



ASSEMBLY — 36TH SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 61: Other financial matters for consideration by the Administrative Commission

STUDY ON THE APPORTIONMENT OF COSTS BETWEEN THE ADMINISTRATIVE AND OPERATIONAL SERVICES COST (AOSC) FUND AND THE REGULAR PROGRAMME BUDGET

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

The Council reports on actions taken following its review of the apportionment of costs between the Technical Co-operation Administrative and Operational Services Cost (AOSC) Fund and the Regular Programme Budget. An initial study was conducted in 2005 by approximating resource requirements for servicing each programme. While taking into account that certain costs could not be allocated in the absence of a reliable tracking system, the Council recommended the progressive allocation of identifiable costs with the aim of minimizing the existing level of cross-funding. A progress report was presented during 177th Session of the Council identifying eligible costs for transfer between the two programmes. This resulted in a net charge of US\$ 45 728 to the AOSC Fund. The Council approved transfers made in 2005 and instructed the Secretary General to take further steps to progressively minimize the prevailing amount of cross-funding.

In 2006, in addition to these costs, and in accordance with Financial Regulation 9.4, an approximation was used to calculate the AOSC portion of after-service health insurance (ASHI) charges for retired staff and staff training, security and welfare costs for existing staff. The net transfer of costs from the Regular Programme to the AOSC Fund was therefore increased by US\$ 144 000 in 2006. The Council accepted this transfer of costs subject to approval of a new policy on cost recovery, favouring a more transparent and efficient manner of cost recovery. The resulting total net charge to the AOSC Fund was US\$ 290 100.

The Council recommended that the goal of reducing cross-funding would best be served by adopting a long-term harmonized policy on cost recovery for all extra-budgetary activities.

During its 181st Session, the Council considered the subject of policy on cost recovery and directed the Secretariat to undertake a two-year pilot project study for the period 2008-2009 on the apportionment of costs and to report back to the Council on an annual basis with the results thereof. The Council also directed the Secretariat to present the final results of the pilot project for the Council's consideration during its first session of 2010.

<i>Strategic Objectives:</i>	This working paper relates to Supporting Implementation Strategy 4.
<i>Financial implications:</i>	Not applicable at this time.
<i>References:</i>	Doc 9848, <i>ICAO Resolutions in Force</i> (A35-20) Doc 7515/12, <i>The ICAO Financial Regulations</i>

1. INTRODUCTION

1.1 During the 35th Session of the Assembly, the issue of apportionment of costs between the AOSC Fund and the Regular Programme Budget was considered both in the Administrative Commission and the Executive Committee. The Administrative Commission recommended that the question of sharing costs between the Regular Programme and the Technical Co-operation Programme be reported to the Council for review. The Council instructed the Secretary General to report on the sharing of costs, including the cost of after-service medical benefits, between Regular Programme and the Technical Co-operation Programme.

2. ACTION TAKEN FOR THE YEAR 2005

2.1 In the absence of a cost accounting mechanism to capture salaries and other costs, and given the number of transactions performed, the approach used to compile information on resources devoted to the Regular Programme and the Technical Co-operation Programme activities was to identify areas of the Organization in which either functional or financial integration had been introduced over the years. An estimate was made of the Regular Programme Budget activities funded by AOSC resources and Technical Co-operation activities funded by the Regular Programme Budget. The result of a preliminary study was presented to the Council.

2.2 On the basis of recommendations of the Finance Committee and the Technical Co-operation Committee, the Council agreed that the Secretary General progressively allocate identifiable costs to the AOSC Fund and the Regular Programme Budget, as appropriate, in order to minimize the amount of cross-funding that was occurring. In the absence of a supportive financial system, the allocation of costs that could not currently be broken down, would await the implementation of the new financial system.

2.3 In 2005, a progress report on actions taken by the Secretariat was presented during the 177th Session of Council. A total of US\$ 285 984 was identified as expenditures incurred by the AOSC Fund in support of the Regular Programme. These were off-set by a total of US\$ 331 712 identified as expenditures incurred by the Regular Programme in support to the Technical Co-operation Programme. Those charges were transferred to the appropriate funds with the impact being a net charge of US\$ 45 728 to the AOSC Fund.

