



FIFTH ITEM ON THE AGENDA

Treatment of surpluses – Amendments to the Financial Regulations

1. At its 283rd Session (March 2002), following its discussion of a paper¹ on the use of the 2000-01 surplus, the Governing Body requested the Director-General to propose amendments to the Financial Regulations which would ensure that surpluses be dealt with in an appropriate manner, taking into account the circumstances under which they had occurred. In the light of the deliberations and further guidance received at the 285th Session (November 2002) of the Governing Body, this paper puts forward a draft resolution amending the Financial Regulations.
2. It is recalled that under article 21 of the Financial Regulations, the Director-General is authorized to incur expenditure up to the full amount of the approved budget, even if contributions received are insufficient to finance such expenditure. Up to the end of the 1992-93 biennium, member States were liable to additional assessments to compensate for non-payment of contributions by any member State should a deficit have remained at the end of the financial period. Following a three biennia trial period, the International Labour Conference approved amendments to article 21 at its 89th Session (June 2001) so that member States are no longer subject to additional assessments in such circumstances. Consequently, the rationale for the rules in article 18.2 governing the distribution of the surplus, that if member States were called upon to pay for shortfalls in assessed contributions, they should be reimbursed any surpluses that arose subsequently, needs to be reconsidered.
3. In accordance with the Governing Body's request at its 283rd Session (March 2002) that amendments to the Financial Regulations should take into account the circumstances under which they had occurred, it is recalled that two distinct sets of circumstances could give rise to a surplus, namely:
 - (a) the underspending of the programme and budget; and
 - (b) the receipt of arrears of contributions in excess of the approved budget level.
4. There is already a consensus within the Programme, Financial and Administrative Committee regarding surpluses arising from the underspending of the programme and

¹ GB.283/PFA/2/2.

budget. In this connection, the Financial Regulations require no amendment and surpluses so arising would continue to be returned to member States. The Committee may wish to note, however, that the regulations of some other United Nations organizations in fact permit surpluses arising from underspending of the budget to be carried forward into future financial periods.

5. As pointed out by a number of members of the Committee, payment by member States of their assessed contributions in full and on time was the best way to avoid income surpluses resulting from the receipt of arrears of contributions in excess of the approved budget level. However, in view of the changing economic situations of some member States, this may not always be possible. A suggestion was made that, under such circumstances, the Director-General could exercise the authority conferred to him under article 21 of the Financial Regulations by spending the full amount of the authorized expenditure budget even when substantial income shortfalls were expected to arise. Although this would eliminate income surpluses, the Director-General continues to believe that, in the interest of prudent financial management, such a practice would not be appropriate particularly when the timing of receipt of arrears remained uncertain.
6. During the November 2002 session, a majority of the members of the Programme, Financial and Administrative Committee agreed that surpluses which resulted from the receipt of arrears of contributions in excess of the approved budget level should be retained by the Office and used in an appropriate manner. This would provide greater stability for the Office in dealing with surpluses. It would also avoid the need for frequent derogations from the Financial Regulations, and reduce procedural complexity.
7. The paper on the review of article 18 of the Financial Regulations,² which was before the Committee in November 2002, suggested that surpluses resulting from the receipt of arrears of contributions in excess of the income budget could be transferred to a Special Programme Fund. The use of this fund would be subject to the approval of the Governing Body based on proposals made by the Director-General, which would be developed strictly in accordance with the Organization's strategic budgeting principles. Following the guidance received from the Committee, it is proposed that the Fund would be used to finance specific, time-bound activities, which do not create any expectation of additional future funding.
8. In conclusion, the Director-General considers that the proposed amendments set out in the appendix to this paper address the wishes expressed by the majority of the Committee. In the event of future income surpluses arising from the receipt of arrears of contributions in excess of the approved budget, the amended regulations would facilitate wider consultations with members of the Committee prior to proposals being submitted to the Governing Body.
9. ***The Programme Financial and Administrative Committee may therefore wish to recommend to the Governing Body that it proposes to the International Labour Conference, at its next session, the draft resolution in the appendix to this paper, amending the Financial Regulations.***

Geneva, 27 January 2003.

Point for decision: Paragraph 9.

² GB.285/PFA/2.

Appendix

Resolution to be submitted to the 91st Session of the International Labour Conference

The General Conference of the International Labour Organization,

Recognizing that amendments to the Financial Regulations are required to ensure that surpluses are dealt with in an appropriate manner;

Decides to make the following amendments to the Financial Regulations:

Article 11

[...]

9. The Director-General shall transfer the surplus referred to in article 18.3, to a Special Programme Account, which shall be used, subject to the authorization of the Governing Body to finance high priority activities of limited duration that were not otherwise provided for under the budget adopted by the Conference and that do not create any expectation of additional future funding.

Article 18

1. (No change)
2. The amount of any surplus resulting from an underspending of the approved or amended budget, [2. Any such 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.
3. The amount of any surplus resulting solely from the receipt of contributions in excess of the level of the budget as adopted by the International Labour Conference or as subsequently amended by the Governing Body, net of any reimbursements to the Working Capital Fund or other borrowings, shall be transferred to the Special Programme Account as defined in article 11.9.