

# **1<sup>ST</sup> SESSION**

# **OF THE IHO ASSEMBLY**

**Monaco, 24-28 April 2017**



## **MINUTES OF THE MEETING**

## **OF THE IHO FINANCE COMMITTEE**

**Minutes of the Meeting of the IHO Finance Committee**  
**Sunday 23 April 2017**  
**IHO Secretariat**  
**Monaco**  
**14:00-16:30**

## **Participants**

Chair:	Ms Muriel NATALI-LAURE (Monaco)
IHO Secretary-General:	Mr Robert WARD (IHO Secretariat)
Assistant Secretary:	Ms Ghislaine FAUCHOIS (IHO Secretariat)
IHO Director:	Mr Mustafa IPTES
IHO Director:	Mr Gilles BESSERO
Rapporteur:	Mr. Jeff WOOTTON (IHO Secretariat)

Member States represented: Australia, Brazil, Canada, Chile, China, Colombia, Democratic People's Republic of Korea, France, India, Iran (Islamic Republic of), Italy, Japan, Monaco, Mozambique, Republic of Korea, South Africa, Suriname, Tunisia, Turkey, United Kingdom, United States of America.

### **1. Opening of the Meeting**

The IHO SECRETARY-GENERAL, as acting Chair, opened the meeting and welcomed all participants. He expressed his appreciation for the number of Member States represented. He thanked the outgoing Chair, Ms NATALI-LAURE (Monaco) and Vice-Chair, Mr Andrew MILLARD (United Kingdom) for their efforts over the past five years.

### **2. Adoption of the Agenda (A.1/FC/02/REV1)**

The agenda was adopted without comment.

### **3. Election of the Chair and Vice-Chair**

Having no other nominations, Ms Muriel NATALI-LAURE was re-elected as Chair of the IHO Finance Committee.

Having no nominations, the position of Vice-Chair was left vacant.

### **4. Revision of Article 13(c) of the IHO Financial Regulations (A.1/G/02)**

The Secretary-General introduced the proposal noting that it resulted from a request to the Secretariat from a Member State to waive the imposition of interest on outstanding financial contributions.

The Secretary-General reported that the Finance Committee Officers, when they considered this matter, observed that levying interests on outstanding debts might not always serve a meaningful purpose in ensuring timely payment of debts, because in many cases, late payment was caused by economic, geopolitical, or administrative factors that were beyond the control of the Member State's representative who is responsible for paying the subscription.

The Finance Committee Officers concluded that it was a matter that should be considered by the Assembly, and if considered appropriate, the relevant financial regulations could be amended.

The Secretary-General noted that the Secretariat has been unable to identify any other intergovernmental organization that levies interests on outstanding or late payment of annual financial contributions as is levied by the IHO. Several UN bodies, particularly the IMO, the International Atomic Energy Agency, and the International Seabed Authority, all confirmed that they do not impose interest on outstanding or late payments.

The Secretary-General pointed out that, in deciding to amend the relevant article in the Regulations and to write off the accumulated debts, consideration needed to be given to what would be the effective date of waiving interest payments on outstanding contributions, noting that some Member States had cleared their debts and paid interest, whereas some others had paid off their principal debt but declined to pay interest.

The Secretariat reported that the interest paid by Member States during the financial period 2012-2016 was approximately 13,000€.

Two delegations did not support the proposal, one on the grounds that some organizations levied late payment interest, and the concern that IHO budgets are based on the existing membership fulfilling their obligations to support the Organization and that unexpected shortfalls could impact the ability of the IHO to execute its important mission. This delegation suggested looking at an alternative, rather than getting rid of the entire interest on arrears, such as countries individually requesting a waiver.

The other delegation did not support the proposal because it would be unfair towards Member States who had paid the interest along with the arrears.

Five delegations supported the proposal, and discussion concentrated on the date of application of the amendment to the article in the Regulations, and on the procedure to reimburse the Member States who paid the late payment interest.

The Secretary-General noted the interventions, and further noted that there was a significant majority who had not expressed an opinion one way or the other. However, from those who spoke, more were of a view to supporting the removal of the imposition of interest on outstanding financial contributions

**The Committee agreed to recommend that the Assembly:**

**Withdraw the Article 13(c) of the IHO Financial Regulations as proposed; and that**

**Any interest paid on outstanding contributions by Member States during the current financial period 2012-2016 be credited to their financial contribution due in 2018.**

**Instruct the Secretariat to include an appropriate provision in the 2017 budget in order to accommodate this.**

**5. Appointment of the External Auditor (A.1/F/03)**

The Secretary-General reported that the current auditor was initially appointed by the Conference in 2002 and re-appointed at subsequent IHCs in 2007 and 2012. Its current mandate will terminate in 2018 after the audit of the financial statements for 2017. At the Conference in 2012, the Member States indicated that consideration should be given to other candidates in 2017 for the following inter-sessional period.

