Board of the Centre

85th Session, October 2021

CC 85

FOR INFORMATION

FIFTH ITEM ON THE AGENDA

Report of the meeting of the Officers of the Board

(14th May 2021)

1. A meeting of the Officers of the Board of the International Training Centre of the ILO (the Centre) was held via videoconference on 14th May 2021 to enable the timely consideration and adoption of the financial statements for the year ended 31 December 2020.

2. The report of this meeting is submitted to the 85th Session of the Board (October 2021).

Financial statements and External Auditor’s report for the year ended 31 December 2020 (Item on the agenda)

3. *The Chairperson* welcomed the Officers of the Board to the meeting. He recalled the exceptional circumstances in which the meeting was being convened in the context of the ongoing impact of the COVID-19 pandemic.

4. *The Chairperson* then gave the floor to the Director of the Centre for his introductory remarks.

5. *The Director of the Centre* thanked everyone involved in the preparation of the meeting, showing the continued cooperation between the ILO Office and the Centre. He then presented the financial results of the Centre for the year ended 31 December 2020.

6. The results of the 2020 financial year have been achieved through the hard work and dedication of all colleagues of the Centre, in a very challenging year. The COVID-19 pandemic started in early March and, at this time, the Centre had to stop all its face-to-face training activities, with participants on residential courses having to return home. To adapt to the decree of lockdown issued by the Italian authorities, the majority of the Centre staff started teleworking.

7. To mitigate the serious impact of the pandemic on the financial position, Management immediately took measures to address the situation, as the 2020 financial outlook was bleak.

8. On the training side, the Centre immediately initiated the conversion of the face-to-face training courses scheduled for the first half of the year to distance-learning modalities; some face-to face training scheduled in the first half of the year was also postponed to the second half and, eventually, these courses were also converted to distance-learning modalities; a global outreach campaign was launched to promote the services of the Centre; the update of the digital-learning solutions was accelerated; resource mobilization efforts were increased; and the Centre expanded its non-training services.

9. On the expenditure side, the Centre froze all discretionary expenditures and the ILO confirmed that certain services for which the Centre generally paid would be provided without charge. For this, the Centre is most grateful. In addition, the ILO advanced a significant amount of funds for the future services of the Centre, prepaying for such services. The Centre also froze all vacancies and minimized as much as possible the use of external technical and service assistance.

10. *The Director of the Centre* thanked the Italian government for its continued support in 2020, with the payment of the *ex-lege* contribution and the voluntary contribution provided for activities. He also extended his gratitude to the ILO for its continued financial support.

11. With its efforts to convert the training activities to distance-learning modalities, the Centre saw a significant increase in its outreach: its learner base went from 20,000 in 2019 to more than 50,000 in 2020, an increase of more than 150 per cent. The Centre also saw a significant increase in demand for its non-training services in institutional capacity development for its constituents. As a result of the increased outreach of its training activities, combined with increased capacity-development services and cost-containment measures, the Centre was able to turn a bleak 2020 financial outlook into positive results. The Centre's experience of the pandemic in 2020 has demonstrated that digitalized and diversified service provisions can secure its financial sustainability in the future.

12. However, it is important that the Centre not only focus on its short-term operational needs but plan ahead for its future and the future of the world of work. With an ever-evolving and changing world of work, continued investment in innovation and development of its training and non-training services is key to its continued success. To remain a centre of excellence, it must continue growing through increased outreach. To accomplish this, new training activities using the most up-to-date training approaches are needed, innovative products must be developed, the Centre's IT infrastructure must be aligned to the fast-moving developments in this area, and sufficient funding is required to meet its current and long-term liabilities.

13. The Centre is confident that, going forward, and with the continued support of both the ILO and the Italian Government, it will be possible to continue to significantly increase its outreach and deliver its mandate, reaching many more constituents with a wider and more accessible offer of training services.

14. *The Chairperson* proceeded to the agenda item concerning the financial statements and External Auditor's report for the 2020 financial year. He invited the Treasurer of the Centre to present the financial statements.

15. *The Treasurer* introduced the financial statements and highlighted a number of key areas.

16. *The Treasurer* first invited members to turn to Statement V – Statement of Comparison of Budget and Actual Amounts, on page 23. This statement shows the Centre's preliminary budget results for 2020 of nearly €2.1 million – quite an achievement during the year of the pandemic, when the Centre had to postpone and then cancel all face-to-face (F2F) training activities and convert all its planned training to online modalities.

