

Finances of the Union

Review of cash position of Union, proposal for additional management guidelines, and approval in principle for priority areas of spending

(Document prepared by APPU Bureau)

1. Subject	Paragraphs
<p>Informing the EC, via the Finance Committee, on:</p> <ul style="list-style-type: none"> - the need to focus attention on cash management particularly in relation to reserve funds - the APPU (not including APP) appears to have bank balances well in excess of annual operating requirements - the excess cash is the result of a savings culture; however, this culture may have impacted the balance between acceptable spending and reasonable thriftiness - the re-statement of normal business practice for being able to use unspent cash for immediate (budgeted or unbudgeted) requirements at the discretion of management - the apparent absence of financial levels set by the EC for the Administrative and Training Sections reserve budgets - the intention of the Bureau to: <ul style="list-style-type: none"> • get advice on financial level and replenishment practices for reserve funds, and to draft a policy for EC approval • seek approval in principle for use of reserve funds for three projects where investment appears necessary - an approach to simplify the consideration and approval process for the Governing Board in the event that decisions are required from the Board regarding the Training Section reserve fund 	<p>§ 1.1</p> <p>§ 2</p> <p>§ 3</p> <p>§ 4</p> <p>§§ 5.1 – 5.2</p> <p>§ 5.3</p> <p>§ 7</p>
<p>2. Decisions expected</p> <p>The EC, via the Finance Committee, is asked to:</p> <ul style="list-style-type: none"> - note the need for attention on cash management particularly in relation to reserve funds where the Union (not including APP) appears to have bank balances well in excess of annual operating requirements - note that the excess cash is the result of a savings culture which may have impacted the balance between acceptable spending and reasonable thriftiness - note the re-statement of normal business practice for being able to use unspent cash for immediate (budgeted or unbudgeted) requirements at the discretion of management, subject to standard business rules - note the apparent absence of financial levels set by the EC for the Administrative and Training Sections reserve budgets - note the Bureau’s intention to get advice on financial level and replenishment practices for reserve funds, and to draft a policy for EC approval - approve in principle the use of reserve funds for three projects where investment appears necessary (Bureau IT review/upgrade, Bureau office renovation, College dormitory/apartments renovation) 	<p>§ 1.1, § 2</p> <p>§ 3</p> <p>§ 4</p> <p>§§ 5.1 – 5.2</p> <p>§ 5.3 (i) - (ii)</p> <p>§ 5.3 (iii)</p>

directed to a reserve fund at the end of the year. The APPU and APPC Financial Statements for 2018 contain reserve fund entries as follows.

Business Area	Fund Description	Amount
Administrative Section	Reserve Fund	245,818
Training Section	Reserve Fund	778,913
SAF	Not described	147,996 ³
Total		1,172,727⁴

2.4 Cash held in one Reserve Fund (e.g., the Administrative Section) cannot be applied to another entity (e.g., the Training Section). Separate accounts are to be maintained.

3. The side-effects of accumulating unused cash

3.1 When one looks at the unused cash held, two contrasting observations emerge viz.,

- (i) on the positive side, management and staff have become very skilled at saving money; but
- (ii) on the negative side, an urge to continually save can impact on initiative and development e.g., a good excuse not to do something because it could cost money (particularly if the action is unbudgeted), or staff simply do not request reasonable work-related resources or amenities because it means spending money.

3.2 Where the contrasting situations in paragraph 3.1 leave us is:

- (i) healthy funds accumulating in reserve with no management rules or plans for how it should be spent; and
- (ii) stakeholders (members and Bureau staff) being denied benefits due to the savings culture and absence of spending strategy.

3.3 For the benefit of the members and Bureau staff, some management principles should be:

- (i) re-stated for the use of unspent funds in a budget year (this is considered to be a fairly straightforward matter); and
- (ii) introduced for the significant funds currently held in reserve.

