Appropriation of the Operational Result for Financial Year 2017-2018 (FY 63)

Recommendation of the Secretary General under Article 13 (2) of the 2016 Financial Regulations

I. Net Operational Result for FY 2017-2018

1. The audited Financial Statements of the Hague Conference on Private International Law (HCCH) for FY 2017-2018 (Prel. Doc. No 3 of January 2019) reflect an Operational Result of **€ 55,196** (see p. 5 of the financial statements for FY 2017-2018).

2. The approved Budget for FY 2017-2018 included several earmarked appropriations to top-up (replenish) reserve funds which had been used during FY 2016-2017 to cover relevant expenses. These earmarked appropriations amount to € 40,600 and must be deducted from the Operational Result.

3. Furthermore, audited expenses incurred during FY 2017-2018 to be covered by the reserve funds amount to € 53,662 (€ 15,690 Fund Staff Rules; € 9,824 Fund Office maintenance / equipment; € 28,148 IT Fund). These expenses were initially paid ("advanced") from the Budget; once audited, they have been processed through the funds. As a result, the Budget is "recredited" and the Operational Result increases.

4. Following the approved appropriations of the earmarked reserves (para. 2) and the reflection of expenses to be covered (para.3), the overview of the funds is as follows:

Established / continous Funds	Relocation	Staff Rules	Office maintenance / equipment	It equipment	Recueil
Balance at 30 June 2018	33,500.00	131,863.00	19,938.00	31,796.00	27,680.00
Appropriations from budget FY 17-18	10,000.00	-	17,000.00	10,000.00	3,600.00
Expenses covered FY 17-18	-	-15,690.00	-9,824.00	-28,148.00	-
Balance at 30 June 2019 as audited by PWC	**43,500.00**	**116,173.00**	**27,114.00**	**13,648.00**	**31,280.00**

5. The **net Operational Result ("surplus")** for FY 2017-2018 therefore is **€ 68,258** (€ 55,196 - € 40,600 + € 53,662). If the expenses referred to paragraph 3 above were not covered through the reserve funds, the operational financial result for FY 2017-2018 would have been approximately € 15,000 (€ 55,196 - € 40,600).

II. Use of Surplus

6. The legal basis for determining the use of a budget surplus is Article 13 of the 2016 Financial Regulations, which reads as follows:

Article 13 – Surpluses

(1) If the accounts show, at the close of the Financial Year, any residual balance (surplus), this surplus shall be credited to Member States pro rata their contributions obligations, upon the auditing of the accounts, pursuant to Article 15.

(2) Upon a recommendation of the Secretary General, the Council of Diplomatic Representatives (CDR) may decide to authorise the use of any surplus for a specific

purpose representing an expense of the Conference and falling within the Conference's mandate.

7. As the financial statements of the HCCH reflect an important negative equity (– € 11,237,607; see p. 9 of the financial statements for FY 2017-2018), the Secretary General suggests that the surplus be reinvested in relevant articles of the Budget or reserve funds of the HCCH (as opposed to being credited to Member States *pro rata* their contributions).

8. Against this background, and as reflected in the Draft Budget of [20 March 2019], the Secretary General recommends using the surplus of FY 2017-2018 as follows:

Use of surplus and Amount	
Revolving Fund (see below para. 9):	€ 31,058.00
Allocation Art. 18 Budget FY 2018-2019 (see below para. 10)	€ 37,200.00
TOTAL:	€ 68,258.00

9. The Permanent Bureau's (PB) daily operations continue to be threatened by (i) the late payment of assessed contributions by some Member States, (ii) the high amount of arrears (some of which have triggered the Art. 11(4) sanction under the Financial Regulations), and (iii) the HCCH's low financial reserves. Under Article 12 of the 2016 Financial Regulations, the Revolving Fund shall amount to 12-16% of the Assessed Contributions in the Budget of the previous Financial Year. This requires the Revolving Fund to be between € 493,018 and € 657,357 for FY 2019-2020. The current level of the Revolving Fund is € 544,134. It is proposed that € 31,058 of the surplus from FY 2017-2018 be transferred to the Revolving Fund, raising its level to € 575,192. With this increase, the Revolving Fund would amount to 14% of the Assessed Contributions for FY 2018-2019, and thus be in the middle of the regulatory bandwidth imposed by the 2016 Financial Regulations.

10. The Secretary General proposes that € 37,000 of the surplus of FY 2017-2018 be used as additional revenue in Article 18 of the draft Budget for FY 2019-2020 (and thus lowering the overall increase of the Budget).

III. Recommendation

11. The CDR is invited to approve the above recommendation for the appropriation of the surplus of FY 2017-2018.