17. While the months of March and April were mostly spent completing this conversion work, the Centre achieved actual total revenue of €33.2 million for the year. The Centre received voluntary contributions of €12.3 million, including the 2019 contribution from the City of Turin of €180,000.

18. Revenue from training activities and media production amounted to €19.8 million in 2020. Aligned to this revenue, variable expenditure was significantly below the anticipated level by €11.2 million, or 62%. With distance learning, the variable costs are significantly lower than with F2F activities as the costs associated with the accommodation and travel of participants, as well as the training venue, are eliminated. In addition, with distance learning, the Centre saw a significant increase of 150 per cent in the number of its learners as compared to 2019. As a result, the Centre surpassed its 2020 CFC (contribution to fixed costs) target, due to 1) a higher ratio of CFC per individual activity, whether training or non-training; 2) a higher number of learners enrolling for training activities; 3) and an increase in institutional and system-level capacity development services and roll-out of AVR (Augmented and Virtual Reality) technologies.

19. Actual fixed expenditure in 2020 totalled €21.9 million. In March, the Centre froze all discretionary fixed expenditure. Savings on non-staff costs totalling approximately €1.5 million were achieved over the course of 2020. These savings are the result of cancelling certain costs, such as travel; postponing some work until 2021; and negotiating reductions on fixed contracts, mostly related to the management of the campus. In addition, as a result of the frozen vacancies and slippage, additional savings of €669,000 were realized. Given this situation, and following up a request made by the ILO, the Centre made an exceptional contribution to the Terminal Benefit Fund to ensure sufficient funding would be available over the short-term, in view of the ongoing review of its business model. As at 31 December, the Centre had approximately €2.3 million in the Fund for future disbursements, estimated to be €10.4 million. This additional contribution to the Fund was partially allocated to both the RB and VB staff cost line items. As previously mentioned, total variable expenditure relates to training activities and media production revenue. These were significantly lower than budgeted.

20. *The Treasurer* then invited the members to turn to Statement I – Statement of Financial Position, on page 19. This statement presents the assets and liabilities of the Centre at year-end. Cash and cash equivalents totalled €21.7 million, of which €11.3 million was held on behalf of donors and for other purposes. The Centre held advance payments for training activities of €6.0 million, as well as funds of €2 million in the Working Capital Fund, €1.5 million in the Campus Improvement Fund and €1.8 million in the Italy Trust Fund. Of this funding, €9.7 million was held in USD. She then referred to page 22, where more details of the Centre's cash flow movements were set forth in Statement IV.

21. The Centre's accounts receivable decreased by €3.8 million at the end of 2020. This line includes two main categories of receivables: invoices issued in respect of training and non-training services already delivered, and receivables relating to signed training and non-training service agreements for which there is a matching liability, i.e. deferred revenue. This decrease is mainly due to the receivables relating to signed agreements, as significant agreements were signed in 2019 and are now being delivered, with revenue is earned.

22. The receivable from the ILO decreased by €3.5 million and became a due to the ILO. As the ILO advanced significant funds to prepay their activities, the invoices were immediately settled using those funds. The balance owing relates to invoices still to be settled and the additional contribution made to the Terminal Benefit Fund. This balance will be settled in 2021 through the invoicing of activities to the ILO.

23. Property and equipment decreased by €681,000 as a result of annual depreciation on assets. Liabilities totalled €22.3 million at the end of 2020. The most significant portion of this amount (€16.5 million) relates to the deferred revenue matching the receivable in the Centre's assets in respect of signed training and non-training activity agreements, for training to be delivered in the future. There was also a decrease in accounts payable and accrued liabilities due to the decrease in external costs resulting from the new training services modality.

24. At the end of 2020, the Centre had net assets of €17.5 million. This includes the working capital fund, set at €2 million, and all other Centre funds. *The Treasurer* referred members to page 21 for more details.

25. She then turned to Statement II – Statement of Financial Performance, on page 20. This statement shows the net surplus of the Centre, under the IPSAS standards. The final results for 2020 show a net surplus of €1.19 million. The results are aligned to those of 2019, which was a strong year of activities for the Centre. While total revenues are lower than those of 2019, as also noted for total expenditure, this is due to the change in modality of the Centre's training activities, which are less financially burdensome, as the travel and accommodation of participants are eliminated, as well as the costs associated with the training venue on campus. The decrease in both items, however, still resulted in a result similar to that of the previous year [for 2019?].

