

**FINANCIAL STATEMENT: 2018**

PREPARED BY: IOTC SECRETARIAT

**ABOUT THIS REVISION**

This document was revised to correct the budget and expenditure amounts in lines 2.5 and 2.7 in Table 1. The explanatory notes relating to these lines were correct and remain unchanged.

**PURPOSE OF THIS DOCUMENT**

To inform the Standing Committee on Administration and Finance (SCAF) of the financial aspects of the Commission for the 2018 financial year (1 January to 31 December 2018).

**STATUS OF CONTRIBUTIONS TO THE AUTONOMOUS BUDGET IN 2018**

1. The total of contributions due in 2018 for the 2018 budget was (US Dollars) \$3,905,659. As of 31 December 2018, a total of \$3,838,743 had been received. Note, the total of contributions received in 2018 also included outstanding contributions due from years prior to 2018. Therefore, the difference between the amount of the contributions due for the 2018 budget year and the contributions received (\$66,916) does not necessarily reflect the diligence of members paying their contributions in a timely fashion.
2. The cumulative total of outstanding contribution payments has increased by around 2%, from \$2,822,094 as of 31 December 2017, to \$2,889,010 as of 31 December 2018.
3. Details on the status of contributions are available in IOTC-2019-SCAF16-06.

***It is important to pay contributions on time***

4. The situation of outstanding contributions is not sustainable in the long term. It is essential to receive contributions as soon as possible after invoices are sent out because the FAO requires funds to be available from the IOTC budget at the start of each calendar year to cover all salaries and existing contracts (for consultants and other service providers) for that year. FAO will not contribute to the IOTC accounts to keep it afloat. Substantial funds must be available otherwise FAO will not renew staff contracts, enter any new contracts or commit to any procurement actions.
5. Under expenditures (for example \$463,653 in 2017 and \$603,516 in 2018) and the deficit contingency budget included in the 2019 budget (\$150,000) help to ease the cash flow situation. However, these sources cannot be relied on and it is essential that contributions are paid as soon as possible after the mid-year call for funds.

**EXPENDITURES FOR THE YEAR 2018*****The 2018 budget was underspent by \$603,516***

6. The total budget for 2018 was \$3,905,655 and the Commission spent (actuals) \$3,302,139. The level of under expenditure from the budget amounted to a total of \$603,516 (Table 1). This under-expenditure was mainly due to under-spending in staff costs due to: the Science Manager not commencing his duties until the second half of 2018, the P5 Compliance Manager position remaining vacant, and the P1 Data Expert post not being filled until the end of 2018. Some General Service posts also remained vacant. In addition, there was an overall saving of 11% in operating expenses.
7. In 2018 there was a positive balance in contributions against actual expenditures of \$536,604 and this was added to the IOTC accumulated fund.

**Table 1.** Comparison between actual and budgeted expenditures in 2018 (in US\$).

	2018 Budget Item Description	Budget	Actual	Variance	Percent Variance
1	<b>Administrative Expenditures - Staff Costs</b>				
1.1	Professional Salaries	1,368,348	977,061	-391,287	-29%
1.2	General Service Salaries	75,735	87,378	11,643	15%
	<b>Sub-total Salaries</b>	<b>1,444,083</b>	<b>1,064,439</b>	<b>-379,644</b>	<b>-26%</b>
1.3	Employer contributions to Pension Fund and Health Insurance	418,651	288,469	-130,182	-31%
1.4	Employer contribution to FAO Entitlement Fund	607,582	560,868	-46,714	-8%
1.5	ICRU	0	56,872	56,872	100%
1.6	Adjustment staff cost variance	0	50,013	50,013	100%
1.7	<b>Total Administrative Expenditures</b>	<b>2,470,316</b>	<b>2,020,661</b>	<b>-449,655</b>	<b>-18%</b>
2	<b>Operating Expenditures</b>				
2.1	Capacity Building	125,000	86,741	-38,259	-31%
2.2	Co-funding Science/Data Grants	100,000	70,268	-29,732	-30%
2.3	Co-funding Compliance Grants	35,000	22,714	-12,286	-35%
2.4	Misc. Contingencies	60,000	0		
2.5	Consultants	155,000	175,325	20,325	13%
2.6	Duty travel	135,000	111,173	-23,827	-18%
2.7	Meetings	105,000	127,169	22,169	21%
2.8	Interpretation	140,000	97,343	-42,657	-30%
2.9	Translation	105,000	101,441	-3,559	-3%
2.10	Equipment	30,000	30,769	769	3%
2.11	General Operating Expenses	75,000	60,038	-14,962	-20%
2.12	Printing	20,000	16,203	-3,797	-19%
2.13	Contingencies	10,000	0	-10,000	-100%
2.14	MPF	200,000	250,903	50,903	25%
	<b>Total Operating Expenditures</b>	<b>1,295,000</b>	<b>1,150,085</b>	<b>-84,915</b>	<b>-11%</b>
	<b>SUB-TOTAL</b>	<b>3,765,316</b>	<b>3,170,746</b>	<b>-594,570</b>	<b>-16%</b>
3	Additional Contributions Seychelles	-20,100	0	20,100	-100%
4	Deficit Contingency	0	0		
	<b>TOTAL</b>	<b>3,745,216</b>	<b>3,170,746</b>	<b>-574,470</b>	<b>-15%</b>
5	FAO Servicing Costs	160,439	131,393	-29,046	-18%
6	<b>GRAND TOTAL</b>	<b>\$3,905,655</b>	<b>\$3,302,139</b>	<b>-603,516</b>	<b>-15%</b>