As a result, and in consultation with the Chair of the Finance Committee, the Secretariat invited offers from two well-known auditing firms: Price Waterhouse Coopers and KPMG.

An analysis of their offers is contained in Assembly document A.1/F/03.

After interviewing representatives from the two candidate companies and in the absence of any significant difference in the scope of the offers, it was recommended by the Secretariat to select Price Waterhouse Coopers Monaco as the external auditor for the IHO accounts for the period 2018-2020.

The Committee endorsed the recommendation of Price Waterhouse Coopers Monaco as the external auditor for the next period.

**The Committee agreed to recommend that the Assembly:**

**Appoint Price Waterhouse Coopers Monaco as the external auditor for the period 2018-2020**

## **6. Amendment to the Rules of Procedure for the Finance Committee (A.1/FC/06)**

The Secretary-General reported that according to Rule 9 of the Rules of Procedure of the Finance Committee that came into force on 8 November 2016, the Chair and Vice-Chair of the Finance Committee shall be elected at the beginning of the regular meetings of the Committee to be held on the occasion of the ordinary sessions of the Assembly. This means that the Chair and the Vice-Chair will be elected at the meeting immediately prior to a session of the Assembly, and are then responsible for the work and the output of the Committee when it reports to the Assembly a few days later.

This arrangement is different to the previous regime, where the Chair and Vice-Chair of the Finance Committee were elected by the Conference. The end result is that the new Chair and Vice-Chair normally assume their responsibilities on completion of the Assembly rather than immediately before it.

The Secretary-General pointed out that if a new Chair is elected at the beginning of the meeting of the Finance Committee, then it is impossible for that new Chair to prepare in advance for the meeting and that this complicates their ability to report with confidence to the Assembly a matter of days later. For this reason, the Secretary-General proposed that the relevant Rule (Rule 9) in the Rules of Procedure be amended so that the election of the Finance Committee Officers takes place at the end of the meeting, rather than at the beginning and that the term of office begins upon completion of the session of the Assembly. This arrangement would then be consistent with the arrangements for the Chair and the Vice-Chair of the Council who “*hold office until the end of the next ordinary session of the Assembly*”.

The Committee endorsed the proposal put forward to change Rule 9 of the Rules of Procedure, for consideration by the Assembly.

**The Committee agreed to recommend that the Assembly:**

**Change Rule 9 of the Rules of Procedure as follows: The Chair and Vice-Chair shall be elected at regular meetings of the Finance Committee. Member States represented at such meetings may participate in such elections. The Chair and Vice-Chair shall be elected for a period of three years and hold office until the end of the next ordinary session of the Assembly”.**

## **7. Financial Statements for 2012-2016 (A.1/F/01)**

**Consideration of the Financial Statements for 2016 and Recommendations (A.1/F/04 and A.1/F/04 Add.1)**

The Secretary-General presented the Finance Report for the period 2012 to 2016. The report comprises the audited financial figures for the Organization for the past five year period, together with explanatory summaries that cover all the key aspects of the financial arrangements and transactions.

The financial statements for the period 2012 to 2015 have been approved by correspondence in accordance with the Financial Regulations in force at the time. The consideration of the financial statements for 2016 is addressed in a specific document.

Throughout the period, the Secretariat sought to constrain costs such that, total income has consistently exceeded total expenditures throughout the five-year budget period. This has provided monies which have variously been applied to increase the various Funds of the Organization, to increase the operating cash reserve, and to support newly arising liabilities placed on the IRF.

It is the view of the Secretariat that the finances of the Organization remain in a very good state and there are no significant areas of concern.

The delegations welcomed the preliminary finance report and the budget that reflects a good-faith effort to contain costs; one delegation would like to refine the rules and regulations about the budget and especially the expenditure for the IHO budget.

**The Committee took note of the comments received from some Member States and endorsed the presentation of the financial report for the five-year intersessional period, for consideration by the Assembly, as part of the report from the Finance Committee.**

The Secretary-General presented the Finance Report for 2016 and its recommendations for endorsement by the Finance Committee and the subsequent consideration of the Assembly. He reported that under the terms of the basic documents of the IHO that were in force until 8 November 2016, the annual draft Financial Report and its recommendations was normally submitted to the Member States by correspondence for approval by a two-thirds majority. This meant that in most cases, the audited accounts and the distribution of any surplus was agreed by mid-year or shortly thereafter.

However, in accordance with Article 8 of the new Financial Regulations that entered into force on 8 November 2016, the Secretary-General is now required to submit the financial statements to the Council, and to the Finance Committee by correspondence, together with the budget estimates for the following financial year.