26. *The Chairperson* invited the *representative of the External Auditor* to introduce the External Auditor's report for 2020.

27. *The representative of the External Auditor* presented the results of their audit for 2020. The audit was conducted in line with the external audit plan presented to the Board in October 2020. He recognized the hard work and commitment of the Officers of the Board, key officials and staff of the Centre in performing their mandate, despite the challenging work environment. He affirmed the commitment of the auditors to deliver their mandate during these challenging times. The audit of the Centre was conducted in conformity with International Standards on Auditing (ISA), to provide independent assurance on the fair presentation of the financial statements, and to contribute to the achievement of the Centre's operational objectives. Specifically, they provide the Centre with an opinion on the fairness of the presentation of the financial statements in conformity with the International Public Sector Accounting Standards (IPSAS).

28. The report presents the results of the auditors' comprehensive audit of the financial statements and transactions of the Centre, in line with their mandate to provide independent assurance on the fairness of presentation of the financial statements and to make observations with respect to the efficiency and effectiveness of the financial accounting and reporting. In addition, the auditors assessed the strategic arrangement, resources, processes and procedures that are in place to implement and deliver the training services objectives of the Centre during the coronavirus pandemic, in view of the risks associated with training services delivery.

29. As a result, they concluded that the Centre's financial statements fairly present its financial position in all material respects for the financial year ended 31 December 2020: the Centre's financial performance, changes in net assets, cash flows, and the comparison of budget and actual amounts are in accordance with IPSAS. *The representative of the External Auditor* commended the Centre's Management for consistently preparing quality financial statements and receiving an unmodified audit opinion since its adoption of the IPSAS.

30. He noted that, despite the pandemic, the Centre had registered significant achievements in training services delivery. It had successfully managed its training services and transformed the challenges into opportunities to achieve its objectives. The report also highlighted opportunities for improvement, particularly on the areas of (a) robust compliance with certain of the Centre's established financial controls and reporting guidelines; (b) re-evaluation of the 2020 pricing policy; (c) promoting robust collaboration and coordination between and among the training programmes; (d) determining the impact on some programmes of the cost containment measures taken in 2020; (e) broadening lines of communication to ensure that relevant concerns are considered in making final decisions; and (f) reassessment of the strategies concerning human resources as part of the Centre's pandemic response.

31. In summary, six value-adding recommendations were made, to which the Centre's Management agreed and communicated their commitment to implementation. The auditors encouraged the Centre's Management to implement the audit recommendations made in previous years, as enumerated in the appendix of their report, and to further improve operational efficiency and effectiveness, notably in the areas of the accountability framework, resource mobilization strategy, human resource recruitment and selection, and performance evaluation procedures.

32. Finally, he expressed his appreciation to the Officers of the Board for their interest in the work of the External Auditor, and to the Centre Management for their commitment to accountability and transparency.

33. *The Chairperson* then invited the Officers to comment on the financial statements and on the External Auditor's report for 2020.

34. *The Workers' Vice-Chairperson* thanked Management and the auditors for the document presented. She mentioned that the Group's comments related to the on-going discussions on the future of the Centre.

35. Concerning the pricing of online training activities, she noted that the reduction of income arising from the change in training modalities, as expressed in paragraph 9 and explained in paragraph 12, was a result of the fact that the unit price for online activities was lower than for face-to-face. In relation to these points, the report of the External Auditor to the Board, includes a recommendation (in paragraph 37) "to re-evaluate the 2020 Pricing

Policy with the end view of establishing a consistent and transparent pricing policy for training activities considering the disparities between face-to-face and other training modalities, such as distance learning, in providing for the components of training". She further noted the Management's answer in paragraph 38, which states that the Centre's Management agreed to ensure that the 2021 pricing policy is fully reviewed as events occur during the continuing pandemic and once the Centre's new business model is approved by the Board of the Centre.

36. The Group advocated caution concerning this proposal. Because the main beneficiaries of the Centre's training activities are constituents, prices should not be an obstacle to participation, particularly for workers, as well as for participants from the South in general. Caution was also appropriate because the proposal and the Management's response refer to a new business model that is under discussion, and the proportion of training that will be online is not yet clear. It seems evident that 2021 will have to be focused on online training, and the Group would like to have a clear long-term scenario for the Centre, based on reliable and sustainable data and on the new working arrangements that will be decided, before establishing a long-term pricing policy. The main goal being to promote the ILO agenda through the training of the constituents, then, and only then, would it be appropriate to consider market prices and costs, and evaluate how to implement the policy. Finally, the Centre should not be guided by market prices, as the main goal is to promote the ILO agenda through the training of its constituents.

