

Financial Incentives for RACI Business Entities

1. *Preamble*

In recent years the RACI has undergone a process of introducing centralised financial procedures. The reasons for undertaking these changes have been well documented and discussed within the RACI, and some benefits to all members from these changes are already becoming apparent.

However, the financial changes have also brought about some unintended negative outcomes. As the changes in financial procedures have been progressively implemented, a significant proportion of the RACI membership has formed a perception that the funds associated with their particular entity, particularly within Divisions, have been lost. Irrespective of the reality, perceptions of the membership within our volunteer organisation cannot be ignored and must be taken into account.

One particular unintended outcome arising from the financial changes is that over the last 2-3 years activities such as conferences run by Divisions are, by and large, being run on a budgetary break-even basis. Traditionally, these activities have returned a surplus to the Divisions. A pervasive culture of avoiding the generation of surpluses that are perceived to be held by the RACI, and not for the benefit of the business entity that generated the surplus, is becoming increasingly entrenched. Meanwhile, the activities that have traditionally been funded by the Divisions (*e.g.*, awards, travel bursaries, etc.) continue to be funded centrally by the RACI. This situation means that, irrespective of member subscription revenue¹, the RACI is expending funds at a rate greater than it is generating income. This situation is clearly unsustainable, and must be addressed as a matter of urgency.

The RACI Board is of the view that a key element in returning the organisation to a firmer financial footing is to re-incentivise the business entities to embrace the concept of generating surpluses from their professional activities and events, as appropriate. The Board believes that this outcome is best achieved by re-attaching to business entities a significant level of ownership to surpluses generated by the activities organised and run by that entity, whilst simultaneously recognising that a contribution towards the centralised running costs (including the provision of member services, up-to date IT communications, insurance and other liability protection) of the RACI is also required.

The following comprehensive financial model for business entities of the RACI has been developed. This model has been presented to the November 2012 RACI Assembly and it received

¹ With declining membership numbers, subscription revenue has reduced to ~60% of what was ten years ago.

broad positive support from Branch and Division leaders. Several suggestions for improvement were discussed at the Assembly, and this White Paper represents the model to be from the beginning of the 2013-14 RACI financial year (that is, from 1 July 2013).

This model encourages business entities to organise and conduct events and to subsequently “use” event-generated surpluses for non-event purposes.

It is the intention of the model that monies do not accumulate or be hoarded by any particular entity.

“Use” is defined as turning over surplus monies on non-event benefits to members and/or in the service of chemistry. It includes “seed” money for events, expected to be re-couped but not subsequent routine event expenditure.

As described later, money “excesses” for National Office (NO) or Branch use will be calculated on an annual basis at financial year end; therefore each entity has prior opportunity as to how such monies are used.

2. Scope of this Proposal

The concept of designated financial incentives will apply to all Divisions, Branches, Groups and Sections. However, tailored models have been developed for each business entity type in recognition of the unique role, purpose and activity footprint of each type of entity. It is essential to understand from the outset that the model below is predicated on all business entities preparing accurate and realistic annual budgets, within an indicative three-year budget planning framework.

Each entity is allocated an opening Benefit Reserve balance, based upon historical financial data and expected usage.

All funds in a Benefit Reserve need to be used for the benefit of the RACI membership. Funds cannot be simply allowed to accumulate and must be used for member benefits within a 3-year timeframe.

Surplus-producing entities should be in surplus over any rolling 2-year period and not drain other income resources of the RACI.

The RACI requirement for business units to provide annual running three-year provisional budget projections will be the primary vehicle for ensuring Benefit Reserves are expended for the benefit of members.

There will be no need for any business unit to accumulate funds for a ‘rainy day’ or for some hoped-for large activity in future years (e.g., a major international conference) because the RACI budget planning process can project future expenditure, and the RACI Board remains committed to, as a matter of policy, underwriting extraordinary expenses associated with undertaking extraordinary events, such as attracting major international events of benefit to members to Australia.