However, the first meeting of the Council will not take place until October 2017, when its Chair and Vice-Chair will be elected. This means that it will be difficult for the Council to consider the Financial Report for 2016 and its recommendations before the last quarter of this year. As a result, and because of the need for an early decision on the recommendation in this year's report, as well as a need for some clarification, the 2016 report and its recommendations was presented to the Finance Committee prior to further consideration by the Assembly.

The clarification mentioned above concerns what action the Council is supposed to take when it receives the financial statement and recommendations for the previous years and the budget estimates for the following year.

The Secretary-General pointed out that it is clear from Article 8<sup>1</sup> of the Financial Regulations and its reference to Articles VI (g) (vi) and VII (c) of the Convention that the financial statements of the

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<sup>1</sup> **ARTICLE 8**

(a) Before each ordinary session of the Assembly the Secretary-General shall prepare the financial statements and the estimated 3-year budget and submit them at least two months in advance of their meetings to the Finance Committee and the Council, which will take action in accordance with Articles VII (c) and VI g(vi) of the Convention.

Organization are approved at each ordinary session of the Assembly, taking into consideration the observations and recommendations of the Council on the one hand and of the Finance Committee on the other hand. However, what is not clear, is how any recommendations that arise from either the most recently audited annual accounts or the following year's annual budget estimate are to be addressed and implemented in a timely manner in the years when no Assembly takes place. As repeated that, in the past, the previous year's accounts were considered by correspondence and the following year's budget was also approved by correspondence.

In order to address this issue and to clarify the role that the Council should play, the Secretary-General recommended that the Assembly be invited to confirm that the Council is empowered to approve the financial statements and any recommendations for the previous year and also the budget estimates and the associated annual work programme for each forthcoming year.

If this is agreed by the Assembly, then he further recommended that the Assembly instruct the Council that at its first meeting the Council agrees upon an appropriate methodology and a timetable that enables the Organization to deal with each year's financial statements and associated recommendations in a timely manner, rather than leave it until the annual meeting of the Council in October. This may result in a need for the Council to propose adjustments to the relevant basic documents and to consider further in particular the role of the Finance Committee in the process.

The Committee endorsed the above proposals presented by the Secretary-General.

The Secretary-General pointed out that the Finance Report and recommendations for 2016 indicates an operational surplus of 241,000 Euros and a recommendation that the bulk of this surplus be transferred to the Capacity Building Fund, particularly in view of the fact that the value of the approved capacity building projects for 2017 far outweighs the currently available funds because a significant sum normally contributed to the Capacity building Fund was not made this year. In the circumstances, he suggested that it would be preferable to increase the Capacity Building Fund as soon as possible in 2017 so that the as yet unfunded but approved projects in the Capacity Building Work Programme could proceed.

The delegations agreed with the proposal as made and welcomed anything that adds value to the opportunity to build the capacity of countries throughout the Southwest Pacific but also more broadly.

One delegation commented that for budget surpluses, particularly due to new Member States joining the Organization, consideration should be given to a reduction of Member State assessments.

The response from another delegation was that part of our Organization's strategy is enticing members to join so they then seek some of the benefits of becoming an IHO member and get a return on some of their funding so we then hopefully add value and amplify their contribution by in-kind contribution from those much larger developed States helping to build their individual capacity.

The Committee endorsed the Financial Report for 2016 and its recommendations.

**The Committee agreed to recommend that the Assembly:**

**a. Approve the Financial report for 2016 and its recommendations, which is that the budget surplus for 2016 of 241,000 Euros be distributed as follows:**

**(1) 191,000 Euros to the Capacity Building Fund.**

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(b) Between ordinary sessions of the Assembly, the Secretary-General shall submit to the Council, and to the Members of the Finance Committee by correspondence for their information, the budget estimates for the following financial year, based on the 3-year budget approved by the Assembly.

**(2) 50,000 Euros to the Internal Retirement Fund.**

**b. Confirm that the Council is empowered to approve the financial statements and any recommendations for the previous year and the budget estimates and the associated annual work programme for each forthcoming year.**

**c. Invite the Council at its first meeting to consider an appropriate methodology and timetable to deal with each year's subsequent financial statements and to propose any adjustments to the relevant basic documents if required.**

**8. Implementation of the Budget for 2017**

The Secretary-General presented a short report on the current status of the budget for 2017, so far. It was based on the internal monthly financial report for the period ending 31 March.

By the end of March, 56% of annual contributions had been received. This is higher than last year (45%) and higher than the average over the last 5 years (53%).

Seven<sup>2</sup> Member States had not yet settled their outstanding contributions for 2016.

At this early stage of the year, 183,000 Euros is not yet allocated, including 88,000 Euros in Personnel costs, 80,000 Euros in Operating costs and 15,000 Euros in capital expenditure.

