

Guidance on the use of the Meeting Fund & the General Fund

A Secretariat Paper

1. Background

- 1.1. At its meeting in Shimonoseki, Japan in 2017, the Bureau requested that guidelines in relation to the utilisation of the General Fund and Meeting Fund should be produced in order to strengthen financial management.
- 1.2. The purpose of this document is to:
 - Provide clarity on how money in the General Fund and Meeting Fund should be utilised.
 - Establish a target level for each fund
 - Establish the circumstances when each fund may be utilised, including a required authorisation process where necessary.

2. General Fund

Purpose

- 2.1. The General Fund represents the current level of the Commission's assets not allocated to specific Sub-Committees, projects and workstreams. It comprises the Commission's cash balances, fixed assets, including the Red House, debtors and short-term creditors. Therefore the General Fund balance should not be confused with available cash.
- 2.2. The General Fund is established in Commission Financial Regulation C.1(b) which states that:

(b) The General Fund shall, subject to the establishment of any other funds that the Commission may determine, be credited or charged with all other income and expenditure.
- 2.3. This means that when the Commission has a surplus against its budget for the year, this is added to the General Fund, and when the Commission has a budget deficit, the overspend is charged to the General Fund.
- 2.4. The General Fund is there to cushion the impact of uneven cashflows, of unforeseen events and emergencies and to prevent the need for temporary borrowing.
- 2.5. Therefore, the General Fund should not be utilised to cover the Commission's 'day to day' spending under normal circumstances.

General Fund Adequacy

Principles

- 2.6. It is important to assess the balance of the General Fund for adequacy at least annually.
- 2.7. When assessing the adequacy of the General Fund, the circumstances of the Commission need to be considered. Such issues to consider include:
 - The Commission's 2-year budget cycle, which requires longer term planning than when meetings were annual.
 - Position of the global economy and its impact on IWC.
 - Potential exposure to the risk of the need for one-off outlays (for example, in relation to capital assets, floods, fire etc.)
 - The impact on the General Fund of activities occurring in other Commission earmarked funds.

- Known budget pressures and financing issues.
- Level of bad debts and income volatility (e.g. a change in membership numbers).

2.8. In order to assess the adequacy of the General Fund when setting the budget, the Commission is recommended to take account of the strategic, operational and financial risks it faces. F&A item 3.5 provides further detail on risk management.

2.9. As at 31/12/2017, the Commission's General Fund made up 48% of its total reserves.

2.10. **It is recommended that the General Fund should be sustained at a level which would support 6 months of the Commission's core operations.** This is a prudent approach designed to ensure long term sustainability and resistance to financial shocks.

Present Level of Reserves

2.11. Based on 2017 core income of £1,790,258, this would indicate a **target general fund of £895,129.**

2.12. When calculating the adequacy of reserves, non-current assets⁷ should be excluded from the calculation as they are not readily convertible to cash (for example, the Red House building) and therefore could not be relied upon in an emergency situation.

2.13. As at the end of 2017, the General Fund was comprised of the following elements:

<i>Non-Current Assets</i>	£	
Land & Buildings	982,608	
Other Fixed Assets	45,195	
		1,027,803
<i>Current Assets</i>		
Cash	935,739	
Debtors	261,217	
Creditors	(270,171)	
		926,785
Total General Fund Balance 31 December 2017:		1,954,588

2.14. Therefore the relevant figure for consideration in the 'adequacy' calculation is **£926,785.** This indicates a sufficient level of reserves which, at **51.7%** of 2017 core income is very slightly above the target level outlined.

2.15. It is recommended that an annual review of reserve adequacy is included as part of the financial reporting process. This could be included in the commentary on the financial accounts and presented to the Commission, or in years when the Commission does not meet, to the Bureau.

Policy on the Use of General Funds

2.16. Drawing on general reserves may be viewed as a legitimate short-term option in extreme circumstances, however, it is not prudent for reserves to be deployed to finance recurrent expenditure.

2.17. There may be rare occasions in which a withdrawal from the general fund is justifiable to allow the Commission to meet a one-off need for investment or in an emergency.

2.18. It is recommended that the following policy on the use of General Funds is adopted:

⁷ Non-current assets are not readily convertible to cash. Current assets can be readily converted to cash.

POLICY ON THE UTILISATION OF GENERAL FUNDS

I. Target Balance

In order to ensure financial sustainability, it is recommended that the Commission's General Fund be maintained at a level of 50% of its annual core income[†]. Fixed assets will be excluded from the General Fund balance calculation.

II. Surplus/Deficit Amounts

In accordance with Financial Regulation C.1(b) and accounting requirements, any budget surplus or deficit shall be applied to the General Fund at the end of the financial year.

