

Board of the Centre

83rd Session, October 2020

CC 83/4

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Report of the meeting of the Officers of the Board (22nd May 2020)

1. A meeting of the Officers of the Board of the International Training Centre of the ILO (the Centre) was held *via* videoconference, on 22nd May 2020 to enable the timely consideration and adoption of the financial statements for the year ended 31 December 2019 as well as the revised proposed allocations of the 2018-19 net budget surplus.
2. The report of this meeting is submitted to the 83rd Session of the Board (October 2020).

Financial statements and External Auditor's Report for the year ended 31 December 2019

(Item on the agenda)

3. The *Chairperson* welcomed the Officers of the Board to the meeting. He recalled the exceptional circumstances in which this meeting was being convened, as the Covid-19 pandemic was heavily impacting on the activities of the Centre. Thus great prudence and caution had to be exercised by the Officers when considering the current financial situation of the Centre and the way forward.
4. The *Chairperson* then gave the floor to the Director of the Centre.
5. The *Director of the Centre* thanked everyone involved in the preparation of the meeting. He then shared his perspectives on the challenges and results of 2019 and beyond. The Turin Centre continued to be funded from voluntary contributions and received a small contribution from the Piedmont Region – however it needed to continue its significant efforts to earn the majority of its revenues to ensure its sustainability. The Centre needed to continuously invest in innovations in order to be able to offer new products as well as continue to provide the highest quality services to constituents and to the market.
6. He confirmed that the Centre had received a €3 million contribution from the Italian Government towards a new project to rejuvenate two pavilions on Campus. Meanwhile, the Centre would also have to invest its own funds in the amount of €700,000; this project should start in 2020 and be completed within one year. The next steps were the identification of a contractor and the finalisation of all the construction permits. These funds were now in the Campus Improvement Fund. In April 2020, the Centre also received €180,000 contribution from the City of Turin for its annual contribution for the

year 2019. This funding is to cover extraordinary maintenance of the campus. 2019 also witnessed improvements on the campus such as the repaving of parts of its main road, further maintenance of its accommodation and overall campus.

7. He noted that the Centre would also continue its efforts in the streamlining project through the full review of business and administrative processes, the creation of new IT tools, the expansion of current tools such as the Business Intelligence (BI) to permit improved management and decision-making. The past efforts had been of invaluable assistance as evidenced during the lockdown when the vast majority of the work could be fully completed online.
8. Finally, he thanked the Chairperson for having called for informal consultations among the Officers of the Board in order to update them on the impact of the pandemic on the Centre's financial position and to seek their guidance on the way forward. The Centre sincerely appreciated the initial financial assistance that the ILO had provided to the Centre, such as waiving its 2020 service fees and providing advance payments towards future RBTC funded training activities to be carried out this year by the Centre. Going forward, the Centre faced a multitude of uncertainties. He pointed out that with the guidance of the Officers, the support of the ILO, and the Government of Italy, he was confident that with the hard work of the Centre's staff, the Centre would survive through the hard times.
9. The *Chairperson* then proceeded to the first of the two agenda items: the Financial Statements and External Auditors Report for the financial year 2019. The documents under consideration were published on the Centre's webpage in April 2020 and the Officers of the Board were notified of this. This allowed for a period of five weeks for any questions and clarifications to be provided by the Treasurer, as well as for consultations by the Officers with the members of their respective groups. He noted that no questions had been received from the Officers. He invited the Treasurer of the Centre to make her presentation.
10. The *Treasurer* introduced the financial statements and presented the budget results of the year as well as the biennium, and then illustrated the Centre's results and financial position under IPSAS.
11. She first presented Statement V which showed the Centre's final 2019 budget results of €2.1 million and the final biennium budget surplus of €3.088 million. The actual total revenue of 2019 totalled €42.9 million. The Centre received voluntary contributions from the ILO, the Governments of Italy and Portugal as well as a small contribution from the Piedmont Region, for a total of €11.8 million. Revenue from training activities amounted to €28.8 million in 2019 for a total of €52 million over the biennium, in line with the budgeted level. Aligned to the training revenue, variable expenditures were below the 2019 anticipated level by €400,000 or 2%. As a result of changes in the costing of training and the continued efforts of the Centre to diversify its sources and types of training revenue, the variable expenditures were well below the anticipated budget of the biennium by €2.3 million or 7.8%.
12. The contribution to fixed costs (CFC) was defined as the difference between training revenue and the use of past surpluses less variable expenditures, excluding Variable Budget (VB) staff. The final CFC for 2019 was higher than planned and affected in part the final positive results of the year. Media production revenue earned in the year was below the budget by a significant amount. A re-alignment was made on the overall strategy for media production as the Centre now prioritizes digital design and multimedia services to the training activities and thus, this revenue is now accounted for under line item "training revenue". The amount of nearly €400,000 related to revenue from external

