Biennial Report of the Treasurer and Finance Committee

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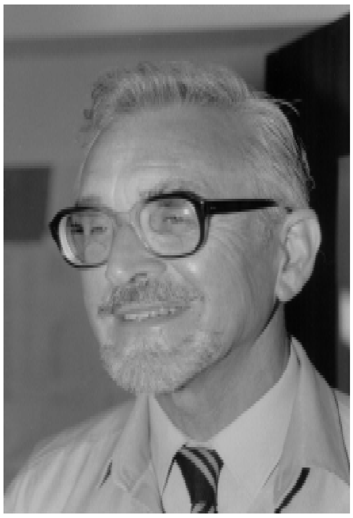

As I did for the last Council Meeting, I shall give a report of the first year of the present biennium and one of the previous complete biennium 1994–95. I shall also attempt to estimate the outcome for the present year. Also, as this is my last year as Treasurer, I think I should give you a brief summary of my stewardship during the last six years.

I give below the amounts transferred to the Balance Sheet from the Expenses and Income Accounts, i.e. the 'bottom lines' and the corresponding budget figures for 1996 and the 1994–95 biennium, to the nearest one thousand USD. There is also an estimate for 1997 based on the six-month management accounts and estimates of the costs still to be incurred by the move of the Secretariat to the Research Triangle Park, North Carolina.

	Actual	Budget
1994	149	122
1995	113	(180)
1994–95	262	(58)
1996	634/290	161
1997E	(330)	(161)
1996–97E	304/(40)	0

NB brackets denote a deficit, E denotes an estimate.

1994–95 Biennium. I have given in detail the reasons for the departures from budget for the years 1995 and 1996 in my commentary to those years' accounts in the July issues of *CI*, but let me summarize the principal factors. In 1995 the biggest contributor to the departure from budget was an underspend of USD 161k on the Guildford Assembly, mainly brought about because only 85% of TMs attended and because, contrary to what had been expected, there was broadly no inflationary increase in airfares between 1993 and 1995. Another large contributor was an underspend of USD 62k by the Divisions and Standing Committees. Had the Guildford Assembly cost the budgeted USD 490k and had the Divisions and Standing Committees spent their allocations, the result would have been a modest surplus of USD 30k for the biennium. As it was, a small increase over budget in 1994 of USD 27k led to an overall result for the 1994–95 biennium of USD 262k, markedly higher than the budgeted deficit of USD 58k.

1996–97 Biennium. During 1996, there was an expected addition to the Union's funds from Barings Brothers Bank. 'Office International de Chemie' which was part of the Union when it was created in 1919, did not close its account with the bank when it ceased operating. This money with substantial accrued interest has been paid to the Union as successor, a sum of USD 344k.

It is now part of the reserves but accountancy rules demand that it should go through the 1996 Income and Expenses account so swelling the 1996 surplus. Even so, the surplus without it is still USD 290k, USD 129k better than budget, a result brought about largely by a Publications surplus of USD 61k over budget and an underspend of USD 30k on the Affiliate Membership Programme, both results due mainly to unexpected resignations of staff with consequent reductions in staff costs. There will be, however, consequent increases in Publications staff costs in 1997. A healthy number of smaller contributions make up the balance.

In attempting an estimate for 1997 a number of unbudgeted items, some large, have to be taken into account. These items although unbudgeted were thoroughly discussed and approved by the Executive Committee and the Bureau, recognizing that our reserves are strong and intended to be used for such eventualities. These items arise from two sources, first, the extra meetings to discuss how best to increase the relevant visibility and appeal of the Union's work to the chemical industry as well as to the rest of the chemical community, and secondly, the move of the Secretariat to the Research Triangle Park, North Carolina, USA. The extra meetings, two of which were with eminent figures from industry and academia in Europe and Asia will cost some USD 30k. Redundancy payments to the Oxford staff will amount to about USD 130k. Recruiting and appointing the new Executive Director plus staff and other costs resulting from running two offices for five months will amount to about USD 100k. Together with an adjusted figure for the budgeted deficit, the estimated deficit is about USD 380k. But despite earlier concern about the cost of the 1997 Assembly, the eventual cost may be USD 50k below budget, giving a total deficit for the year of USD 330k. If the Barings' money is included in the 1996 surplus there will be a biennial surplus of about USD 304k. If, more realistically, this money is taken out, the result is a deficit of USD 40k. The cost of equipping the new office this year will be about USD 55k, but this being capital it can be taken straight to the Balance Sheet and thus come directly from reserves.

The substantial surplus made in the 1994–95 biennium and the good improvement over budget in 1996 is a continuing indication that we have emerged from the difficult financial position of the early nineties about which I shall have more to say later. Provided that we keep the same careful control of expenses and maintain the real value of our income by keeping subscriptions in line with inflation, it will be possible to keep a balanced budget in the years to come. It is unlikely that the circumstances that gave rise to the recent surpluses will reoccur. The next three General Assemblies are in expensive venues, Geneva, Berlin and Brisbane and the new initiatives which should result from present discussions about the Union will require the maximum of resources.

Reserves. The recent surpluses and the good returns we have been able to secure from our investments have strengthened our general reserve. In 1996, excluding the Building Fund and the Southern Hemisphere Sinking Fund, it increased in value from USD 2451k to USD 3093k.

It is proposed to use the Barings' money, USD 344k, to found a separate Endowment Fund, the interest from which to be used for special purposes. The capital needed to equip the new Secretariat offices, the 1997 deficit and removal of the Barings' money will reduce the main reserve to USD 2364k but this is still substantially above the target figure for reserves so that there is good opportunity to use the excess for one-off or short-term endeavours of the type that could emerge from the present discussions about new initiatives.

The several additions made at various times during the year—the decision to use the same investment strategy for the Building Fund as used for the general reserve, the transfer of USD 100k from the cash account to the Building Fund, the conversion of other monies in this account to stocks and shares and the addition of the Barings' money—make it very difficult to deduce a figure for the total performance of the investments during 1996. But if we take the investments which were held for the whole year, some 85% of the final sum, the equity portion gained 24% and the bond portion 4.9%, with a combined gain of 19%. Several bonds matured during the year and only four remained throughout the year. If we assumed the gain on them all was also 4.9%, the combined gain can be calculated as 17%. It should be emphasized that this figure is indicative only.

The Building Fund, which since March 1996 has the same proportion of equities to bonds as the main reserve, an average of 55:45 and to which was added USD 100k in March, gained only 9% in value. This was because the Fund had been held in British equity and bond unit trusts at the beginning of the year and these had to be sold at a loss to buy the dollar mutual funds in order to follow the investment strategy used for the main reserve.

In summary

By carefully controlling expenditure and maintaining the real value of subscriptions, the Union has corrected the imbalance between income and expenditure that led to the dire financial forecasts of 1991 and the subsequent deficits. In addition our reserves are strong and at a level that will enable substantial sums to be spent on short-term initiatives. This strength should not lead Council to neglect the duty to keep the level of subscription income in line with increases in the retail price index, as practised by almost all organizations, companies and shops. It was the failure to do so in the second half of the 1980s that was one of the principal causes of the financial difficulties that are now behind us, and that must remain there.