The RACI National Office will continue to organise and administer funds for all National Awards (i.e., those not awarded by Divisions and other entities). A separate document is being prepared to explicitly identify all National Awards; all awards not listed in the separate policy document will be the responsibility of the relevant business entity to resource and manage.

This policy does not apply to centrally-organised RACI events, including National Congresses.

3. Divisions

A review of the end-of-financial year reports from Divisions over the past several years indicates that conferences, symposia, special lectures and seminars are the major activities that lead to the generation of financial surpluses or deficits. As such, any financial re-incentivising model should be centred on these activities. It is intended that the model below is applied to each Board-approved conference/activity.

However, there are several other activity types undertaken by Divisions within the RACI. Examples include the sale of merchandise and the provision of professional development and training sessions and materials. Whilst individual transactions for these types of activities may involve relatively minor sums, in addition to Board-approved conference activities, the consolidated annualised activity profile from each Division will be subject to this policy.

3.1 Division Income-Generating Activities

The key element of the model is to establish a clear incentive for Divisions to return to a culture of planning to generate reasonable surpluses from their activities. As such, financial incentives should be linked to the magnitude of the surplus. The following thresholds will apply. These thresholds will be subject to biennial review by the Board. It is important to note that below, when reference is made to a Division 'retaining' funds, this terminology will be explained further under the Operational Details section. Under no circumstances will separate bank accounts be established - except for temporary accounts, established by Board-approved PCOs, for operational conference purposes.

From the financial year 1 July 2013, commencing with a Benefit Reserve Opening Balance, funds will be allocated to an internally-administered Benefit Reserve for each Division.

<i>Surplus amount</i>	<i>Allocation of funds to the Benefit Reserve</i>
\$0 - \$5,000	Division retains all funds.
\$5,001 - \$15,000	Division retains the initial \$5,000 plus 50% of the amount between \$5,001 and \$15,000.
\$15,001 - \$30,000	Division retains \$10,000 (from above) plus 70% of the amount between \$15,001 and \$30,000.
\$30,001 +	Division retains \$20,500 (from above) plus 90% of the amount greater than \$30,000.

Under these conditions, an activity generating, for example, a \$50,000 surplus will see the Division accumulate \$38,500 in their Benefit Reserve. Based upon past experience, very few RACI Division meetings are of sufficient scale and magnitude to generate surpluses greater than \$50,000. However, if they do, the organising Division 'retains' a majority stake in these 'super surpluses'.

3.2 Division Activities Which Do Not Generate a Surplus

The RACI will continue to maintain its commitment to underwrite any losses made by appropriately sanctioned (*i.e.*, Board-approved) conference activities. The current practice of Divisions submitting detailed provisional budget information as part of seeking Board approval will be retained, as per the RACI policy on the conduct of conferences. In the case of a loss making event, Benefit Reserve funds will first be drawn down to a zero balance prior to central RACI

financial reserves being called upon to underwrite any additional loss.

All other Division activities must be funded from the Benefit Reserve of the Division.

Divisions unable to cover their activity costs may be declared insolvent by the RACI Board with the possible consequence of being wound up.

3.3 Division Benefit Reserves: Operational Details

All Divisional funds will be retained in the single, consolidated RACI bank account. The establishment of notional contingency/deficit budget lines (the Benefit Reserves) will internally account for funds generated by Divisions within the RACI accounting framework. The details of these notional balances (positive or negative) will be transparent to all Divisions and disseminated on, at least, a quarterly basis.

Divisions are entitled and encouraged to use their Benefit Reserve funds for appropriate activities that directly benefit the RACI membership, subject to Board approval via the triennial budget planning and annual budget approval processes. Examples include awards, invited lectureships, future Divisional conference seed funding, travel bursaries, etc. Because each Division will be able to directly access the bulk of funds generated by them under this proposal, as of 1/7/2013 each Division will be responsible for ensuring sufficient funds are available in their Benefit Reserve accounts to fund all awards they wish to make. As such, it is anticipated that Divisions will have a significantly improved capacity to tailor expenditure to suit the needs of RACI members participating in that area.

