



ASSEMBLY — 37TH SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 70: Disposition of cash surplus

DISPOSITION OF CASH SURPLUS AND  
AFTER SERVICE HEALTH INSURANCE (ASHI) LIABILITY

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This working paper reports to the Assembly on the status of any cash surplus (or deficit). Financial Regulation 6.2 defines cash surplus and specifically states that it “*may be used to meet expenditures and to finance deficits in the Revolving Fund established under Regulation 7.8, subject to Council approval... in the manner to be decided by the Assembly*”.

Financial Regulation 7.8 pertains to the establishment on 1 January 2008 of a Revolving Fund to meet unfunded liabilities for After Service Health Insurance (ASHI) and other such items arising from the adoption of International Public Sector Accounting Standards (IPSAS).

The financial results for the year ended 31 December 2009 show a cash surplus of \$1.4 million as of the end of December 2009. It is proposed to use this cash surplus to provide the initial funding for these post IPSAS liabilities, the largest of which, ASHI, was estimated at \$56.3 million in the latest actuarial valuation completed in March 2010.

**Action:** The Assembly is invited to approve the initial funding for after service entitlements as proposed in paragraph 5.1.

<i>Strategic Objectives:</i>	This working paper relates to Supporting Implementation Strategy 4 and does not relate specifically to any one Strategic Objective.
<i>Financial implications:</i>	Setting aside the cash surplus of \$1.4 million to provide initial funding for future liabilities.
<i>References:</i>	Doc 9902, <i>Assembly Resolutions in Force</i> (as of 28 September 2007) Doc 7515, <i>The ICAO Financial Regulations</i>

## 1. INTRODUCTION

1.1 In accordance with Financial Regulation 6.2, the Assembly must decide on the disposition of any cash surplus at the end of the year preceding the Assembly session. Financial Regulation 6.2 defines cash surplus and specifically states that it “*may be used to meet expenditures and to finance deficits in the Revolving Fund established under Regulation 7.8, subject to Council approval, except that cash surplus at the end of the year prior to the year in which the Assembly is held shall be disposed of in the manner to be decided by the Assembly*”.

1.2 Financial Regulation 7.8 pertains to the establishment on 1 January 2008 of a Revolving Fund to meet unfunded liabilities for After Service Health Insurance (ASHI) and other such items arising from the adoption of International Public Sector Accounting Standards (IPSAS). It should be noted that this Regulation is subject to a minor change in Assembly working paper, Amendment of the Financial Regulations, A37-WP/57, but this is for clarification and does not affect the purpose of the regulation.

1.3 At the 36th Session of the Assembly, there was a cash deficit of \$3 million reported and no further action was needed.

## 2. CASH SURPLUS POSITION

2.1 The cash surplus as at 31 December 2009 amounts to \$1.4 million and represents the difference between the unreserved Cumulative Surplus (net of Working Capital Fund and contributed capital) of \$14.4 million and the total of Assessments Receivable from Contracting States of \$13 million (both figures as shown in Statements II and V of the same Financial Statements).

2.2 The amount of the cash surplus can change significantly and is particularly influenced by the timing of assessment payments and programme expenditures. The 31 December 2009 position can be compared with the two prior years:

<b>Balances as at 31 December (in 000's Canadian Dollars)</b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Cumulative Surplus	19 717	19 596	14 469
Less: Assessed Contributions Receivable	<u>11 220</u>	<u>12 277</u>	<u>13 031</u>
Cash Surplus/(Deficit)	<u>8 497</u>	<u>7 319</u>	<u>1 438</u>

## 3. UNFUNDED LIABILITIES

3.1 With the introduction of International Public Sector Accounting Standards between 2008 and 2010, ICAO is required to recognize in the Accounts, the liabilities for end of service and post

retirement benefits. Previously these costs had been met from current revenue when they were paid, but this liability must now be recognized in the accounts from 2010 onwards.

3.2 A full description of the nature and extent of these liabilities is contained in Note 19 of the 2009 Financial Statements. It will be seen therein that according to the Actuarial Valuation performed by an external firm of Actuaries in March 2010, the amount of the liability for After Service Health Insurance at 31 December 2009 was \$56.3 million, and for Accrued Annual Leave and Repatriation Grant was \$17.4 million. These figures were slightly lower than estimates from the previous actuarial valuation in April 2007 reflecting the lower rate of inflation experienced since then.

#### 4. FUNDING OPTIONS

4.1 These liabilities will be entered in the accounts of ICAO in 2010, but they remain unfunded. How they should be funded is a matter of ongoing discussion at the United Nations in New York which will require a decision by the United Nations General Assembly. However, many United Nations organizations have already established mechanisms to progressively fund the ASHI liability and indeed two smaller UN organizations are now fully funded.

4.2 The impact of these liabilities and the funding options were discussed in the Council in September 2009. The options included special assessments over a number of years, the use of the cash surplus (this paper), and the use of unspent appropriations or by adding the charge to the staff costs which would then be funded by increased triennial budgets.

4.3 In May 2009, the Chief Executive Board of the United Nations Organizations issued a comparative analysis of the ASHI liability for UN system organizations as at 31 December 2008. The analysis was based on a survey completed by nineteen organizations, including ICAO. The total liability reported for ASHI as at that date was above USD 5 billion.

4.4 It was reported that a minority of organizations had funding available to cover their estimated ASHI liability. Several mechanisms were used by the organizations to fund this liability. These measures included a loading factor on payroll cost, use of surplus funds and, in one case, special annual contributions by Member States.

4.5 Currently, ICAO does not have a mechanism to finance liabilities pertaining to end-of-service and post-retirement benefits. Financial Regulation 7.8 requires that a separate Revolving Fund be established to record all transactions relating to ASHI and any other unfunded liabilities and deficit following the application of IPSAS. Noting the absence of an obligation for ICAO to fund these liabilities prior to issuing required payments, ICAO could now consider following the approach of a number of UN organizations which have adopted a mechanism to progressively finance the liability. A factor to also consider is that income earned in a plan to finance the liability would also reduce the burden on future contributions from Contracting States.

4.6 ASHI liability has consistently grown over the past years and it will likely continue to grow in the future, or it will indisputably remain a significant liability for the Organization. It is therefore relevant to consider funding the liability progressively.

5. **PROPOSAL**

5.1 It is proposed that the Assembly consider using the cash surplus at the end of 2009 to provide the initial amount to fund these liabilities. It represents \$1.4 million out of a total funding requirement of \$73.7 million, and reflects the understanding contained in Financial Regulation 6.2.

5.2. Funding options for the balance remain under discussion and will be influenced by what is decided by the General Assembly for the United Nations Secretariat.

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