



International Civil Aviation Organization

WORKING PAPER

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ASSEMBLY — 37TH SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 69: Report on the Working Capital Fund

REPORT ON THE WORKING CAPITAL FUND

(Presented by the Secretary General)

EXECUTIVE SUMMARY

This paper presents the January 2010 update of the level of the Working Capital Fund (WCF) for review by the Assembly. An increase in the level of the WCF is not considered to be necessary at the present time.

Action: The Assembly is invited to:

- a) note the information and confirm that no increase in the level of the WCF is needed at this time; and
- b) adopt the Assembly resolution presented in the Appendix.

<i>Strategic Objectives:</i>	This working paper relates to all Strategic Objectives
<i>Financial implications:</i>	Nil.
<i>References:</i>	Doc 7515/13, <i>The ICAO Financial Regulations</i> Doc 9902, <i>Assembly Resolutions in Force</i> (as of 28 September 2007)

1. INTRODUCTION

1.1 The 36th Session of the Assembly considered the level of the WCF and borrowing authority and resolved, in Resolving Clause 2 of A36-34, that the level of the WCF be maintained at \$ 6.0 million and granted authority to the Council to review the level of the Fund, no later than November of each year until 2010, and to increase the level of the fund to a maximum of \$ 8.0 million if an increase is urgently needed in that year or for the following year.

1.2 In October 2009, the Council noted the information contained in C-WP/13461 and noted that the revised projections of cash balances did not indicate the need for an increase in the level of the WCF at the present time. This working paper presents financial information with revised projections to the end of 2010. It reports on the adequacy of the current level of the WCF and on the appropriation of the level of the borrowing authority as requested by the Assembly in Resolving Clause 2 of A35-28. As no cash deficits caused by arrears of contributions are projected, there is no need for assessing Contracting States as per Clause 2 of A36-34.

2. FLOW OF RECEIPTS AND DISBURSEMENTS

2.1 Based on the approved budget for 2008 to 2010, the average monthly disbursements are estimated at \$ 6.8 million, of which \$ 6.3 million is funded from assessments (the balance being funded from miscellaneous income and the Ancillary Revenue Generating Fund (ARGF) surplus).

2.2 Expenditures, however, can be averaged over the year but assessments are not received evenly with peaks in the first and last quarters. We assess our cash balance in terms of the number of months' expenditures it can fund; the Working Capital Fund represents one further month's cushion since it is equivalent to a month's expenditures.

2.3 The average cumulative receipt of assessments, as at September each year, for the five years from 2005 to 2009 was 67.7 per cent. The collection rate of total cumulative current year assessments for the period ended 30 September 2009 was 66.4 per cent, as compared to 64.3 and 65.5 per cent at the end of September 2007 and 2008 respectively. From 2005 to 2009, therefore, there has been a slight decline in cumulative receipts of assessments as at the end of September.

2.4 The monthly cash balance during 2009, as shown in the following Table 1, has fluctuated between \$ 7.4 million and \$ 30.1 million and it can be seen that at the end of November we were close to using the WCF but we knew that two major States would be paying in December.

TABLE 1**End of Month Cash Balances in 2009
(in millions of CAD)**

	General Fund	WCF	Total
January	17.0	7.3	24.3
February	20.7	7.3	28.0
March	20.4	7.3	27.7
April	19.5	7.3	26.8
May	22.8	7.3	30.1
June	22.0	6.9	28.9
July	18.0	6.9	24.9
August	12.8	6.5	19.3
September	10.2	6.5	16.7
October	6.8	6.5	13.3
November	1.67	6.5	8.20
December	15.14	6.2	21.36

2.5 Table 2 illustrates the cash position of the General Fund, including the WCF, at the end of each quarter from the end of 2001 to the current period, and the updated projection to the of 2010, based on past trends of receipt and expenditure. It is easier to express in USD since past years were reported in USD.

TABLE 2
10 Year Actual and Projected Quarterly Cash Position
(in millions of USD)
End of Quarter

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2001	36.7	30.6	27.6	29.7
2002	30.2	25.1	17.6	24.7
2003	29.8	16.7	13.7	16.4
2004	13.8	9.6	15.9	18.5
2005	13.8	16.4	13.3	22.6
2006	20.1	17.1	21.4	17.9
2007	26.8	18.0	21.6	31.1
2008	22.8	22.7	14.7	21.9
2009	28.3	26.7	17.5	20.58
2010*	19.8	19.1	10.0	13.8

*Projected for all of 2010

2.6 It should be noted that the quarterly projections do not reflect the wide fluctuations that may arise from month to month, as illustrated in Table 1. Unless payments towards assessments are received from Contracting States on a timely basis, in the year that they are due and in conformity with the Financial Regulations, pressures will always be exerted on the finances of the Organization. Besides the WCF, there are no reserves in the General Fund to meet contingencies.

3. LEVEL OF THE WORKING CAPITAL FUND

3.1 The Joint Inspection Unit has recommended that the level of the WCF should be sufficient to meet one month's disbursements. Under normal circumstances, this recommendation is appropriate. In the past, it has been mentioned that, ideally, the Organization should have a buffer of two months' cash requirement in order to assure the timely payment of all commitments. Past experience of ICAO shows that the delay in receipt of assessments has resulted in significant shortfalls between current year contributions and disbursements.