parties only. The multimedia revenue's related costs were also significantly under the budgeted level and thus generated a healthy CFC of more than €300,000 for the year. Miscellaneous revenue was also significantly higher than the level forecasted in the budget. This was mainly due to the sales of items in the new campus boutique and the cafeteria, a higher "social life" surplus and return on US Dollar investments.

- 13.** The actual expenditure in 2019 totalled €40.8 million. Regular budget staff expenditure was lower than budgeted by approximately €800,000 or 4.9%. This was also the case in 2017 and 2018. The Centre applied to its staff costs the mandatory salary increases approved by the International Civil Service Commission. However this increase was counter-balanced by savings achieved as a result of a few vacancies that remained unfilled during the year, new staff being recruited at more junior levels, as well as the change made by the ICSC in its applied methodology to conduct cost of living surveys for the purposes of determining Post Adjustment levels in some duty stations.
- 14.** The actual expenditure relating to facilities was higher than budgeted by €358,000 or 19%. This was mainly due to additional funding provided in the year for utilities for which prices significantly increased and additional maintenance work in the accommodation, common areas and training facilities. In 2019, the Centre did not receive the promised funding of €190,000 from the City, which was only received in April 2020. General operating costs were higher than budgeted by €317,000 or 42%. This was mainly due to costs associated with the development and promotion of training activities as well as technical updates.
- 15.** Other fixed expenditure totalled €246,000 in 2019 as a result of two specific items: doubtful accounts totalled €153,000 and related to the write-off of non-collectable accounts and movements within the provision; the second item related to the net realized exchange loss which amounted to €93,000. Total variable expenditure related to training and media production activities and use of surpluses for training activities. These were lower than budgeted by approximately €401,000 or 2.2%. This expenditure fluctuates with these earned revenue based on different ratios depending on the types of delivered activities and the types of products provided to external clients.
- 16.** She then moved to Statement II, which provided financial results under IPSAS. In 2019, the Centre recognized €42.5 million in total revenue and €41.3 million in total expenditure resulting in a net surplus of €1.2 million. Statement II incorporated all funds of the Centre – the General Fund, Campus Improvement Fund and the Italy Trust Fund. The two major sources of revenue, representing approximately 95% of total revenue, were earned from training activities and voluntary contributions. Total revenues increased significantly in 2019. As this was the second year of the biennium, it followed the general pattern whereby the second year's revenues were always higher and in this case, 2019 was an exceptional year for the Centre.
- 17.** Total expenditure also increased significantly as compared to 2018 which was in line with the significant increase in total revenue. Staff costs increased by €869,000 mainly as a result of an increase in project-based staff costs while regular and variable budget staff costs have decreased due to a combination of factors, such as overall savings as a result of vacant positions and the recruitment at more junior levels in vacant positions. This was counter-balanced by the normal increases to the compensation package issued by the United Nations International Civil Service Commission (UNICCS). Efforts continued to ensure that staff costs were kept within an acceptable level and that no additional positions were being created in the regular and variable budget staff categories.
- 18.** Sub-contracts increased significantly in 2019 by €2.4 million or 34%, mainly as a result of sub-contracting an implementing agency to deliver training activities in the field under

a large project in Bangladesh. Additional work in IT technical assistance was also carried out. Travel and other costs also increased in 2019, and these related mainly to increased participant travel and residential costs associated with training activities. The cost of supplies increased by €401,000. This was due to additional investments in the maintenance and upgrade of the campus accommodation, the replacement of outdated IT equipment as well as the purchase of new equipment to support innovative training. In addition, an amount of €103,000 was incurred in 2019 for the purchase of items now sold in the cafeteria and in the campus boutique for which miscellaneous revenue was also collected.