4. Unspent funds in a budget year (reference paragraph 3.3 (i))

4.1 The objective of this part of Doc 5.2 is to re-state the general management practice for the use of funds that are not spent during an operational year. Basically, where savings are made, these can be applied, using normal management discretion, to other spending requirements (whether budgeted or not). Although this principle is common in business, the Bureau tends to opt for a savings-only approach thereby building up an unused reserve fund and with little or no improvement to working environment or morale that unspent cash could provide.

4.2 The sums of money directed to the reserve fund are not substantial e.g., US\$5,693 in 2018 (noting that this was solely from the Administrative Section as the Training Section did not

³ The SAF "reserve fund" is derived from the Cash Balance at 31 December 2018 minus the approximate annual cash requirement of US\$90,000.

⁴ Cashflow, particularly for the Training Section, enables a relatively high Reserve Fund to be maintained.

have an excess to pass to its reserve fund). Management discretion for the productive use of funds up to this amount will restore some balance to how the business is able to operate. (There is no doubt that the Bureau will continue to strive to save where it can – the irony being that the re-statement of management discretion over unspent funds tends to produce a greater level of care to spend wisely, if at all!)

5. Rules for use of reserve fund (reference paragraph 3.3 (ii))

5.1 APPU General Regulations, Article 117, § 7 states as follows:

“To cover shortfalls in Union financing, reserve funds shall be established for the budget of administrative section and that of training section separately, the amount of which shall be fixed by the Executive Council. These funds shall be maintained primarily from budget surpluses. They may also be used to balance the respective budgets or to reduce the amount of member-countries’ contributions.”

5.2 From research undertaken, albeit not extensive, no reference has been found for the level of funds to be held in either the Administrative Section or Training Section reserve fund. Discussion with the longest-serving Bureau staff member (32 years’ service) indicated that there have been no occasions where the Administrative Section reserve fund has been used. However, in recent years the Training Section reserve fund has been used to cover shortfalls between income and operating expenditure.

5.3 The Bureau, through the Finance Committee, wishes to advise the EC of the following intentions.

- (i) Seek advice from internal and external sources on general business practice regarding the financial level and replenishment of a reserve fund.
- (ii) Develop a draft policy on financial level and replenishment for the reserve funds (Administrative Section and Training Section) for EC approval.
- (iii) Subject to agreement with the financial level and replenishment aspects set out in (i) and (ii) above, the Bureau requests approval, in principle, for use of reserve funds for three projects (Bureau IT review and upgrade,⁵ Bureau office renovation, College dormitory and apartments renovation). (Final approval would require standard business case and financial information, and be agreed to by the EC.)

6. SAF

As already mentioned in EC 2019 Doc 5.2, the SAF carries funds in excess of its annual operating requirement. This is not referred to as a reserve fund. Accordingly, the SAF will not be part of the exercise for establishing financial level and replenishment (as set out in paragraph 5.3).

7. Simplification of process regarding Training Section

7.1 The process of drafting and approving a policy for financial level and replenishment for the reserve funds, as well as making final decisions on priority spending (reference paragraph 5.3

⁵ EC 2019 Doc 5.3 has already been drafted providing initial background information on the need to undertake a review of the Bureau’s IT system.

