



SECOND ITEM ON THE AGENDA

**AMENDMENT TO ARTICLES 7 AND 17 OF THE FINANCIAL
REGULATIONS - NET FINANCIAL SURPLUS**

1. As indicated by the External Auditor in his report to the Board in November 2005 (document CC 67/2/Add.3), the Centre has achieved a financial surplus since 1984, accumulating a General Fund balance at the end of 2005 of US \$ 8.3 million.
2. The Centre also has a Working Capital Fund, created to meet any cash flow requirements in financing operational expenditure pending the receipt of funds. In the last five years, the Centre has not needed to draw in any significant way on this Fund, which presently stands at US \$ 2.7 million.
3. Consequently, the External Auditor recommended that “the Board of the Centre should review the treatment of accumulated General Fund surpluses and consider establishing rules for their application.” Furthermore the External Auditor recommended that “the Board review the level of the Working Capital Fund to ensure that it represents an appropriate level of contingency in the context of possible operational needs.”
4. At present, Article 11 paragraph 3. of the Financial Regulations, concerning the method of building up the Working Capital Fund to its target level, reads as follows:

“3. The Working Capital Fund shall be built up to its target by payments into it of:
 - a. voluntary contributions made for this purpose by the member States of the International Labour Organisation;
 - b. voluntary contributions made for this purpose from any other source;
 - c. provisions established in expenditure budgets for this purpose;
 - d. the whole part of any net surplus for any year, after the establishment of adequate provisions for the Centre’s liabilities in accordance with Article 12.1 of these Regulations and after making the provisions required under paragraph 7 below”.

-
5. The Financial Regulations and Rules do not define the destination of any surplus for any year once the target of the Working Capital Fund has been met. To fill this void there may be a need to propose alternatives regarding the use of such surplus. One of these alternatives could be to include the whole or part of such surplus in a future budgetary proposal. Consequently, Articles 7 and 17 of the Financial Regulations should be modified as follows (proposed deletions are in square brackets [] and proposed additions are in **bold**):

“Article 7

1. Notwithstanding the provisions of Article 6 above, and in conformity with the other paragraphs of the present article -
 - a. The Director must reduce expenditure below the level provided in the approved budget whenever it becomes clear that the amounts of actual income are likely to fall short of the amount estimated in the budget;
 - b. If the Director has evidence in hand showing that actual income will exceed the level in the approved budget, he **or she** may incur expenditure in excess of the amount authorised in the budget.
2. In adapting expenditure to changes in income levels the Director shall take into account the differences in amounts earned from different types of income-generating activities.
3. Whenever actual income or expenditure varies from the amount contained in the approved budget, the Director shall strive to ensure at least that the net result of the financial period is not less favourable than that foreseen in the approved budget.
4. **If there is a net financial surplus at the end of any complete financial period, the Director can, subject to paragraph 3(d) of Article 11 below, include the whole or part of such surplus in a future budgetary proposal or use it as an increase in the accumulated reserves of the General Fund. The future budgetary proposal should clearly indicate the use of such funds.”**

“Article 11

1. The Working Capital Fund is established for the following purposes:
 - a. To finance temporarily expenditure pending receipt of firmly pledged voluntary contributions and other income to be received under signed agreements.
 - b. In exceptional circumstances, and only with prior written authorisation of the Chairman, to provide advances to meet emergencies. The Chairman shall inform the Officers of any such authorisation given.
2. The target level of the Working Capital Fund is \$ 2.7 million. The Board of the Centre may adjust the target level subsequently so that it is compatible with the volume of the Centre's budget.

-
3. The Working Capital Fund shall be built up to its target level by payments into it of:
 - a. voluntary contributions made for this purpose by the member States of the International Labour Organisation;
 - b. voluntary contributions made for this purpose from any other source;
 - c. provisions established in expenditure budgets for this purpose;
 - d. the whole part of any net surplus for any year, after the establishment of adequate provisions for the Centre's liabilities in accordance with Article 12.1 of these Regulations and after making the provisions required under paragraph 7 below.
 4. The Working Capital Fund shall be administered as a separate account and corresponding moneys shall be kept in separate bank accounts or invested in accordance with Article VI, paragraph 4, of the Statute. A statement showing the position of the Fund, audited by the External Auditor, shall be submitted to the Board of the Centre as part of the annual Financial Statements. Interest earned on the Fund shall be credited to the Fund until the target level is attained. Once the target level is attained interest earned on the Fund shall be transferred to the General Fund and recorded as interest earned.
 5. The voluntary contributions to the Working Capital Fund by ILO member States may be carried to the credit of the contributing member States if they so request and may be refunded to them if the Centre ceases to function to the extent that funds remain available in the Working Capital Fund after settlement of the liabilities of the Centre.
 6. Withdrawals made from the Working Capital Fund to finance expenditure for any financial period pending receipt of income shall be reimbursed to the Fund as soon as that income is received.
 7. Where sums have been advanced from the Fund to finance expenditure pending the receipt of income which subsequently proves to be uncollectable or to meet expenditure in emergency situations, the sums so advanced shall be reimbursed to the Fund as early as possible by providing for their reimbursement in the next budget proposals or in revised budget proposals, depending on the size of the reimbursements involved.”

“Article 17

The Financial Statements shall, in so far as is practicable, conform to the common accounting standards for the United Nations system. Without prejudice to the preceding sentence, the Financial Statements shall include:

- A statement of income and expenditure,
- A statement of assets and liabilities,
- A statement of cash flow,
- A statement of appropriations, and

-
- **Separate statements showing the movements and balances for the completed and previous financial period for the Working Capital Fund and all other funds established by the Director.”**

6. Article 31 of the Financial Regulations provides that: “these Regulations may be amended by the Board after consultation with the Governing Body of the International Labour Office.” Consequently, if the changes are acceptable to the Board of the Centre, they could be submitted for consultation and decision to the Governing Body of the ILO, whose next session starts immediately after the present session of the Board. Subject to views expressed by the Governing Body, the Officers of the Board could be requested to adopt the amendments to the Financial Regulations under the power delegated to them in May 1993 by the Board of the Centre.

Recommendation

7. In light of the above the Board is invited:

- a. To approve the amendments to the Financial Regulations proposed in paragraph 5 above, and submit them for consultation to the Governing Body of the ILO,**
- b. To authorize its Officers to amend the Centre’s Financial Regulations on the lines indicated above, after taking into account any views expressed by the Governing Body.**

Point for decision: paragraph 7.