Each Division's Benefit Reserve opening balance is 20% of the theoretical reserve in the RACI accounting system as at 12 February 2013. All Divisions will be provided with a minimum \$5,000 opening Benefit Reserve balance if the above fraction results in a lower figure. Benefit Reserve opening balances for RACI Divisions are given in the table below.

RACI Division	Benefit Reserve Opening Balance (1/7/2013)	Documented Awards
Analytical	\$6,718	
Biomolecular	\$21,268	
Cereal	\$26,835	
Chemical Education	\$6,566	
Colloid	\$5,000	\$11,500*
Electrochemistry	\$7,070	
HS&E	\$5,000	
Industrial	\$20,873	
Inorganic	\$30,434	
Materials	\$5,000	
Organic	\$23,125	
Physical	\$13,600	
Polymer	\$38,435	\$30,000 [#]
Radiochemistry	\$5,000	

The table above also includes details of specific funds denoted as Documented Awards.

Specifically, these funds are associated with the Hunter-Healy* and Solomon[#] awards. These funds were donated to the RACI by third parties for the specific use of the named awards. Therefore, these amounts are not included in the Benefit Reserve Opening Balance calculations. RACI funds cannot be transferred to these Award accounts, but Divisions may use Benefit Reserve funds in conjunction with Documented Awards funds at any time in making an award. All other Divisional awards are to be funded by the Divisions from their Benefit Reserves. The RACI Board may establish a Documented Award (or similar tied purpose) account at any time by entering into agreement with third parties.

As an incentive for Divisions to spend Benefit Reserve funds on member benefits, an accumulation cap of \$50,000 will apply. All funds generated in excess of this cap will be held centrally. Such excess funds will not be transferred by the Board until at least 12 months' notice of the need to increase activity for member benefit has been given to the Division by the Board. A Division under exceptional circumstances can seek exceptions to this arrangement. The Board will approve all variations to this arrangement on a case-by-case basis.

Funds in any Benefit Reserve cannot be allowed to stagnate. Any Division deemed to be inactive may have funds in its Benefit Reserve redistributed for the benefit of all RACI members

Such unused funds will not be transferred by the Board until at least 12 months' notice of the need to increase activity for member benefit has been given to the Division by the Board. This would normally occur through the annual budget planning process.

Activities that are run jointly between two or more Divisions or with third parties (*e.g.*, joint conferences) will require a written agreement regarding the profit-loss sharing arrangements in advance of receiving Board approval. However, the thresholds and percentages listed above will apply to the gross amounts generated by the RACI portion of the activity.

4. Groups

Within the RACI, Groups are geographically-based technical and specialist chemistry entities that formally operate under the auspices of their respective state Branch. However, due to their activity profiles that focus on technical and professional activities and events, it is appropriate that Groups operate under a similar financial model and procedures as those developed for Divisions.

4.1 Group Income-Generating Activities

Groups are expected to run activities in a financially sound manner that generates surpluses that can be re-invested for the benefit of the RACI membership. On that basis, the following model will apply to the allocation of annualised surplus funds.

<i>Surplus amount</i>	<i>Allocation of funds to the Benefit Reserve</i>
\$0 - \$2,500	Group retains all funds.
\$2,501 - \$15,000	Group retains the initial \$2,500 plus 70% of the amount between \$2,501 and \$15,000. The balance will be allocated to the host Branch.
\$15,001 +	Group retains \$15,000. The balance of surplus will be allocated to the host Branch for the benefit of the RACI membership, after 12 months' notice to the Group.