III. Extraordinary Usage

There are two situations where extraordinary use of General Funds may be considered:

(a) Delays due to timing issues - Where funds have been allocated to planned work (for example, a major repair) and the project is delayed and cannot be completed in that financial year, funds may be 'carried over' to the next financial year and withdrawn from the general fund when the project can commence.

(i) This must be agreed in advance by the Chair of the Commission, in consultation with the Bureau, in writing.

(ii) A clear plan for spending the funds must be provided, including an expected completion date.

(iii) This use must be reported to the Commission, or in years when the Commission does not meet, to the Bureau.

(b) Extraordinary Circumstances

(i) In extraordinary circumstances, General Funds may be required to fund expenditure that is a result of unexpected events or in order to make capital or structural changes. In these circumstances:

- The Secretariat and Bureau will provide advice to the Chair in relation to the proposal.

- The Chair must be satisfied that the plan is sustainable and will not threaten the Commission's position as a going concern.

- A plan for the replenishment of the reserve should be included as part of the proposal.

- The plan must be agreed in advance by the Chair of the Commission, in consultation with the Bureau.

- If the amount is in excess of £100,000 Commission approval will be required, or if the request is intersessional, a postal vote will be required.

(ii) This use must be reported to the Commission, or in years when the Commission does not meet, to the Bureau.

[†]Core income is defined as all income which is not a voluntary contribution

3. Meeting Fund

Purpose

- 3.1. The Meeting Fund is not formally established in the Commission’s Financial Regulations but has been part of the Commission’s earmarked funds since the move to biennial Commission meetings. The Fund currently serves two purposes:
- To set aside funds in non-Commission years to fund the Biennial Meeting. This allows for Financial Contribution levels to be kept stable as the cost of the Biennial Meeting is spread across the two years of the budget cycle.
 - When Commission and/or Scientific Committee Meetings are underspent, the Meeting Fund is credited with the balance. Where such meetings are overspent, the Meeting Fund balance has covered the excess amount.
- 3.2. At IWC 66, the Commission agreed a budget of £120,000 for Scientific Committee Meetings which is not enough to cover the full cost of a meeting in most venues. The Meeting Fund balance was used to cover the difference. However, the Meeting Fund balance is a finite resource and this is not sustainable as a long-term strategy, particularly as costs would be substantially greater at most venues.
- 3.3. Therefore, the following actions have been taken to address this:

- The proposed 2019/20 budgets include the required funds to host meetings at ‘reference’ locations of:

The International Maritime Organisation (IMO) London, UK – Commission Meeting
The UN Food & Agricultural Organisation (FAO) Rome, Italy – Scientific Committee Meeting

In the event that a host nation does not come forward to host a meeting, the budget will contain the adequate funds to hold the meeting at the reference location.

- A legally-binding Host Country Agreement (HCA) has been developed as part of the Meetings Guidance Documents (F&A Agenda Item 3.2.1) which requires host countries to cover any known shortfall as part of their offer to host the meeting. This is in line with other conventions such as the Convention on Biological Diversity.
- 3.4. These two actions should prevent the need to draw on the Meeting Fund in normal circumstances.
- 3.5. As no financial forecast can be perfect and exchange rates may vary, meetings will continue to have some surplus/deficit against the expected total outlay.
- 3.6. Where Contracting Governments provide financial support to cover the additional costs of a meeting, these funds will be set aside in the Meeting Fund until such time as they are required. In the event of an underspend, once costs for a meeting have been finalised, the difference will be returned to the Contracting Government as a refund.

Adequacy

- 3.7. The table below indicates the balance on the Meeting Fund across the last two financial years.

	Balance at 31/12/2016	Balance at 31/12/2017
Total Balance on fund	£158,954	£238,491
Less Amounts set aside for future Commission meetings	-	(£118,125)
Unallocated Balance	£158,954	£120,366

- 3.8. The balance on the Meeting Fund at the close 31/12/2017 was £238,491 of which £118,125 is set aside to support the 2018 Commission Meeting. This leaves an available balance on this fund of £120,366.
- 3.9. As noted at the Bureau meeting in Bled 2017, it is expected that up to a further £30,000 could be utilised from the Meeting Fund in 2018 to cover the anticipated shortfall for the Secretariat-hosted Scientific Committee meeting in Slovenia. It is anticipated that the overspend will not be as large as expected, however, a £30,000 overspend is expected to be the 'worst case' scenario which could leave the 2018 fund balance at c.£90,000 by the end of the financial year.
- 3.10. It is recommended that the unallocated balance of the Meeting Fund be equivalent to 50% of the costs of hosting a Commission meeting in order for the fund to be able to cover any unforeseen risks that may occur. Based on the reference location of the IMO, which is proposed in F&A agenda item 3.2.1, **a sufficient fund balance is estimated to be £151,000.** Therefore both the current balance of the meeting fund and expected balance at the end of this financial year are substantially below the target level. Commissioners are recommended to consider how the fund balance could be replenished to the recommended target level.

