INTERNATIONAL LABOUR OFFICE
Governing Body

GB.279/PFA/4
279th Session
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Programme, Financial and Administrative Committee
PFA

FOURTH ITEM ON THE AGENDA

Review of the Financial Regulations governing cash surpluses and deficits

Introduction

1. At its 82nd Session (1995) the International Labour Conference, having noted the practical difficulties that had arisen in recent biennia from the non-application of articles 18 and 21.2 of the Financial Regulations, decided, "on a trial basis for the 1994-95, 1996-97 and 1998-99 financial periods only that – notwithstanding the aforementioned articles – sums withdrawn from the Working Capital Fund to finance expenditure pending receipt of contributions in accordance with article 19.1(a) of the Financial Regulations shall, if they cannot be reimbursed from contributions received in the course of the same financial period, be reimbursed from amounts credited in subsequent financial periods against arrears of contributions." [1]

2. The trial period established by the Conference having now been completed, the Programme, Financial and Administrative Committee may wish to review the impact of this decision and, on the basis of its findings, to consider what follow-up action might be most appropriate. The present paper is intended to assist the Committee in doing so and sets out briefly the considerations and events leading to the Conference resolution, presents and analyses the results obtained, and suggests the steps that might now be taken.

The situation leading to the decision by the Conference

3. In accordance with article 18 of the Financial Regulations, surpluses under the ILO's regular budget are credited to member States. Article 21.2, on the other hand, requires additional assessments to be raised on member States to cover deficits under the regular budget by reimbursing the Organization's Working Capital Fund for withdrawals effected to finance such deficits. Member States are subsequently credited with their share of surpluses arising when payments of the arrears that led to the deficits are received. Thus, over time, no member States finance the non-payment of contributions by others.

[1] International Labour Conference, 82nd Session (1995), *Record of Proceedings*, p. 21/4.

4. In prior biennia the operation of this mechanism had been disrupted by irregular patterns in the amounts of budgetary income received and their impact on financial results. This trend had led the Director-General to adopt a policy of initiating prudent adjustments in the level of programme implementation, in consultation with the Governing Body, to take account of the expected availability of budgetary income. Similarly, the Governing Body and the Conference had adopted a succession of ad hoc waivers of the application of article 18 or article 21.2 of the Financial Regulations. In such circumstances the Committee agreed at the 258th Session of the Governing Body (November 1993) that the Director-General should explore means of introducing greater flexibility in the Financial Regulations with respect to the treatment of future surpluses and deficits.[2] Discussion of the Office submissions on this subject began in the Committee at the 259th Session of the Governing Body (March 1994) and continued at the 261st and 262nd Sessions (November 1994 and March-April 1995). At the last of these sessions it was agreed that the Conference should be requested to adopt the resolution referred to in paragraph 1 above.

Discussions in the Committee

5. The following paragraphs set out some of the significant points examined during the Committee's discussion of this matter.

6. *Difficulty of matching programme adjustments with expected income.* The scope for programme adjustments declines as a biennium progresses, while on the financial side accurate forecasts of the amount and timing of payments of contributions are not always feasible. In such circumstances surpluses or deficits at the end of each biennium are practically unavoidable and the regular application of articles 18 and 21.2 of the Financial Regulations has not proved practicable.

7. *Advantages of greater flexibility in articles 18 and 21.2.* Except where very substantial shortfalls in income are expected or experienced, the main such advantages are as follows:

(a) the need to reduce programmes in anticipation of income shortfalls is eliminated;

(b) additional assessments on member States in respect of cash deficits directly attributable to shortfalls in budgetary income are avoided;

(c) over time significant surpluses are less likely to occur, payments of arrears being used in the first instance to reimburse previous withdrawals from the Working Capital Fund to finance deficits.

8. *Possible negative implications for the Working Capital Fund.* Modification of the present articles 18 and 21.2 could lead to the need for special measures to be taken to reimburse withdrawals from the Working Capital Fund, should significant shortfalls in contributions persist for a number of years.