19. Considering Statement I, she explained that the Centre's assets at the end of the year totalled €40.3 million. Cash and cash equivalents totalled €15.1 million of which €5.8 million was held on behalf of donors, as advance payments for training activities (5.5 million) as well as the amount held in the Campus Improvement Fund totalling €1.3 million. €11 million of this funding was held in USD. She referred to Statement IV where the Officers could find more details on the movements of the Centre's cash flows.
20. The Centre's accounts receivable increased by €2.4 million at the end of 2019. This line included two main categories of receivables: invoices issued as a result of training services having been delivered and receivables relating to signed training service agreements for which there was a matching liability - deferred revenue. This increase (2.1 million) was mainly due to new multi-year project agreements signed in 2019. These agreements represented training activities that would be delivered by the Centre in the future. The receivable from the ILO increased by €1.2 million due to the December invoicing. This balance was settled early in 2020.
21. Property and equipment decreased by €560,000 as a result of annual depreciation on its assets as well as some additional investments in the campus accommodations.
22. Liabilities totalled €24 million at the end of 2019. The significant portion of this (17.3 million) related to the deferred revenue that matched the receivable in the Centre's assets relating to signed training activity agreements, for training to be delivered in the future. There was also an increase in accounts payable and accrued liabilities due to the large increase of training revenue for which certain invoices had yet to be settled at year-end. At the end of 2019, the Centre had net assets of €16.3 million. This included the working capital fund set at €2 million and all other funds of the Centre of which (an amount of approximately €8 million was on hand to cover operating costs.
23. The *Chairperson* invited the representative of the External Auditor to introduce the External Auditor's Report for 2019.
24. The *representative of the External Auditor* presented the results of their audit for 2019. The audit was conducted in line with the external audit plan presented to the Board in October 2019. Despite the COVID-19 pandemic it was successfully completed with all audit requirements. Hence, in line with the mandate, the financial statements of the Centre were audited in compliance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board.
25. The audit resulted in the issuance of an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2019. There is assurance that the financial statements are presented fairly, in all material respects: (a) the financial position of the Centre for the year ended 31 December 2019; (b) its financial performance; (c) the changes in net assets; (d) its cash flows; and (e) the comparison of

budget and actual amounts of its expenditures for the said year in accordance with International Public Sector Accounting Standards (IPSAS).

