expenses associated with existing commitments; expenses associated with enhanced or new activities; the need to invest in organization capacity (human and physical assets); cost increases (including the impact of currency fluctuations); and the buildup of short term unrestricted reserves.

In developing the detailed activity work plans and budgets for 2011, senior management's aim was to deliver on the key commitments made in the Strategic Plan for 2011-2014, while respecting the state of economic recovery.

Office Expansions

The offices in New York City and Toronto cannot accommodate the staff referred to in the Staffing Plan.

Senior management believes that 2010/2011 is the opportune time to take advantage of the favorable market conditions to renegotiate the current lease on 545 Fifth Avenue, New York, New York. Although this lease expires in mid 2013, it is likely that the landlord would replace it with a new ten-year lease with favorable terms for new and larger space.

At present, IFAC staff in Toronto is hosted by the Canadian Institute of Chartered Accountants (CICA) at 277 Wellington St. W. The CICA has confirmed that the offices currently occupied by IFAC staff could be utilized for an additional five-year period from January 1, 2011. To accommodate the growth in Toronto-based IFAC staff, senior management recommends that IFAC lease additional space in the same building for a period of five years.

The above will accommodate in staff growth in 2011 and modest staff growth over the remainder of the strategic plan period. It also includes a boardroom in New York City.

The office expansions will have a significant effect on cash resources and the total expense budget for 2011 and beyond.

- Leasehold improvements, furniture, information technology and other capital expenditure (after an estimated Tenant Improvement Allowance of US \$830,000) are estimated at US \$1,810,000. This capital expenditure will be depreciated in accordance with IFAC's accounting policy. It is estimated that the additional depreciation could amount to US \$190,000 per year.
- Non-recurring legal and relocation expenses are estimated at US \$50,000.
- Additional rent is estimated at US \$540,000 per year (this amount does not take account of annual escalations), and additional occupancy costs at US \$200,000 per year (this amount does not take account of annual expense increases).

- The boardroom in the New York City office would have a positive effect on meeting costs. The actual effect on meeting costs depends on the size of the boardroom. The latter is subject to the structure of the new office space. It is estimated that a 45-person boardroom could render a US \$200,000 reduction, while a 60-person boardroom could render a US \$375,000 reduction.

The actual Tenant Improvement Allowance, effective dates of the leases, number of months of free rent, and annual rent escalations are not known at this stage and would be determined by negotiation with the landlord. Furthermore, the total expense budget for 2011 may vary, as the lease may not commence on January 1 and the build-out may not be completed until the second quarter. In addition, the meetings for 2011 were confirmed in 2010 in accordance with the meeting location policy; most of the meetings to be held in New York City in 2011 are planned for the first and second quarter. The Budgeted Statement of Revenue and Expenses in section 6 reflects the full-year effect of the expenses associated with the office expansions.

Without a contribution of capital from the members, these expansions would have a significant adverse effect on IFAC's unrestricted reserves. The Board therefore recommends that the first 42 members make an additional contribution of \$1,810,000 to fund the leasehold improvements and furniture, and that IFAC fund the expenses associated with the office expansions (\$980,000). The additional contribution by the members could be paid over two years (i.e., 2011 and 2012).

Effect of the Monitoring Group's Review of the Effectiveness of the 2003 IFAC Reforms

The budgets for 2011 do not include any expenses that may be necessary to respond to the findings of the Monitoring Group's review of the effectiveness of the 2003 reforms, or to establish public interest oversight of the IPSASB. The detailed activity work plans for 2011 includes the development of such responses, however, in 2011 the related expenses will be absorbed in staff costs. Although the Monitoring Group's final report will not be published before the Council's approval in November 2010 of the strategic plan and the broad parameters of the budget for 2011, it is anticipated that the findings could have a significant effect on the operational plan and budget for 2012. The establishment of public interest oversight of the IPSASB will also have a significant effect on that plan and budget.