9. *Financing of expenditure on contingencies and emergencies.* Any deficits resulting from expenditure on contingencies and emergencies under prior authorization by the Governing Body would have to continue to be the subject of an additional assessment on member States in the following biennium. Such an assessment would accordingly have to continue to be provided for in the Financial Regulations.

[2] GB.258/5/23.

Evaluation of the trial system

10. The financial results of the trial system are shown in the following table.

Analysis of the financial results of the trial system

			1994-95 $ million	1996-97 $ million	1998-99 $ million
A.	**Budgetary income**				
	Income budget		466.5	579.5	481.0
	Contributions received		389.7	570.7	478.8
	Add:	Application of 1996-97 surplus	-	-	16.3 [3]
	Deduct:	Arrears applied to replenish Working Capital Fund for deficit in previous biennium	-	(44.2) [4]	-
		Total	389.7	526.5	495.1
		Income surplus/(deficit)	(76.8)	(53.0)	14.1
B.	**Budgetary expenditure**				
	Expenditure budget		466.5	579.5	481.0
	Expenditure incurred		425.1	506.0	466.5
	Expenditure underspending		41.4	73.5	14.5
C	**Surplus (deficit)**				
	Income surplus/(deficit)		(76.8)	(53.0)	14.1
	Expenditure underspending		41.4	73.5	14.5
			(35.4) [4]	20.5 [3]	28.6
D.	**Financing measures**				
	Replenishment of WCF			30.2	
	Withdrawal from WCF		(30.2)		
	Internal borrowing		(14.0)	14.0	
		Total	(44.2) [4]	44.2	

11. The following observations may be made on these data:

(a) *1994-95:* During the trial period, a deficit due to income shortfalls occurred only in this biennium. The deficit of $35.4 million at the budget rate of exchange of 1.45 Swiss francs to the dollar was revalued to $44.2 million in December 1995 at the then prevailing United Nations accounting rate of exchange of 1.16 Swiss francs to the dollar. The deficit was financed by withdrawal of the full balance of the Working Capital Fund ($30.2 million) and by some internal borrowing ($14.0 million). Under the trial system, payment of a delayed major 1994-95 contribution early in January 1996 permitted the Working Capital Fund to be fully replenished and the internal

[3] 1996-97 surplus of $20.5 million, at the 1996-97 budget rate of exchange (1.16 Swiss francs to the dollar), was transferred to 1998-99 assessments at the 1998-99 budget rate of exchange (equivalent to $16.3 million).

[4] 1994-95 deficit of $35.4 million at the 1994-95 budget rate of exchange (1.45 Swiss francs to the dollar) was reimbursed through arrears of income received in January 1996 at the then United Nations accounting rate of exchange (1.16 Swiss francs to the dollar).

borrowing to be repaid in the first weeks of the 1996-97 biennium, rather than a year later through an additional assessment on member States.

(b) *1996-97:* Although there was an income deficit of $53 million in 1996-97, this was more than offset by underspending of the expenditure budget by some $73 million, which resulted in a surplus of $20.5 million. [5] But for the trial system, a much larger surplus of $64.7 million would have occurred, since the 1994-95 deficit of $44.2 million would have been the subject of an additional assessment in 1997. In anticipation of the surplus expected to occur in 1996- 97, the Conference reduced 1998-99 assessments by $16.3 million.[5]

(c) *1998-99:* There was a favourable outcome for both the income budget (an income surplus of some $14 million) and for the expenditure budget (underspending of some $15 million), the resulting surplus being some $29 million. But for the trial system, a substantial part of the large surplus of $64.7 million which would normally have occurred in 1996-97 would have been applied to reducing contributions in 1999. Thus, the trial system considerably evened out assessments.

Over the whole period no discernable change in the pattern of payment of contributions was observed.

Conclusions

12. The operation of the trial system during the three biennia would thus appear to have been successful. In accordance with the main objectives of the system, the effects of fluctuations in budgetary income were largely mitigated and an additional assessment on member States to reimburse withdrawals from the Working Capital Fund was avoided in respect of the 1994-95 deficit of $44.2 million.