Policy on the use of meeting funds

- 3.11. The following policy is designed to clarify the purpose of the Meeting Fund and how and when it should be utilised.

POLICY ON THE UTILISATION OF MEETING FUNDS

I. Target Balance

In order to ensure financial sustainability, it is recommended that the Commission's Meeting Fund be maintained at a level of 50% of the cost of a Commission meeting at the reference location (IMO).

II. Spreading the cost of Biennial Commission Meetings

In order to allow the Commission to charge stable Financial Contributions to its members, the cost of Commission Meetings will be budgeted for across the 2-year budget cycle. Amounts set aside during non-Commission years will be credited to the Meeting Fund to be utilised in the year the relevant Meeting takes place.

III. Administration of Host Country Contributions

Where a Host Government provides funding to support the additional costs of hosting a meeting in a venue other than the reference location, this money will be credited to the Meetings Fund to be used as needed for the meeting in question. Funds should be provided in advance according to the Host Country Agreement.

- (i) Funding provided by a Host Government will be used to fund the relevant meeting only.
- (ii) At the end of a meeting, the Secretariat will provide a full report on the actual costs of the meeting to the Host Government.
- (iii) If Host Country funds have not been fully utilised they will be returned to the Host Country upon receipt of a valid invoice within three months of the financial report being issued.

In line with the Host Country Agreement (HCA), Host Countries are expected to cover any excess costs over the available budget. They will be responsible for covering any additional variance to the forecast amount to a maximum of 10% of

total costs. Should costs exceed an additional 10% over the forecast amount, these costs will be borne from the Meeting Fund subject to funds being available.

IV. Surplus/Deficit Amounts

Any other surplus or deficit in relation to a Commission Meeting or Scientific Committee Meeting shall be applied to the Meeting Fund at the end of the financial year.

V. Excess Meeting Fund Balances

In the rare event that the Meeting Fund balance exceeds 75% of the expected costs of a Commission Meeting, the Commission may decide to return the excess balance to the General Fund.

4. Recommendations

4.1. It is recommended that the Finance & Administration Committee:

General Fund

- Notes the current balance of the General Fund
- Establishes a target level of general fund as being 50% of Commission core income, excluding fixed assets.
- Adopts the proposed policy on the Utilisation of General Funds

Meeting Fund

- Notes the current balance of the Meeting Fund
- Note the actions taken to ensure a sustainable approach to meetings.
- Establishes a target level of the Meeting Fund as being 50% of the cost of a Commission meeting at the reference location of IMO and considers how the balance on this fund could be replenished to meet this target.
- Adopts the proposed policy on the Utilisation of Meeting Funds.

Resources utilised in completing this document:

Proposed IWC Guidance for Hosting Meetings of the Commission and Scientific Committee (F&A agenda item 3.2.1)

Chartered Institute of Public Finance & Accountancy (CIPFA) LAAP Bulletin 99 - Reserves & Balances

Government Finance Officers Association (US) Fund Balance Guidelines for the General Fund.

<http://www.gfoa.org/fund-balance-guidelines-general-fund> Accessed 11:28 04/06/2018.

Annex 1 – Financial Regulations regarding the General Fund

C. General Financial Arrangements

1. There shall be established a Research Fund, a General Fund, a Voluntary Fund for Small Cetaceans, a Voluntary Fund for Aboriginal Subsistence Whaling and a Voluntary Conservation Fund, and a Voluntary Assistance Fund to facilitate Contracting Governments in Capacity to Pay Groups 1 and 2 that are not EU Member States or members of the Organisation for Economic Cooperation and Development, (hereinafter eligible Groups 1 and 2 Governments), to Participate fully in the Work of the Commission (the Voluntary Assistance Fund).

(a) The Research Fund shall be credited with voluntary contributions and any such monies as the Commission may allocate for research and scientific investigation and charged with specific expenditure of this nature. The Research Fund shall have a balanced distribution among activities, defined according to conservation priorities and the work of the Commission, including small cetaceans.

(b) The General Fund shall, subject to the establishment of any other funds that the Commission may determine, be credited or charged with all other income and expenditure.

(c) The details of the Voluntary Fund for Small Cetaceans are given in Appendix 1.

The General Fund shall be credited or debited with the balance on the Commission's Income and Expenditure Account at the end of each financial year.

(d) The details of the Voluntary Fund for Aboriginal Subsistence Whaling are given in Appendix 2.

(e) The details of the Voluntary Conservation Fund are given in Appendix 3.

(f) The details of the administration of funding from the Voluntary Assistance Fund to facilitate eligible Groups 1 and 2 Governments to Participate fully in the Work of the Commission are given in Appendix 4.

The General Fund shall be credited or debited with the balance on the Commission's Income and Expenditure Account at the end of each financial year.