In addition, Vanuatu joined the Organization in February and has paid its contribution for 2017. This additional income (36,000 Euros) was not forecast in the budget for 2017 and will therefore add to any end of year surplus, together with the contribution of any new Member State that may join the Organization during the year.

The Secretary-General reported that the figures that he had presented were typical for this stage of the annual budget cycle. This was confirmed by the Chair and by the outgoing Vice-Chair.

**The Committee noted the current status of the budget for 2017.**

**9. Proposed Budget for 2018-2020 (A.1/F/02 and Add.1)  
(Including the Proposed Table of Tonnages) (A.1/G/03/Rév.1)**

The Secretary-General introduced the proposed budget for 2018 to 2020.

He pointed out that in the future, and in accordance with Article 10 (b) of the General Regulations, the Secretary-General will be required to submit the proposed budget to the Council and to the Finance Committee before it is presented to the Assembly for its final consideration.

However, in this case, in the absence of a Council, the proposed budget was presented to the Finance Committee prior to presentation directly to the Assembly.

He explained that the budget had been drawn up to support the Work Programme covering the same period, 2018 to 2020, that will be presented to the Assembly as document A.1/WP1/02.

The budget for the forthcoming three-year period maintains the same conservative approach that has been followed by the IHO for many years. It is based on the most likely minimum income that can be expected over the period. In other words, it does not assume any significant growth in income because of new Member States, and it does not anticipate any potential increases in the current very low rate of investment

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<sup>2</sup> Iran, Kuwait, Mozambique, Democratic People's Republic of Korea, Syria, Tonga and Venezuela

earnings on the Organization's capital. The Secretary-General pointed out that there is every prospect that both the income and the rate of interest are most likely to increase positively, nonetheless.

He also pointed out that the proposed budget continues the trend that has endured over the last 11 out of 12 years, by not increasing the value of the financial share. This means that in real terms, and taking into account the continuing impacts of inflation, the real value of the shares that Member States contribute towards the running of the Organization will continue, as in 11 out of the past 12 years, to fall year by year in real terms.

Concern was expressed by some delegations regarding the two new positions that the Secretariat is proposing to open. One delegation would like to wait for a consolidation period to see if the need for these positions is justified. Another delegation would like to know if this new assistant will also help the IHO translators in this field of competence to translate documents from English to French, because this is an issue of concern. This issue is availability of documentation in French to strengthen the capacity building, for example, in Africa.

The Secretary-General stressed that no specific request to increase the staff has been included, and in fact, those two positions that are described in some of the supporting text are examples based on the situation currently where, as can be seen, the Inter-Regional Coordination Committee, in particular, has expressed its concern that the Secretariat is not able to support some of the functions under the IRCC.

The Secretary-General recommended that if a delegation feels that the Secretariat is unable to support both official languages that it makes that known either to the appropriate Committee or to the Council as a way of further justifying and setting exactly what should be the role and function of any additional staff that come on board. It was repeated that the two positions described are essentially examples of deficiencies that the Secretariat are certainly well aware of that have a high priority.

If any Francophone countries feel that their language is not being adequately supported in accordance with the convention and requirements of the convention, then they should make that known, particularly to the Council, and subsequently to the Assembly so that it can be addressed.

The Finance Committee endorsed the proposed budget for the following three years.

**The Committee agreed to recommend that the Assembly:**

**Adopt the proposed budget for 2018-2020.**

The Secretary-General presented the Table of Tonnages that should take effect for the period of the next budget session, 2018 to 2020. The Table of Tonnages is based on the figures that have been supplied by the Member States or in some cases, where the Secretariat has been unable to obtain figures from Member States, the figures that those States have declared to the International Maritime Organization. In such cases, those figures should be slightly lower than the figures that would be provided to the IHO. This is because the IMO figures are based on registered commercial tonnage, whereas the IHO figures are based on registered commercial flag tonnage plus a percentage value for government-owned vessels. He indicated that, for most cases, this difference would make little or no difference to the number of financial shares allocated to most Member States.

The Committee endorsed the proposed Table of Tonnages.

**The Committee agreed to recommend that the Assembly:**

**Adopt the proposed Table of Tonnages.**



**10. Report to the Assembly**

The Secretary-General explained the timetable for the production and review of the Report of the Finance Committee to the Assembly

**11. Any Other Business**

There was no other business.

**12. Closure of the Meeting**

The Secretary-General congratulated the new Chair on her re-appointment. He also thanked the outgoing Vice Chair Mr. Andrew Millard for all the work that he had done over this last period, and in particular the sensible and practical advice and counsel that he had provided to the Secretary-General and the Directors. He thanked all the attendees of the meeting for their participation.

(Meeting closed 16:30.)