

Process for changing the Commission's Financial Year

A review of available options

Provided by the Chair of the F&A Committee and Executive Secretary

Background

At IWC64 in Panama in 2012 the Commission endorsed a Finance and Administration Committee recommendation to change the timing of the financial year to run from 1 January to 31 December. This decision will:

- 1) allow the Commission to approve a budget for the forthcoming financial year when it meets biennially in September or October;

and

- 2) mean that the Commission's financial year will be the same as the financial year of the majority of Contracting Parties. This is expected to assist the collection of payments as invoices can be issued at the start of the year.

To support this decision the Secretariat was asked to develop a series of options to allow Contracting Governments to pay the charges associated with the four month 'bridging' period from 1 September 2014 to 31 December 2014. This paper is produced in response to that request.

Timeline

| Financial Year | Time Period (months) | Status of Budget | Invoices issued: |
|----------------------------|----------------------|-----------------------|--------------------------------|
| 1 Sept 2012 to 31 Aug 2013 | 12 | Budget agreed IWC64 | September 2012 |
| 1 Sept 2013 to 31 Aug 2014 | 12 | Budget agreed IWC64 | September 2013 |
| 1 Sept 2014 to 31 Dec 2015 | 16 | IWC65 will set budget | Discussed below. October 2014? |
| 1 Jan 2016 to 31 Dec 2016 | 12 | IWC65 will set budget | January 2016 |

Auditor's Advice

The Secretary requested advice from the Commission's auditor on the best approach for changing the Commission's financial year. Their advice was to issue a 16 month invoice for the extended financial year 1 September 2014 to 31 December 2015. This means that a full 16 months income will be recognised in the 2014-2015 accounts.

Consequences of Financial Year Change

The invoice for a 16 month financial year is likely to be around 23% higher than for a 12 month financial year¹. Some Contracting Governments may find a 23% increase an insurmountable impost which would impact voting rights at forthcoming meetings. Accordingly this paper proposes that an option be provided whereby the increase is spread evenly over four financial years. This can be achieved by providing different payment dates for each instalment:

¹ The figure of 23% assumes no allocation is made to the research fund or meeting fund during the additional four month period. Calculation of the cost of the 4 month period is given at Annex 1.

| Invoice Date | Total Invoice Amount | Payment Date | Amount |
|--------------|----------------------|--------------|-----------|
| October 2014 | 16 Months | June 2015 | 13 Months |
| | | June 2016 | 1 Month |
| | | June 2017 | 1 Month |
| | | June 2018 | 1 Month |

The differing payment dates for the increased portion allow Governments to pay the full 16 months upon receipt of the invoice in October 2014 if they so wish. Importantly, the differing payment dates also mean that votes will not be suspended for Governments who defer payment of the increased portion of the invoice until future years.

Future invoices to be issued in January 2016, 2017 and 2018 would include statements of the amount outstanding from the 2014 invoice, along with the due dates.

Finally there remains the possibility that some Contracting Governments may be unable to pay the increased portion (13 months) due by June 2015 because of national budgets having already been set. In this case the procedure at Financial Regulation E.2 indicates that payment of the increased portion of the amount due can be postponed to 31 December 2015 without suspension of vote.

One other consequence of the change is that interest charged on arrears of historic payments will be charged from 30 June, rather than from 28 February as previously. This will have the effect of granting four months free credit to those countries more than 24 months in arrears.

Changes Required to Rules of Procedure

Changes are required to three rules of procedure to reflect the different timings:

Rule of Procedure K.1:

1. The financial year of the Commission shall be from 1st ~~September~~ **January** to 31st ~~August~~ **December**.

Financial Regulation B.1

1. The financial year of the Commission shall be from 1st ~~September~~ **January** to 31st ~~August~~ **December** (Rules of Procedure, Rule K.1).

Financial Regulation E.2:

2. Payment shall be in pounds sterling, drafts being made payable to the International Whaling Commission and shall be payable within 90 days of the said request from the Secretary or by the following ~~28 February~~ **30 June**, the 'due date' whichever is the later. It shall be open to any Contracting Government to postpone the payment of any increased portion of the amount which shall be payable in full by the following 31 ~~August~~ **December**, which then becomes the 'due date'. Payment shall be by bank transfer from an account belonging to the Contracting Government or to a state institution of that Government.

Risks Associated with Change of Financial Year

As indicated above, the changed invoice date and the associated rise in fees may cause some Contracting Governments difficulty in making payments. Any reduction in payment receipts would cause an increase in debtors, and therefore a reduction in the level of the General Fund at the end of the 2015 financial year.

Annex 1 indicates the costs incurred during the four month 'bridging' period 1 Sept 2014 to 31 Dec 2014 will be around £375k.

At the end of the 2012-2013 Financial Year the balance on the General Fund is projected using budget figures to be around £953k.

Assuming that all Contracting Governments defer payment for three of the four additional months in the 2014-2015 financial year, this will result in an effective overspend of 75% of £375k = £281k.

This will reduce the level of the General Fund from £953k to £672k. Whilst significantly below target level, this balance is still considered high enough to avoid immediate cash flow solvency issues.

Annex One

**Estimation of total expenditure during the four month 'bridging' period
1 September 2014 to 31 December 2014.**

| | | |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------|
| 12 months Secretariat expenditure is budgeted at ² : | | 1,124,178 |
| Hence 4 month's expenditure (pro-rata) | | 374,726 |
| Four months expenditure as a percentage of total annual financial contributions from Contracting Governments | $= \text{£}375\text{k} / \text{£}1,637,951 =$ | 22.8% |

² Figure taken from 2013-2014 budget (document IWC/64/7). This figure does not include any allowance for annual meetings, other meetings or research expenditure during the four month period.