13. The outcome of the trial period would also appear to corroborate the favourable analysis provided to the Committee at the 261st Session (November 1994) of the Governing Body,[6] which showed how the same system would have functioned during the four preceding biennia (1986-87 to 1992-93), three of which were characterized by significant income shortfalls. The tabular presentation submitted in March 1994 is reproduced in Appendix I for reference.

14. Taking account of the above analysis, the Director-General believes that the system as practised during the last three biennia deserves serious consideration for adoption on a permanent basis.

15. ***Should the Committee share this view, it may wish to consider amendments to the Financial Regulations through which the new arrangements could be put into continuing effect. A proposed text is contained in Appendix II. If it should then think fit, the Committee may wish to recommend to the Governing Body that it propose to the International Labour Conference, for adoption at its 89th Session (June 2001), the draft resolution in Appendix III, through which the amendments would be adopted.***

Geneva, 11 October 2000.

Point for decision: Paragraph 15.

[5] The 1996-97 surplus of Swiss francs 23.8 million was equivalent to $20.5 million at the 1996-97 budget rate of exchange and $16.3 million at the 1998-99 budget rate of exchange.

[6] GB.261/PFA/4/1.

Appendix I

Illustration of the operation of the proposed system of using arrears of contributions in respect of previous biennia to reimburse withdrawals from the Working Capital Fund to finance cash deficits due to income shortfalls

(originally issued in GB.261/PFA/4/1 (November 1994))

	1986-87 $ million	1988-89 $ million	1990-91 $ million	1992-93 $ million
Income budget	253.1[1]	324.9[1]	330.4	405.7
Contributions received				
Year 1 – current assessments	89.7	115.3	116.4	143.4
– arrears from previous biennia	10.4	21.8	59.1	33.3
Year 2 – current assessments	103.7	154.7	158.5	198.5
– arrears from previous biennia	35.7	2.1	6.2	28.1
	239.5	293.9[1]	340.2[1]	403.3
Less: Arrears applied to replenish the WCF for cash deficit in previous biennium due to shortfall in contributions	–	(7.4)	(27.1)	(17.3)
Budgetary income	239.5	286.5	313.1	386.0
Income surplus/(deficit)	(13.6)	(38.4)	(17.3)	(19.7)
Budgetary expenditure				
Expenditure budget	253.1[1]	324.91	330.4	405.7
Expenditure	246.9[1, 2]	313.6[1,2]	333.1	405.7[2]
Expenditure under/(over) spending	6.2	11.3	(2.7)	–
Cash surplus/(deficit)				
Income surplus	(13.6)	(38.4)	(17.3)	(19.7)
Expenditure under/(over) spending	6.2	11.3	(2.7)	–
	(7.4)	(27.1)	(20.0)	(19.7)
Reimbursement of cash deficit to WCF				
From arrears of next biennium	–	7.4	27.1	17.3
By additional assessment under Article 18 of the Financial Regulations in second year of biennium	–	–	–	2.7
	–	7.4	27.1	20.0
Movement in level of WCF				
Replenishments	–	7.4	27.1	20.0
Withdrawals	(7.4)	(27.1)	(20.0)	(19.7)
Net change	(7.4)	(19.7)	7.1	(0.3)

[1] Adjusted to eliminate the effect of exchange-rate fluctuations.

[2] Increased by amount of expenditure reductions approved by the Governing Body to cover potential income shortfalls: 1986-87 – $17.3 million; 1988-89 – $12.3 million; and 1992-93 – $18.0 million of originally approved expenditure reductions totalling $30.0 million.

Appendix II

Proposed amendments to the Financial Regulations of the International Labour Organization

(Additions are shown in bold type: deletions are indicated by square brackets)

Article 18

1. The excess [or shortfall of income over expenditure] **of income over expenditure (surplus) or the shortfall in income compared with expenditure (deficit)** in any complete financial period shall be calculated by deducting budgetary expenditure from budgetary income with a financial provision being made for delays in the payment of contributions. Such provision shall amount to 100 per cent of the contributions unpaid at the [date of the financial statements at the] end of the financial period.

