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Agenda Item 4: Programme of Work and Budget 2022-2023

Note on the Accumulated Surplus of MTF and Cash Balance Projection

UNEP/MAP
Athens, 2021

Note by the Secretariat

This paper has been prepared in close consultation with UNEP Corporate Services Division (MEA Unit) to provide additional information regarding the accumulated surplus of the Mediterranean Trust Fund (MTF/40MEL) as requested by the Contracting Parties during the online MAP Focal Points Meeting, (Teleconference, 10-17 September 2021).

SUMMARY

1. The online Focal Point Meeting of the Parties, held on 15th September 2021, sought further clarification on the causes leading to the accumulated surplus of the Mediterranean Trust Fund (MTF/40MEL) of up to USD 8.8 million as at 31st December 2019. The Secretariat, in close consultation with UNEP Corporate Services Division (MEA Unit) reviewed the financial reports and established that the surplus had accumulated mainly due to the following factors:

Item		**Amount in USD***
Surplus for the period 2018 - 2019		681,000
4 months prudential liquidity surplus	2,093,000	
Additional Surplus as at 31st December 2017	4,928,000	
Cumulative Surplus as at 31st December 2017		7,021,000
Working Capital Reserve 15%		1,098,000
TOTAL		**8,800,000**

**USD figures rounded to the nearest '000s*

Surplus for the period 2018-2019 of USD 681,000[1]

2. The increase of **USD 681,000** is the difference between the Revenue of USD 13,782,000 and Expenses of USD 13,101,000. This surplus was modest compared to previous years due to the higher level of commitments in 2018-2019 which included the following items:

(a) savings from staff costs of USD 0.5 million.
(b) other administrative costs of USD 0.2 million.
(c) savings from activities of USD 0.1 million of the MAP System.
(d) adjustments of accounting items of USD -0.1 million.

Surplus for the period up to 2017 of USD 7,021,000

3. The factors which contributed to the surplus as at 31 December 2017 were presented at the COP 21 in paragraphs 50 and 51 of the Working Document on Agenda Item 4, Draft Decision: Programme of Work and Budget 2020-2021 (UNEP/MED IG.24/17), at the 21st Meeting of the Contracting Parties to the Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean and its Protocols (Naples, Italy, 2-5 December 2019).

4. In line with COP 21 Decision IG.24/14 on the need to retain a net cash balance, equivalent to the budget required for covering the cost of the implementation of the PoW of up to 4 months (i.e., Expected Ordinary Income per annum of EUR 5,706,788 multiplied with 4/12 months and converted from EUR to USD at 0.909 → USD 2,093,000).

5. The adjustment in the Working Capital Reserve in 2018-2019 further increased *the surplus by USD 36,000 as explained in paragraph 6. below.*

Working Capital Reserve 15% of approved budget USD 1,098,000

6. According to the Programme of Work and Budget Decision of COP 17, held in Paris, France (IG.20/14), the Working Capital Reserve was established at 15% of budget for the biennium, inclusive of programme support costs. The Working Capital Reserve was reduced by USD 36,000 to

[1] A table summarizing the evolution of this account is included in UNEP/MED WG.515/22.

correspond to 15% of the budget reflecting the exchange rate of the period. *The balance of USD 36,000 was transferred to the Trust Fund.*

Projection of MTF/MEL Trust Fund Balance 2020-2021

7. The MTF (40MEL) balance at the end of 2021 is expected to decrease by consuming the savings of USD 3.2 million[2] from the positive balance of end 2019 as per the approval at COP 21 in Naples in addition to the Ordinary Assessed Income received in 2020-2021. The projected MEL Trust Balance end 2021 is, therefore expected to be approximately USD 5.6 million decreasing from end of 2019 balance of USD 8.8 million.

8. The projected balance is subject to change due to the accounting items which will only be finalized/posted upon closure of 2020-2021 accounts such as investment revenue, exchange translation loss/gain as well as additional savings which may be achieved towards end of 2021 should there be any delay in the implementation of activities planned during the last quarter of 2021, including those which are reprogrammed from the savings from activities not being implemented during 2020-2021 due to the COVID19 pandemic.

9. As per the request of the 90th Meeting of the Bureau to analyze any COVID-19 related savings and propose possible redirection of funds, the Secretariat submitted to the members of the Bureau a proposal for the reallocation of USD 520,000 through a letter sent by the Coordinator on 5 May 2021. Following the 91st Bureau Meeting, this proposal was submitted with minor revisions to the MAP Focal Points for no-objection through a letter sent by the Coordinator on 8 July 2021. The reallocations were implemented through amendments to the respective Legal Instruments with the RACs. [3]

10. The Secretariat proposes use of USD 1.9 million from the expected available cash balance at the end of 2021 in the biennium 2022-2023 for the implementation of the proposed PoW. (USD 5.6M – USD 1.1M working capital reserve (WCR) – Prudential 4 months cash USD 2.1M – Other items including Assessed Contribution Receivable USD 0.5M)

11. It should be noted that the figures are subject to change due to a number of items which will only be finalized/posted upon closure of 2020-2021 accounts, such as exchange rate fluctuations which may impact positively or negatively the cash balance. More updated information may be available during COP 22.

12. Applying the same methodology of calculation of positive cash balance available to be utilized, it is expected to have no further cash balance to be utilized under MEL as at the end of 2023 if no additional savings are achieved in 2020-2021/2022-2023. The same applies to 2024-2025 cash balance.

EC Discretionary Balance (32QML)[4]

13. With regards to the EC Discretionary Contribution account, a "Statement of Performance" report has been provided by UNEP HQs which describes the annual movement of income and expenditures and the changes in the available balances for this account. The positive balance of USD

[2] In line with the approved PoW & Budget in EUR (Unutilized MTF Balance) converted from EUR to USD at 0.909 (UN Operational Rate of exchange effective on 01 Dec 2019) [EUR 2,945,838/0.909].
[3] Exchange rate fluctuations resulting in different US dollar amounts recorded as income in Umoja while the Euro Pledge amounts for income has remained fixed at 5,706,788 for all the years. The impact of these fluctuations has resulted in annual assessed revenue recorded, ranging from a low of US$ 5.9M to a high of US$ 7.0M. To be noted, future fluctuations may not always be favourable unlike previous years calling for mitigation measures including a cash buffer.
[4] A table summarizing the evolution of this account is included in UNEP/MED WG.515/22.

1.1 million, as reflected in the Interim Certified Financial Statement for the period ended 31 December 2019, reflects the excess of Revenue over Expenses for the respective period and it is mainly due to: Staff costs of USD 0.6 million and Activities costs of USD 0.5 million (both figures incl. PSC, rough estimation).

Other Considerations

14. Prudential measures such as maintaining the 15% of the approved budget operational reserve and retaining a net cash balance, equivalent to the budget required for covering the cost of the implementation of the PoW up to 4 months, continue to be implemented and are included in the surplus.

15. An important factor to consider is the After Service Health Insurance (ASHI) that caters for the health insurance of retired staff of MAP. In compliance with IPSAS accounting, accrual for ASHI liability should be charged and financed by the trust funds. UNEP is following up this matter with the Controller to obtain guidance on managing the risk associated to the ASHI and to develop a strategy for long-term financing of the liability. Currently, the breakdown of ASHI liability per trust fund is not available. The MAP secretariat shares of the staff liabilities that are currently being captured in the End-of-service and post-retirement benefits segment of the financial statement is a future cost that will have to be met (for all MEAs liability = $47.1M). This liability will be financed by existing cash resources in the trust funds of different MEAs.