2.4 The Finance Committee recommended that Council task the Secretary General to continue efforts to eliminate the cross funding between the AOSC Fund and the Regular Programme Budget, to the extent possible, even in the absence of a supportive financial system. Particular attention was drawn to after-service medical costs which had not been allocated in 2005. It was agreed that a methodology could be developed in 2006 to allocate these costs, with a reasonable degree of accuracy and without resorting to undue administrative effort. Council approved transfers made in 2005 and instructed the Secretary General to take further steps to progressively allocate identifiable costs, using reasonable methods of allocation in order to minimize the prevailing amount of cross-funding, and report back to the Council in early 2006.

3. ACTION TAKEN FOR THE YEAR 2006

3.1 A report was presented to the Council on further progress made to minimize the prevailing amounts of cross funding. In addition to using parameters applied in 2005, ASHI charges for retired staff, and staff training, security and welfare costs for serving staff were identified as eligible expenditure items. Since current systems do not lend themselves to determine the fund to which retired staff were charged at the time of their active service, a rate of 17 per cent was applied to the ASHI based on the number of staff members on each programme at the time of retirement. A rate of 12 per cent was applied to staff training and welfare based on current active service.

3.2 Following the parameters used in 2005, costs totalling US\$ 404 800 was transferred to the AOSC Fund representing expenditures incurred by the Regular Programme in support of the Technical Co-operation Programme. Noting that the costs identified in paragraph 3.1 above had historically been borne by the Regular Programme, the net transfer of costs from the Regular Programme to the AOSC fund was increased by US\$ 144 000 in 2006. However, since expenditures incurred by the AOSC Fund in support of the Regular Programme totalled US\$ 258 700, a net amount of US\$ 290 100 was charged to the AOSC Fund in 2006. The Council agreed with the transfer of costs between the Regular Programme and the AOSC Fund subject to the approval by the Council of a new policy on cost recovery.

3.3 It was underscored that the goal of reducing cross-funding between the Regular Programme Budget and the AOSC Fund would best be served by adopting a long-term strategy on cost recovery. A 2002 Joint Inspection Unit (JIU) report (JIU/REP/2002/03), highlighted the need to harmonize extra-budgetary support cost recovery policies among UN organizations. It was also recommended that core resources should not unduly subsidize extra-budgetary projects. Definitions of direct, indirect fixed and variable cost categories, as endorsed in October 2005 by the United Nations High Level Committee on Management (HLCM), were presented for review.

3.4 The Council noted that under a new policy on cost recovery for extra-budgetary support, the inflow of funds to the Regular Programme could be tied to a relevant factor such as a percentage of programme size or on the basis of actual resource allocation required to provide a specified level of service. In this framework, the current practice of funding a number of posts outside of the TCB through the AOSC Fund would need to be revisited, in favour of adopting a more systematic and effective approach. This would favour a recovery of costs in a more transparent and efficient manner for all extra-budgetary activities.

3.5 A long-term policy on apportionment of costs between the Regular Programme Budget and the AOSC Fund would need to be established within the context of the new operational environment resulting from the introduction of the ERP in 2008, which will lead to changes to organizational processes and have an impact on how resources are deployed to various Organizational results.

3.6 The Council instructed the Secretary General to propose an ICAO policy for a harmonized system of cost recovery for all extra-budgetary activities taking into account various models, including those existing in the United Nations system, to enable Council to choose the model that would best serve the interest of the Organization. The criteria set out for the policy are simplicity, clarity, ease of administration and transparency.

3.7 The Council requested and was provided with updated information on posts funded by the AOSC Fund outside of the Technical Co-operation Bureau, which shows that for 2005 and 2006 respectively, the AOSC Fund financed 20 and 21 posts outside of TCB costing US\$ 1.2 million and US\$ 1.4 million. The Council agreed with the transfer of costs between the Regular Programme and the AOSC Fund subject to the approval by the Council of a new policy on cost recovery.

4. PROPOSAL FOR AN ICAO POLICY ON COST RECOVERY

4.1 This subject was documented for the Council's consideration during its 181st Session in a Council working paper presented by the Secretary General and a report presented jointly by the Finance Committee (FIC) and the Technical Co-operation Committee (TCC).

4.2 In taking action recommended by the FIC and the TCC in their joint report, the Council directed the Secretariat to undertake a two-year pilot project study for the period 2008-2009, under the joint management of the Technical Co-operation Bureau (TCB), the Finance Branch (FIN) and the Human Resources Branch (HRB), to establish a system which would facilitate better long-term planning, more flexible staffing arrangements and a more transparent method of apportioning costs and to report back to the Council on an annual basis with the results thereof. In addition, the Council directed the Secretariat to present the final results of the pilot project study for the Council's consideration during the the first session in 2010, together with any recommendations for policy changes, as necessary.

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