37. The Group requested some clarifications on savings made and the contribution to the Terminal Benefit Fund. They acknowledged that there were savings of €1.5 million, as expressed in paragraph 15, due to the freezing of some expenses, travel and vacancies, and staff-related costs. The Group had assumed that these savings would be used to cover a possible deficit of the Centre in 2020. At the end of 2020, the Fund held approximately €2.3 million, available for future disbursements currently estimated to be €10.4 million; the Terminal Benefit Fund was therefore under-funded. This point also refers to a review of the business model, so it would be useful to understand the linkages between the funding of the Terminal Benefit Fund and the review of the business model. In relation to the surplus mentioned, the Group would like to know if the amount was transferred to the Terminal Benefit Fund, or if this is separate from the savings.

38. Regarding the recommendations of the External Auditor, the Group agreed with the summary presented in paragraph 7 of the report, with the caveat concerning pricing. They supported recommendation f) on the need to revisit the Centre's human resources strategies, which is covered in paragraphs 52 to 55. They acknowledged the answer from Management, but a clearer picture of the human resources capacity development strategy was still due and should be developed in consultation with the Staff Union in the coming months.

39. Having raised these points, the Workers' Group again confirmed its readiness to engage, contribute and cooperate with Management and the other Officers of the Board, in order to achieve the best possible solutions for the work in progress, for the future of the Centre, in accordance with and in response to the ILO's policies and mission. The Group approved the financial statements and noted the auditors' report.

40. *The Employers' Vice-Chairperson* appreciated the efforts made by the Centre's Management to prepare the documents. He congratulated the Centre's Management on the excellent financial results for 2020, a very difficult year for all. These results are much more relevant if compared with the worrying projections presented to the Officers in May 2020 of a €7.0 million budget deficit. He expressed gratitude to the Centre's staff in general, who had shown commitment and professionalism.

41. With regards to the differences in the IPSAS-based 2020 net surplus and the budget surplus, he asked for some clarifications on the calculation of the exchange loss.

42. The Group took note that the pandemic had pushed the Centre to accelerate distance learning, and although the revenue was lower as compared with face-to-face training, the figures showed that there was greater outreach (more than doubled) and the CFC was higher. The low expenditures related to training activities had also offset the revenue received. The Group also observed that the Centre's revenue in 2020 had come mostly from training and voluntary contributions. The Group thanked the Government of Italy, Piedmont Region and the City of Turin, and other governments, for their continuous financial support for the Centre. The Group also thanked the ILO. The report states that the ILO contributed more than in 2019, thanks mainly to the favourable exchange rate.

43. The Group observed that travel expenses had been drastically reduced in 2020 because of the various travel restrictions. Sub-contracting costs had been lower than in the previous year, but there had been an increase in staff costs, explained by the repatriation grant and end-of-service payments. They commended the ILO for its advice in this regard, as the liability for these benefits had been reduced. They further encouraged the ILO to assist and facilitate this process. *The Employers' Vice-Chairperson* noted the high revenues from media production and stated that ways should be identified to upscale this source of income, in consultation with the programme managers. With reference to the campus renovations, the Group suggested delaying this work until the business model and future direction of the Campus was decided and approved by the Board.

44. He thanked the External Auditors for their report and for the very concrete recommendations on how the Centre could improve its financial and operational efficiency. He made some comments concerning the pricing policy, communication and collaboration with programme managers, and the human resources strategy.

45. Concerning pricing policy, the Group asked Management to take action on the point raised by the External Auditor. The Centre's pricing policy has to be realistic and adapted to the Centre's "new" business model, based mostly on online training. This would mean setting all the direct and indirect costs of a training activity, but also being flexible enough to adapt the pricing to a diversity of tailored training requests that fall outside the written pricing policy. Giving programme managers the responsibility and authority to price such activities would speed up the response to constituents, donors and institutional customers. Needless to say, the pricing policy must remain competitive in relation to other training providers in the market.