In this model, Groups have a Benefit Reserve cap of \$15,000 with which to undertake activities of benefit to the RACI membership. However, the expectation is that Groups will use their Benefit Reserve funds to undertake activities of benefit to RACI members through Group or Branch activities; lack of Group activity (as demonstrated through the triennial budgeting process) will constitute grounds for the RACI Board to consider redirecting funds to other purposes. As with Divisions, any potentially impacted Groups (and their host Branch) will be consulted prior to the reallocation of any funds by the Board.

Due to the strategic importance of Chemical Education and Young Chemists Groups across the country in promoting chemistry in society, the RACI Board deliberately intends that the above model does NOT apply to these Groups, who would retain 100% of any surpluses generated, subject to the \$15,000 ceiling.

4.2 Group Activities Which Do Not Generate a Surplus

In the case of a loss making event, Benefit Reserve funds of a Group will first be drawn down to a zero balance prior to the host Branch financial reserves being called upon to underwrite any additional loss. Inactive Groups, or those unable to cover their activity costs may be declared insolvent by the host Branch. In the case where a host Branch cannot cover the losses incurred, after Branch Benefit Reserves are drawn down, RACI central reserves will cover any remaining shortfall. The Board will monitor all group and Branch activity via the triennial budgeting process.

4.3 Group Benefit Reserves: Operational Details

The same operational details for Groups will apply as described for Divisions. All funds will be retained in the single, consolidated RACI bank account. The establishment of notional contingency/deficit budget lines (the Benefit Reserves) will internally account for funds generated by Groups within the RACI accounting framework. The details of these notional balances (positive or negative) will be transparent and disseminated on, at least, a quarterly basis.

The Groups in the Table below are listed as per the National Office current financial records. It is recognised that some of these Groups are not currently active; the financial model is designed to re-activate such Groups. The activity of Groups and their viability are to be reviewed in July, 2014.

Each Group's Benefit Reserve opening balance is 20% of the theoretical reserve in the RACI accounting system as at 12 February 2013. All Groups will be provided with a minimum \$500 opening Benefit Reserve balance if the above fraction results in a lower figure. Benefit Reserve opening balances for RACI Groups are given in the table below.

Host Branch	RACI Group	Benefit Reserve Opening Balance (1/7/2013)
NSW	Analytical	\$11,966
	Chemical Education	\$7,191
	Consultants	\$500
	Industrial	\$10,371
	Inorganic	\$500

	Natural Products	\$2,046
	Organic	\$2,510
	Pharmaceutical	\$16,899
	Polymer	\$500
	Young Chemists	\$500
VIC	Analytical	\$500
	Bioactive	\$500
	Chemical Education	\$500
	Chemical Heritage	\$500
	HSE	\$1,043
	Inorganic	\$1,849
	Leader/CD	\$500
	Organic	\$2,665
	Peptide	\$2,088
	Pharmaceutical	\$500
	Women in Chemistry	\$500
QLD	Analytical	\$6,905
	Chemical Education	\$5,670
	Inorganic	\$500
	Organic	\$1,856
	Polymer	\$500
SA	Analytical	\$500
	Chemical Education	\$667
	Pharmaceutical	\$500
WA	Analytical	\$3,975
	Chemical Education	\$2,915
	HSE	\$3,787
	Management & Career	\$620
	Synthetic & Organic	\$1,334

5. Branches

Branches play an important, largely non-technical, role within the RACI, including the administration and any necessary coordination of hosted Groups and Sections, prosecuting the RACI's "public education" agendas and facilitating social interactions between members. It is

essential to keep in mind that Branches *per se* have extremely limited capacity to engage in surplus-generating activities.

The RACI Board will provide each Branch an initial Benefit Reserve allocation of \$6,000 (see Table below). Of this sum, \$5,000 is expected to be used annually to conduct “public education” which cannot be expected to be profitable. The remaining \$1,000 will be available as “seed” funding for cost neutral, potential surplus-generating and social events for members. These funds are not for accumulation. Each year this portion of each Branch’s Benefit Reserve will be topped up to \$6,000 from central RACI reserves; this is not a cumulative fund.