26. The accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the Centre that have been tested as part of the audit of the financial statements are, in all significant respects, in compliance with the Financial Regulations and legislative authority. He commended Director Liu and the Finance team for continuously preparing quality and IPSAS compliant financial statements.
27. In line with Regulation IX.25, the Auditors provided Management with recommendations that are designed to support the objectives of Centre's work, to reinforce its accountability and transparency, and to improve and add value to Centre's financial management and governance. For the financial year 2019, a review of the resource mobilization of the Centre with focus on its overall resource mobilization strategy, skills development, financial resource allocation and bidding for calls for tenders and proposals were conducted.
28. Improvement opportunities were noted to further enhance the resource mobilization of the Centre to which Centre Management agree with the recommended measures such as the need to establish a more integrated and concrete resource mobilization strategy, with specific focus on defining the functions, responsibilities and activities of the Programmes involved and a clear and well-defined skills development plan for the staff involved and to provide ways to identify and monitor resource allocation needs and the enhancement of the procedural guidelines for competitive bidding, among others.
29. Finally, he expressed appreciation to the Officers of the Board for their interest in the work of the External Auditor, and to the Centre Management for their high regard to accountability and transparency.
30. The *Chairperson* then invited the Officers to comment on the Financial Statements and on the External Auditor's Report for 2019.
31. The *Workers' Vice-Chairperson* thanked the Director for organizing the meeting of the Officers of the Board to adopt the Financial Statements under the delegated authority of the Board. The Group noted an increased performance of the Centre, and a significant increase of the training revenue in comparison to 2018, and an increase in the number of participants in F2F modality. She recommended that the ITCILO continue to fulfil its institutional mandate as the training arm of the ILO and serve the constituents. Noting an increase in the subcontract expenditure, she requested additional explanation. While the voluntary contribution of the Government of Italy would remain stable, and the Group was grateful for this, she looked forward to additional contributions from other ILO Member States. She thanked the External Auditors for their report and suggested that the Centre pursue a coherent resource mobilization strategy, which formed part of the recommendations of the external auditors that still needed to be addressed by the Centre. The Group approved the Financial Statements and External Auditors Report.
32. The *Employers' Vice-Chairperson* commented on the good results of 2019 which was rather peculiar in that particular moment in which the Centre faced difficulties. The current crisis should be viewed as an opportunity to look towards the future strategically. The Strategic framework for 2022-25 should contain radical improvements in the business model, but also cover year 2021, as the financial deficit would change the planning of the Centre's programmes. Examining the Financial Statements and the External Auditors Report the Group highlighted several milestones and congratulated the Centre for the increasing overall revenue from the training activities. The Group thanked the Italian authorities for their financial support. They commended the development of a new public

website, which is the first point of contact for displaying the existing offer. He recommended that the needs and priorities of the ILO constituents be more visible. The employers' and workers' programmes should be clearly visible in the list of courses and throughout the website. These are special courses, due to the tripartite nature of the organization, and therefore needs to be prominent as visitors enter the web domain. They took note of the recommendations of the External Auditors Report and invited the Centre to follow up on their implementation. The Group approved the Financial Statements and External Auditors Report.

33. The *Governments' Vice-Chairperson* appreciated the financial results of the Centre, prepared in accordance with IPSAS as the rest of the UN system. He thanked the Director for the updates on the contributions received and thanked the Italian and Portuguese governments for their support. He requested further information on actions taken by the Centre in response to the Covid-19 crisis. He noted the recommendations of the External Auditors and invited the Centre to follow up on their implementation. The Group approved the Financial Statements and External Auditors Report and sought the views of the External Auditors on how the Centre could respond to its financial constraints.
34. The *representative of the Government of Italy* congratulated the Centre for its work and the good results. The Government of Italy approved the Financial Statements and External Auditors Report as presented.
35. The *Chairperson* appreciated the support of the Government of Italy and gave the floor to the Treasurer and to the External Auditors to reply to the questions of the Workers and Governments Vice-Chairs. The *Treasurer* explained that the increase in training revenue and subcontracting were mainly linked to the project in Bangladesh where a large number of local activities were being delivered by a local implementing agency. The *External Auditors* suggested that the Centre needed to retain and enlarge its major contributors, to continue the savings and to implement an efficient use of its limited resources.

The Officers of the Board:

- 1) ***adopted the financial statements, and***
- 2) ***took note of the External Auditor's Report for the year ended 31 December 2019.***

Revised proposed allocation of the 2018-19 net budget surplus

(Second item on the agenda)

36. The *Chairperson* invited the Director to present the revised document presented after the informal consultations of 12 May 2020. The Centre found itself in a delicate financial situation and had to proceed carefully taking into consideration the high degree of uncertainty in the prevailing environment.
37. The *Director* reminded the Representatives that as a result of the decision taken by the Board in October 2017, the Officers of the Board now had delegated their authority to approve the allocation of any surplus at the end of a complete financial period. As per the Financial Regulations, this was defined as two consecutive calendar years.
38. As stated in the document entitled "Revised proposed allocations of the 2018-19 net budget surplus", the Centre had submitted proposals for the allocation of the 2018-19 net budget surplus which amounted to a total of €3.088 million. It was proposed that €750,000 be allocated to the training activities to provide partial and full fellowships for participants from developing countries and thus partly offset the course fees, travel and

subsistence costs. This would permit the training department to be in a position to increase slightly its financial support during the financial year 2020 due to the challenges of the COVID-19 pandemic and its impact on its operations.