3.2 In this regard, it should be noted that the cash flow projections are based on the assumption that the inflow of assessments will reflect previous trends. Any variation from this pattern, particularly unforeseen delays in receipt of assessments, would aggravate the projected cash position.

3.3 The projections indicate that, in December 2010, the cash balance is expected to be approximately \$ 13.8 million on the assumption that major contributors will discharge fully their financial obligations to the Organization before the end of the year. There is only a limited risk that the level of the WCF may not be sufficient to cover the needs in 2010.

3.4 Although there are risks, an increase in the WCF is not considered to be warranted at the present time.

4. **BORROWING AUTHORITY**

4.1 The Assembly in 2007 (A36-34) authorized the Secretary General to borrow, if necessary, with the prior approval of the Finance Committee, amounts to finance regular and supplementary appropriations, provided that the outstanding total indebtedness of the Organization at no time exceeds \$3.0 million during the triennium. The continuation of the borrowing authority has been provided for in Resolving Clause 2 d) of Assembly Resolution A35-28. It has not been necessary to use this borrowing authority as there were sufficient funds on hand.

4.2 ICAO's only other potential source of funds, excluding commercial borrowing, is miscellaneous income, surplus of other Special Funds and Accounts. Relying upon the cash of other Funds and Special Accounts in place of securing an appropriate level for the WCF would be flawed in both principle and practice, and does not offer a prudent financial option.

4.3 Although the borrowing authority has not been utilized, in light of uncertainties and the uncertain nature of cash flow in future years, it would be prudent to retain the borrowing authority at the current level for future years. However, this avenue of funding temporary cash deficits, if at all necessary, should be regarded as an avenue of last resort to be exercised under extreme circumstances.

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APPENDIX

DRAFT RESOLUTION FOR ADOPTION BY THE 37TH SESSION OF THE ASSEMBLY

Resolution 69/1

Working Capital Fund

The Assembly:

1. *Notes that:*

- a) in accordance with Resolution A36-34, the Council has reported upon, and the Assembly has considered, the adequacy of the level of the Working Capital Fund and the related borrowing authority;
- b) in recent years, the accumulation of contributions in arrears has constituted, together with the delays in payment of current year contributions, a growing obstacle to the implementation of the work programme while creating financial uncertainty;
- c) the relatively long budgetary cycle of ICAO, namely three years, has a bearing on the determination of the prudent level of the Working Capital Fund and borrowing authority, as only the Assembly can levy assessments on Contracting States;
- d) given the number of permanent staff in ICAO, there is an irreducible minimum which the Organization has to pay out each month to meet the staff costs. This amount is not amenable to short term reduction through adjusting the work programme, since permanent staff remain in post and have to be paid in any event;
- e) on average, by September of each year, the cumulative receipt of assessments was short of estimated disbursement by an average of 10.0 per cent compared to 5.0 per cent for the last triennium;
- f) based on past trends, there is only a limited risk that the level of the Working Capital Fund may not be sufficient to cover the needs in the foreseeable future;
- g) experience has shown that payments are not made at the beginning of the year when contributions are due and that ICAO cannot rely on contributions being paid even by the end of the year to which they relate and that such unacceptable avoidance of their financial obligations under the Convention by some Contracting States is leading to a financial crisis within the Organization that could impact all Contracting States;
- h) as long as the cash flow remains uncertain, ICAO would need the Working Capital Fund as a buffer on which it could draw to meet its unavoidable cash commitments; and
- i) the Council reviewed the level of the Working Capital Fund in November 2009 and determined that the need for the increase in the level of \$ 6.0 million was not needed for the present time

2. *Resolves that:*

- a) the level of the Working Capital Fund remain at \$ 6.0 million;
- b) the Council shall review the level of the Working Capital Fund no later than November 2010, 2011, 2012 and 2013, to determine if an increase is urgently needed during that year or for the following year;
- c) if the Council determines that it is warranted, the level of the Working Capital Fund shall be established at a level no higher than \$ 8.0 million, subject to increases resulting from advances paid by new States becoming members of the Organization after approval of the scales. Such adjustment to the Working Capital Fund will be based on the scales of assessment in effect for the year for which the increase in the level of the Working Capital Fund is approved;
- d) the Secretary General be authorized, with the prior approval of the Finance Committee of the Council, to finance regular and supplementary appropriations that cannot be financed from the General Fund and the Working Capital Fund, by borrowing externally amounts needed to meet immediate obligations of the Organization, and that the Secretary General be required to repay such amounts as rapidly as possible; the outstanding total of such indebtedness of the Organization at no time to exceed \$3.0 million during the triennium;
- e) the Council shall report to the next ordinary session of the Assembly:
 - i) on the adequacy of the level of the Working Capital Fund in the light of experience during 2010, 2011 and 2012;
 - ii) whether the financial position of the General Fund and the Working Capital Fund would indicate the need for assessing Contracting States for cash deficits caused by arrears of contributions; and
 - iii) on the appropriateness of the level of the borrowing authority; and
- f) Resolution A36-34 is no longer effective and is hereby superseded; and

3. *Urges:*

- a) all Contracting States to pay their assessments as early as possible in the year in which they fall due in order to lessen the likelihood of the Organization having to draw on the Working Capital Fund and resort to external borrowing; and
- b) the Contracting States in arrears to meet their obligations to the Organization as promptly as possible, as called for by Resolution [A37-xx].