2. Any such [excess of income over expenditure] **surplus**, expressed in Swiss francs calculated at the budget rate of exchange for that financial period, shall be used to reduce the contributions of Members in the following way: Members which paid their ordinary contributions in the financial period in which this surplus accrued shall have their share of the surplus deducted from their contributions assessed for the second year of the succeeding financial period; other Members shall not be credited with their share until they have paid the contributions due from them for the financial period in which the surplus accrued. When they have done so their share of such surplus shall be deducted from their contributions assessed for the first year of the next financial period for which a budget is adopted after such payment.

Article 21

1. (No change.)

2. If any sums withdrawn from the Working Capital Fund or borrowed to finance [budgetary] expenditure [pending receipt of contributions or other income and/or expenditure incurred in the financing of contingencies and emergencies under prior authorization of the Governing Body] cannot be reimbursed in the course of the same financial period**, then:**

(a) to the extent that the sums were withdrawn or borrowed to finance budgetary expenditure pending the receipt of contributions or other income, they shall be reimbursed from arrears of contributions received in the following financial period or periods;

(b) to the extent that the sums were withdrawn or borrowed to finance expenditure incurred in respect of contingencies or emergencies under prior authorization of the Governing Body, they [owing to the fact that the total budgetary income for the period falls short of total authorized expenditure incurred during the period, the sums so borrowed or withdrawn] shall be reimbursed to the lender or lenders and to the Fund in the second year of the next following financial period by adding to the contributions assessed on member States for that year an additional assessment in Swiss francs equivalent to the amount so borrowed or withdrawn[:], provided that temporary surpluses [of budgetary income over expenditure occurring at any time] shall be utilized to the extent possible to reduce the amount of outstanding loans or advances.

3. (No change.)

Appendix III

Resolution to be submitted to the 89th Session (2001) of the International Labour Conference

The General Conference of the International Labour Organization,

Recognizing that amendments to the Financial Regulations are required to put into effect the direct use of arrears of contributions received to reimburse the Working Capital Fund or to repay amounts borrowed to finance a cash deficit in a previous financial period;

Decides to make the following amendments to the Financial Regulations:[1] *Article 18*

1. The excess [or shortfall of income over expenditure] **of income over expenditure (surplus) or the shortfall in income compared with expenditure (deficit)** in any complete financial period shall be calculated by deducting budgetary expenditure from budgetary income with a financial provision being made for delays in the payment of contributions. Such provision shall amount to 100 per cent of the contributions unpaid at the [date of the financial statements at the] end of the financial period.

2. Any such [excess of income over expenditure] **surplus**, expressed in Swiss francs calculated at the budget rate of exchange for that financial period, shall be used to reduce the contributions of Members in the following way: Members which paid their ordinary contributions in the financial period in which this surplus accrued shall have their share of the surplus deducted from their contributions assessed for the second year of the succeeding financial period; other Members shall not be credited with their share until they have paid the contributions due from them for the financial period in which the surplus accrued. When they have done so their share of such surplus shall be deducted from their contributions assessed for the first year of the next financial period for which a budget is adopted after such payment.

Article 21

1. (No change.)

2. If any sums withdrawn from the Working Capital Fund or borrowed to finance [budgetary] expenditure [pending receipt of contributions or other income and/or expenditure incurred in the financing of contingencies and emergencies under prior authorization of the Governing Body] cannot be reimbursed in the course of the same financial period**, then:**

(a) to the extent that the sums were withdrawn or borrowed to finance budgetary expenditure pending the receipt of contributions or other income, they shall be reimbursed from arrears of contributions received in the following financial period or periods;

(b) to the extent that the sums were withdrawn or borrowed to finance expenditure incurred in respect of contingencies or emergencies under prior authorization of the Governing Body, they [owing to the fact that the total budgetary income for the period falls short of total authorized expenditure incurred during the period, the sums so borrowed or withdrawn] shall be reimbursed to the lender or lenders and to the Fund in the second year of the next following financial period by adding to the contributions assessed on member States for that year an additional assessment in Swiss francs equivalent to the amount so borrowed or withdrawn[:], provided that temporary surpluses [of budgetary income over expenditure occurring at any time] shall be utilized to the extent possible to reduce the amount of outstanding loans or advances.

3. (No change.)

[1] Additions are shown in bold type: deletions are indicated by square brackets.