39. It was further proposed that €250,000 be allocated to the Innovation Fund to provide needed funding to promote learning and innovation as a cross cutting policy driver thus enabling the Centre to reinforce its efforts to become a world-class training service provider, as expected by the Board. This would also support the expansion of e-learning at the Centre, using a variety of IT tools, as another method of learning which now is being identified as critical during the COVID-19 pandemic.
40. Finally, it was proposed that €2,088,000 would remain in the General Fund, due to the uncertainties resulting from the negative financial impact of the COVID-19 pandemic on the final budget 2020 results and the longer-term impact. The proposed allocation of funds for the financial year 2021 would be submitted for decision later in the year due to the uncertainties faced by the Centre in light of the pandemic and the on-going discussions on the financial sustainability of the Centre in the short-term and over the next several years.
41. The *Chairperson* reiterated that under normal circumstances the proposals would generally be adopted without difficulty, but at present, the situation required a prudent use of the Centre's resources. As 65% of the income of the Centre was derived from the revenue associated with training activities which had been interrupted by force majeure, all F2F activities had been suspended with no certainty on when they would resume. In the informal consultation held the week before, some scenarios had been presented. If activities were to resume in September the Centre would face a deficit of €2.8 million and this was projected to rise to €7.8 million if F2F training did not resume this year. Commending the manner in which Italy and its people were dealing with the crisis, the Chairperson noted that there had been improvements in the country but the same could not be said for the rest of the world. So it was self-evident that the Centre would have a substantial deficit. The reserves of the Centre risked being absorbed in their entirety to cope with the impact of the pandemic. In order to avoid this situation, it was important to examine the way the Centre structured its business and radical improvements were required. He invited the Officers to comment.
42. The *Employers' Vice-Chairperson* recognized the good work done until 2019 and stressed the importance of addressing the issue of the Centre's sustainability in a very cautious manner. Commenting on the paper submitted, he noted the difference between the previous paper and the present one which basically halved the allocations for the training and innovation efforts. The Group would support using the surplus to help stimulate demand and to promote technologies and innovative approaches. He wished to be informed more often on the different programmes and concrete results of the investment of funds from the Innovation Fund. He disagreed with the proposed reduction of the allocation to the training activities as this would impact negatively on the delivery of the Employers' (and Workers') programmes.
43. He further welcomed the short-term support given by the Office through the advancement of a cash flow to the Centre. The Centre should mitigate the problems of the 2020 delivery and minimize monetary losses. In the long term, he asked the Centre to carefully look into its future strategy and involve the Constituents in the planning by keeping them regularly informed about the position of the Centre (cash situation, delivery and new challenges). Finally, he confirmed that the Employers' Group was not ready to approve the document submitted. The Employers' Group stand ready to participate in extraordinary meetings in the coming months or discussions among Officers of the Board. He presented a counter proposal summarized as follows: €750,000 for point A,

approx. €250.000 for point B and the €1 million in the General Fund reserve. A later decision could be taken on the other €1 million later.