46. As for communication and collaboration with programme managers, some programmes needed more assistance and support in their operations. 2020 had shown that the delivery of online training requires a more sustained effort, and this demands not only financial resources, but also additional staff. The Group asked Management to engage with programme managers to determine their staffing needs. The report in particular highlighted the need to broaden lines of communication to ensure that the concerns of programme managers are considered in the decision-making process, to manage risks and ensure agreed objectives are achieved.

47. Finally, regarding the HR reorganization strategy, the Centre should replace and reorganize the current HR strategy to optimize training services delivery. This recommendation needed to be taken on board seriously. He further added that the recommendations which had not been implemented from past years should to be expedited (for example, the issue of the Performance Management System).

48. To conclude, he mentioned a matter indirectly linked to the financial statements: the frozen surplus allocations from 2020 that affected mainly the Employers, Workers and ILS programmes. Management was instructed to look into alternatives, so that these frozen resources could be channelled back to the above-mentioned programmes to give them additional funding to fulfil their mandates, in particular towards ILO constituents. It was appreciated that Management earmarked allocations for each of the ACTRAV, ACTEMP and ILSGEN programmes. The Group requested that the guidelines for accessing the new Scholarship Fund allocation should be flexible enough to allow for a quick and relevant response to constituents on the part of these programmes. If a decision were taken to stop injecting the surplus back into the cash flow of the Centre (via campus improvement, the innovation fund and funding for different training programmes), then the Officers of the Board should decide on the destination of the accumulated surplus. The Group would recommend allocating this surplus to the Centre's Reserve Fund, to be drawn upon when needed in the event of another crisis or operational emergency affecting the Centre.

49. *The Governments' Vice-Chairperson* thanked the Centre for the information provided and acknowledged the good management of the Centre's accounts. He took note of the Auditors Report and of their stated opinion.

50. *The representative of the Government of Italy (Mr Mari)* expressed his appreciation to the Management of the Centre for having overcome a problematic situation and for concluding the financial year in good health.

51. *The Chairperson* gave the floor to *the Treasurer* to reply to the questions asked by the Workers', Employers' and Governments' Vice-Chairs. *The Treasurer* provided additional explanations concerning the pricing policy for 2021, which had been updated; the Terminal Benefit Fund transfer made in 2020; the mitigation actions taken to minimize currency fluctuations; and the allocation of the funds to the ILSGEN, Workers' and Employers' Activities programmes.

The Officers of the Board:

1. ***adopted the financial statements, and***
2. ***took note of the External Auditor's report for the year ended 31 December 2020.***

Concluding remarks

52. The Chairperson echoed the comments made by the Group on the good performance of the Turin Centre in a very challenging year. He made reference to the ongoing discussions about the centre's new business model.

53. He advised that the 85th Session of the Board of the Centre would be held in October 2021. As the report of the Officers' meeting would be submitted to the Board, he asked the Officers of the Board to delegate their approval to the Chairperson and the Secretary of the Board.

54. Finally, the Chairperson thanked the Officers, the secretariats of the various groups and the staff of the ILO and the Centre for their participation and declared the meeting closed.

This report will be submitted to the Board for information.

June 2021

Attendance list
Liste des présences
Lista de presencias

Mr Paolo MARI	
Mr Bartolomeo LAMONARCA	ITALY
Mr Jorge BRIZUELA	PARAGUAY
	(Governments' Vice-Chairperson)
Mr Harry KYRIAZIS (Greece)	(Employers' Vice-Chairperson)
Mr Amadou SAKO (IOE)	(Employers' Secretariat)
Ms Silvana CAPPUCCIO (Italy)	(Workers' Vice-Chairperson)
Ms Maité LLANOS (ICFTU)	(Workers' Secretariat)

International Labour Organization

Mr Guy RYDER	DG
Mr Greg VINES	DDG/MR
Mr Adnan CHUGHTAI	Treasurer and Financial Comptroller
Ms Riikka KOSKENMAKI	JUR
Mr Roberto VILLAMIL	ACTEMP

External Auditor - Commission on Audit, Philippines
Mr Lito MARTIN
Mr Dondon MARCOS
Mr Hershey VISAYA

International Training Centre of the ILO

Mr Yanguo LIU	Director
Mr Giuseppe CASALE	Deputy Director
Ms Christine BOULANGER	Treasurer
Mr Greg JOHNSON	Special Advisor to the Director
Ms Nathalie MIRABILE	Note-taker