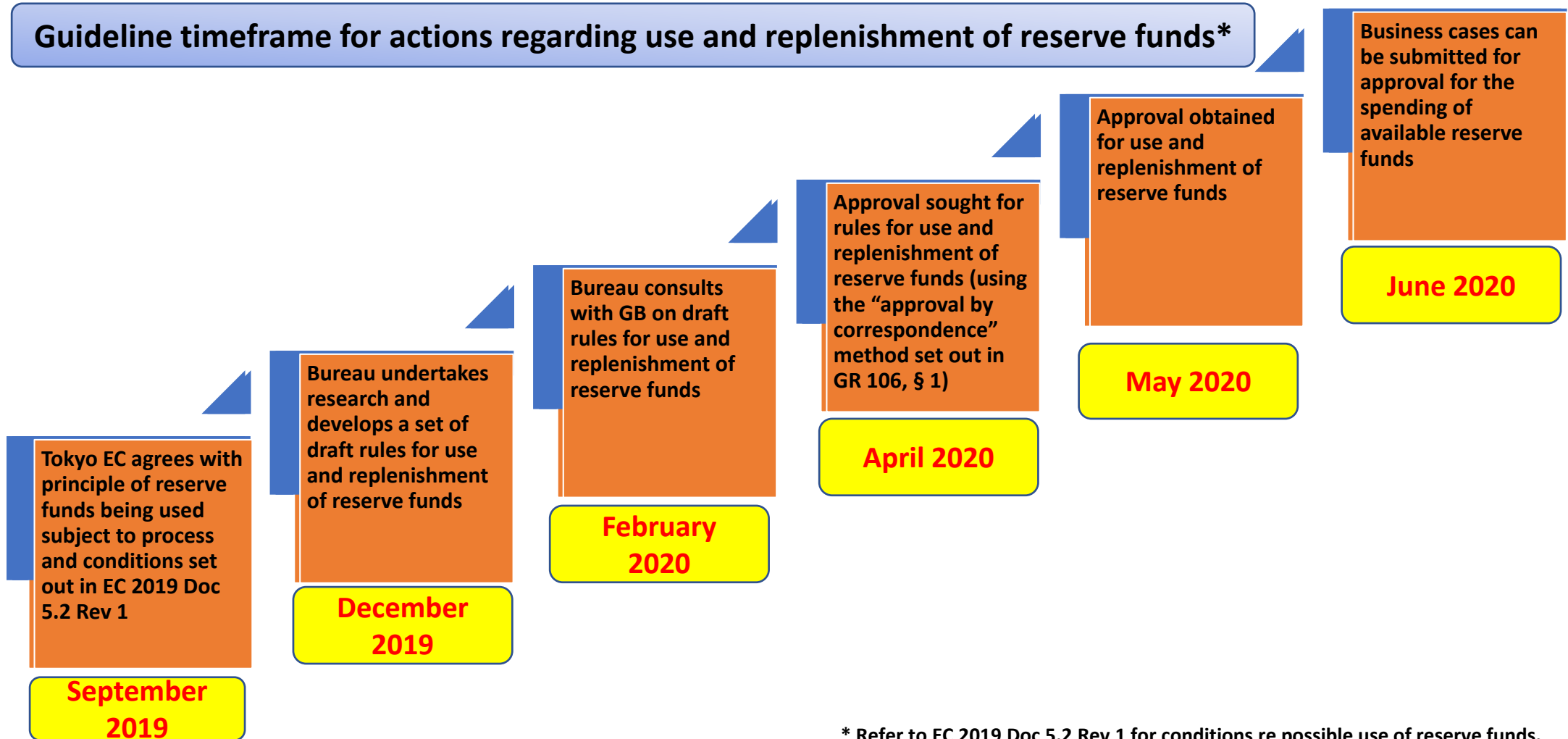
(iii)), may require decisions from the Governing Board. The approach that the Bureau believes is the most practical is for regular consultation with the Governing Board as and when key information is confirmed, and decisions are considered likely.

7.2 This approach does not automatically assume Governing Board agreement with any or all conclusions and recommendations; rather, the approach is one that respects the position and role of the Board to consider material and make its own decisions. In part, the Bureau is seeking to make the involvement of the Board economic in terms of time and effort required on its behalf.

8. Indicative timeframe for actions

8.1 To provide an indication of how the process for research, consultation, approval and implementation might proceed, Annex 1 sets out a very simple process.

8.2 It is emphasised that the material in Annex 1 requires conditions for the use of reserve funds set out in this document to be met, plus compliance with any other conditions established in the approval process.



* Refer to EC 2019 Doc 5.2 Rev 1 for conditions re possible use of reserve funds.