44. The *Workers' Vice-Chairperson* expressed the position of the Group which found it more prudent to allocate the total surplus to the General Fund of the Centre as the situation was still too uncertain. Another consultation should take place in September for example to assess the situation at that moment and eventually take a different decision.
45. The *Governments' Vice-Chairperson* noted the modified proposal of the Centre. He expressed perplexities on the comment of the Workers' Group regarding funds allocated to training activities but there being no F2F training on campus. He wondered if the Office had any proposal. The position of the Government Group was flexible.
46. The *Representative of the Government of Italy* fully agreed with the considerations on the uncertainties forecasted. She recalled that Italy was the largest contributor to the Centre. The pandemic had heavily impacted the economy of the country and she called for additional funds from other donors. As discussed with the Ministry of Foreign Affairs, Italy was ready to support the technical innovation led by the Centre and agreed on allocating €250.000 to the Innovation Fund. The Centre should further reduce expenses and foresee sharing synergies with the other UN entities present on campus. The surplus should be used to replenish the forecasted deficit of the Centre. Therefore, the proposal presented by the Centre was not accepted. Italy would welcome any decision to reconsider and review the proposal and discuss it in further meeting.
47. The *Director of the Centre* thanked the Officers for their comments and insights and recalled that the business model of the Centre obliged it to earn its income, using the seed money usually previously allocated to the training programmes. The preliminary investment and allocation of resources to the training programme would allow the Centre business continuity as this amount was already expected by the units and they had planned their activities accordingly. A different allocation would mean postponement or cancelling of some training activities which were the engine that would also help the Centre to recover from the financial situation. The money allocated to the Innovation Fund would serve the same purpose, especially now that there was a huge request for Virtual Reality (VR) services and distance learning (DL) services.
48. Finally, the Director of the Centre reiterated the position of the Centre with respect to the allocation of the surplus, to meet urgent needs, at least for 2020 and proposed a review of the allocation for 2021 at a later stage.
49. The *Chairperson* as Chair of the Board of the Centre and as Director-General of the ILO that had the ultimate responsibility for the Turin Centre indicated that while he understood the position of the Centre, the use of the surplus should be carefully considered, and perhaps not as seed money in the prevailing circumstances. Noting a variety of reactions and counterproposals, he recommended reconsidering the allocation and meeting again at a later date. It was important to arrive at a convergence of views, on the one hand managing prudently the situation of the Centre but on the other rethinking the business model and the organization of the Centre.
50. The *Groups and the Government of Italy* accepted the proposal to meet at a later date in June¹.

¹ To date, no other meetings were convened.

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51. The *Director of the Centre* reiterated the urgency of arriving at a decision on the allocation, since the programming of the training department assumed and counted on those allocations.
 52. The *Chairperson* confirmed that intensive consultations would take place to consider the different positions and reach an agreement to give further direction to the Centre.

Concluding remarks

53. The *Chairperson* advised that the 83rd Session of the Board of the Centre would be held in October 2020 before the 340th Session of the Governing Body of the ILO, which would take place although the format was yet to be determined (physical or virtual meeting). As the Report of the Officers' meeting would be submitted to the Board, he requested the Officers of the Board to delegate their approval to the Chairperson and the Secretary of the Board. He finally noted that the informal consultations held the previous week had confirmed the support and the engagement of the Constituents and the Host Government to the success of the Centre.
54. The *Chairperson* thanked the Officers, the secretariats of the various groups and the staff of the ILO and the Centre for their participation and declared the meeting closed.

This report would be submitted to the Board for information.

Turin, May 2020

Attendance list
Liste des présences
Lista de presencias

Ms Laura CALLIGARO	ITALY (<i>Counsellor at the Permanent Mission</i>)
Mr Jorge BRIZUELA	PARAGUAY (<i>Governments' Vice-Chairperson</i>)
Mr Harry KYRIAZIS (Greece)	(<i>Employers' Vice-Chairperson</i>)
Ms Akustina MORNI (IOE)	(<i>Employers' Secretariat</i>)
Ms Silvana CAPPUCCIO (Italy)	(<i>Workers' Vice-Chairperson</i>)
Ms Maité LLANOS (ITUC)	(<i>Workers' Secretariat</i>)

International Labour Organization

Mr Guy RYDER	DG
Mr Moussa OUMAROU	DDG/FOP
Mr Adnan CHUGHTAI	Treasurer and Financial Comptroller
Ms Annette CHING	Director, CABINET
Ms Riikka KOSKENMÄKI	JUR
Mr Yasser HASSAN	CABINET
Mr Ariel CASTRO	ACTRAV
Mr Rafael GIJON	ACT/EMP
Mr Roberto VILLAMIL	ACT/EMP

External Auditor Commission on Audit, Philippines

Mr Lito MARTIN

International Training Centre of the ILO

Mr Yanguo LIU	Director
Mr Giuseppe CASALE	Deputy Director
Ms Christine BOULANGER	Treasurer
Ms Nathalie MIRABILE	Note-taker