Branch income will be augmented by contributions from hosted Groups into the Branch Benefit Reserve. Branch Benefit reserve balances in excess of \$6,000 will result in the annual transfer of funds from central RACI reserves not occurring.

This model also gives Branches incentive to invigorate its Groups so that the Branch can benefit from surpluses generated by the Groups.

As an incentive for Branches to spend Benefit Reserve funds on member benefits, an accumulation cap of \$20,000 will apply. All funds generated in excess of this cap will be held and used for national RACI purposes or as designated by the Board.

RACI Branch	Benefit Reserve Opening Balance (1/7/2013)
ACT	\$6,000
NSW	\$6,000
NT	\$6,000
QLD	\$6,000
SA	\$6,000
TAS	\$6,000
VIC	\$6,000
WA	\$6,000

6. Sections

Sections also play an important, largely non-technical, role within the RACI, prosecuting the RACI’s “public education” agendas and facilitating social interactions between members in locales other than the capital cities.

The RACI Board will provide each Section an initial Benefit Reserve allocation of \$500 (see Table below). These funds will be available as “seed” funding for events of interest to RACI members. Section events must be appropriately charged to ensure deficits are not generated. These funds are not for accumulation. Each year this portion of each Section’s Benefit Reserve will be topped up to \$500 from central RACI reserves.

The RACI Board considers that Sections are an essential component of our organisation’s structure and they must be encouraged to provide benefits to members outside of the major capital cities. Some Sections have become inactive in recent years, and Branch Committees are strongly encouraged to assist Sections recommence activities, or to establish new Sections, as appropriate.

The Sections in the Table below are listed as per the National Office current financial records. It is

recognised that some of these Sections are not currently active; the financial model is designed to re-activate such Sections. The activity of Sections and their viability are to be reviewed in July, 2014.

Host Branch	RACI Section	Benefit Reserve Opening Balance (1/7/2013)
NSW	New England	\$500
	Newcastle	\$500
	Northern Rivers	\$500
	Riverina Murray	\$500
	Western Sydney	\$500
	Wollongong	\$500
VIC	Geelong	\$500
	Gippsland	\$500
QLD	Central	\$500
	Northern	\$500

7. National Congresses and Other Centrally-Organised Activities

It is proposed that this policy does not apply to centrally-organised RACI events including National Congresses. These events are funded entirely from RACI central reserves and there is no expectation of Divisions to contribute financially to the conduct of Congresses and similar events. All Congresses will be run within budget parameters approved by the Board.

A separate policy is being developed that will describe the distribution of surplus funds generated from National Congresses for the benefit of RACI members. An underlying principle in the development of this policy is that surplus funds generated from National Congresses will be used for the benefit of members that participate in the Congress. However, the distribution of funds will not be driven by the policy framework described herein.

8. Budgeting

Accurate budgeting is a requirement for benefit of both the entity and RACI in totality. Budgeting is an essential planning tool for all parties.

If properly annually budgeted by the entity concerned, and consistent with the total RACI budget and reserves, monies are available for RACI activities of all types *e.g.* conferences, seminars awards, social events etc. Unbudgeted, special cases or urgent funding needs can be presented directly to the Board at any time.

Budgets must be complete over future 3 years so that the totality of RACI activities and commitments CAN be MONITORED. Not all entity events must be profitable, providing that the 3-yearly entity is budgeted for and is in surplus over a rolling 2 year period.

Events to chemistry professionals, such as seminars and conferences must be budgeted to be at

least 15% (of delegate fees) profitable and all endeavours made to achieve this.

As per current practice, the Board is to approve events of more than 2 days duration and associated budgets, prior to any (external) expenditure commitment. The CEO (via the National Office) registers events of 2 days duration, or less. Such registration is essential for public liability and related insurance coverage.

Provided within budget, it is acceptable for one Division/Group to allocate monies for member benefit to another entity.