



International Civil Aviation Organization

WORKING PAPER

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ASSEMBLY — 39TH SESSION
ADMINISTRATIVE COMMISSION

Agenda Item 53: Report on the Working Capital Fund

REPORT ON THE WORKING CAPITAL FUND

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This paper presents the December 2015 update of the level of the Working Capital Fund (WCF) for review by the Assembly. An increase of the level of the WCF, currently at USD 8.0 million, is not considered to be necessary at the present time.

Action: The Assembly is invited to:

- a) note the information and confirm that an increase in the level of the WCF is not 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>	Not applicable.
<i>References:</i>	Doc 7515, <i>The ICAO Financial Regulations</i> Doc 10022, <i>Assembly Resolutions in Force</i> (as of 4 October 2013)

1. INTRODUCTION

1.1 The 38th Session of the Assembly considered the level of the Working Capital Fund (WCF) and borrowing authority and resolved, in Resolving Clause 2 of A38-27, that the level of the WCF should be increased to USD 8.0 million and granted authority to the Council to continue to monitor the level of the Working Capital Fund no later than November of each year until 2016, and to increase the level of the fund to a maximum of USD 10.0 million if an increase is urgently needed in that year or for the following year.

1.2 In September 2015, the Council noted the information contained in C-WP/14342 and that the updated information of cash balances did not indicate the need for an increase in the level of the WCF at that time. This working paper presents financial information with updated information to December of 2015. It reports on the adequacy of the current level of the WCF and on the appropriateness of the level of the borrowing authority as requested by the Assembly in Resolving Clause 2 of A38-27.

2. FLOW OF RECEIPTS AND DISBURSEMENTS

2.1 Based on the current approved budget estimates for 2014 to 2016, the average monthly disbursements is CAD 7.9 million, which is mainly funded from assessments. Under delegated authority of the Assembly, the Council has the ability to increase the Working Capital Fund by up to 25% (to USD 10.0 million). This level is considered sufficient to cover any projected increase in budget for the 2017-2019 triennium. Therefore, the Assembly is invited to consider maintaining the Working Capital at USD 8.0 million.

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

2.3 The actual cash flow may be a little higher than the budgeted expenditures as the Quebec Provincial Sales Tax (PST) and Canada Goods and Services Sales Tax (GST) are paid at the time of purchases and collected later during the year or following year. There is also a recoverable amount from a Member State for income tax of its nationals. These are cash outflows without being expenditures and their impact is to reduce the available Working Capital.

2.4 Table 1 illustrates the monthly cash positions of the General Fund, including the WCF, in 2015. It shows fluctuations between CAD 7.7 million and CAD 30.1 million due to the timing of cash receipts and disbursements, with the balances during the last quarter being the lowest of the year.

TABLE 1**End of Month Cash Balances in 2015
(in millions of CAD)**

	<u>General Fund</u>	<u>WCF*</u>	<u>Total</u>
January	26.2	9.5	35.7
February	29.6	10.0	39.6
March	25.6	10.1	35.7
April	24.5	10.1	34.6
May	20.2	9.6	29.8
June	23.9	9.8	33.7
July	30.1	10.2	40.3
August	25.9	10.4	36.3
September	21.4	10.6	32.0
October	13.9	10.7	24.6
November	7.7	10.5	18.2
December	18.0	11.0	29.0

*The differences between the monthly balances of the WCF shown in CAD in Table 1, and the level of the WCF of USD 8.0 million are due to exchange rate variance.

2.5 Table 2 illustrates the cash position of the General Fund, including the WCF, at the end of each quarter from 2008 to 2015, which are expressed in CAD since ICAO's functional currency has been changed to CAD since 2008.

TABLE 2
8 Year Actual Quarterly Cash Position
(in millions of CAD)
End of Quarter

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2008	29.5	36.1	24.1	26.6
2009	34.0	31.6	20.8	20.4
2010	35.4	31.3	30.0	19.2
2011	25.6	14.4	16.5	14.9
2012	40.4	29.1	20.5	14.5
2013	28.0	31.4	26.5	6.7
2014	26.8	31.2	18.7	28.8
2015	35.7	33.7	32.0	29.0

2.6 It should be noted that the quarterly positions 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 Member 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. Apart from 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. Being currently established at USD 8.0 million, it is higher than the estimated monthly disbursements of CAD 7.9 million. Giving that under delegated authority of the Assembly, the Council has the ability to increase the Working Capital Fund by up to 25% (to USD 10.0 million), this level is considered sufficient to cover any projected increase in budget for the 2017-2019 triennium. 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 However, there is a limited risk that the level of the WCF may not be sufficient to cover the needs during the next triennium.

3.3 It is recommended to maintain the WCF at USD 8.0 million to cover at a minimum one month of projected expenditures.

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 CAD 3.0 million during the triennium. The continuation of the borrowing authority has been provided for in Resolving Clause 2 d) of Assembly Resolution A38-27. 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 unpredictable 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.

APPENDIX

**DRAFT ASSEMBLY RESOLUTION FOR ADOPTION BY THE
39TH SESSION OF THE ASSEMBLY**

(To supersede A38-27)

Resolution 53/1

Working Capital Fund

The Assembly:

1. Notes that:

- a) in accordance with Resolution A38-27, 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) 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) 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;
- d) experience has shown that in general 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 Member States is leading to a potential financial crisis within the Organization that could impact all Member States;
- e) 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
- f) the Council reviewed the financial situation of the Organization and the level of the Working Capital Fund in February 2016 and noted that it has not been necessary to use the Working Capital Fund in 2015.

2. *Resolves that:*

- a) the level of the Working Capital Fund remain at USD 8.0 million;
- b) the Council shall continue to monitor the level of the Working Capital Fund no later than November 2017, 2018 and 2019 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 USD 10.0 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 CAD 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 2016, 2017 and 2018;
 - ii) whether the financial position of the General Fund and the Working Capital Fund would indicate the need for assessing Member States for cash deficits caused by arrears of contributions; and
 - iii) on the appropriateness of the level of the borrowing authority; and
- f) Resolution A38-27 is no longer effective and is hereby superseded; and

3. *Urges:*

- a) all Member 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 Member States in arrears to meet their obligations to the Organization as promptly as possible, as called for by Resolution [A39-xx].