## **Explanatory notes on expenditures for 2018**

### ***Salaries – Professional grade staff (1.1)***

8. Professional Salaries were less than the budgeted figure, with a saving of approximately \$391,287 (-29% variance) primarily due to the vacant posts of the Science Manager (who started mid-year), the Compliance Manager (not yet filled) and the Fishery Officer for data (recruited at the end of 2018 and started in early 2019). An additional staff cost reduction resulted from the maternity leave of one staff member. A full salary during maternity leave is covered by the FAO Entitlement Fund. Table 2 provides additional details on salary-related costs for professional staff.

### ***General Service staff (1.2)***

9. As reported at SCAF15, a UN salary increase of approximately 27% was applied to all General Service salaries in Seychelles with retroactive payments back to June 2016. The General Service salaries were therefore above the budgeted amount by \$11,643 (+15%). The G4 Office Assistant and the G6 Compliance Assistant posts remained vacant, despite efforts to recruit new local staff. Table 2 provides additional details on salary-related costs for general service staff.

### ***Employer Contributions (1.3 & 1.4)***

10. Employer contributions to the Pension Fund and health insurance costs were significantly below budgeted figures (-31% variance) as a direct consequence of the vacancies mentioned above. The contributions to the FAO entitlement fund were 8% below budgeted figures. These entitlement contributions are assessed by FAO for every project (including IOTC) by prorating actual costs of covering these entitlements across FAO. Therefore, an overall reduction in staff costs normally results in a similar reduction in employer contributions. A recent change in the UN post-adjustment factor will result in an overall rise in staff salaries which will be offset by a reduction in FAO entitlements such as rental subsidies. Table 2 provides additional details on salary costs related to employer contributions.

### ***ICRU - Improved Cost Recovery Uplift (1.5)***

11. In 2014 FAO brought in 'Improved Cost Recovery Uplift' (ICRU) charges to cover field project personnel costs (for staff and consultants). These charges are to recover the costs of central services provided for security and information technology. While the Commission has previously expressed its disagreement with the inclusion of ICRU in the IOTC budget (e.g. SCAF14), ICRU has continued to be applied by FAO hence there is an expenditure of \$56,872 in 2018 against a zero budget. Note, future budgets have an allocation to cover ICRU. Table 2 provides additional details on the allocation of the ICRU to staff.

### ***Support to Capacity Building (2.1)***

12. The budget line on Capacity Building shows expenditures below the budgeted figure (-31% variance). This is a consequence of the IOTC Secretariat using extra-budgetary resources and partnerships to cover the majority of the anticipated expenses. The budget for the current year has been adjusted accordingly.

### ***Co-funding Science/Data Grants (2.2)***

13. This budget line was included to cover expenditures related to the IOTC co-funding to EU grants for science and data activities. Typically, the contribution from IOTC is around 20% of a project total. In 2018, there were under-expenditures amounting to \$29,732(-30%). This was primarily due to delays in setting up new projects resulting in less contributions than expected being required in 2018. The expenditures for each project are be seen in Table 3.

### ***Co-funding Compliance Grants (2.3)***

14. This budget line was included to cover expenditures related to the IOTC contribution to EU grants for compliance activities. Typically, the contribution from IOTC is around 20% of a project total. In 2018, there were under-expenditures of \$12,286 (-35%) in this line due to costs being covered by the World Bank's SWIOFISH 2 Project which is being implemented by the Indian Ocean Commission, with technical input from the IOTC Secretariat.

### ***Misc. Contingences (2.4)***

15. This budget line was included to cover any unforeseen expenses specifically related to account lines 2.2 and 2.3 (expenditures related to the IOTC contribution to EU grants). There were no expenditures recorded under this

account line in 2018.

### ***Consultants (2.5)***

16. The total expenditure for consultants is made up of a range of expenditures relating to the support provided by external scientific experts, including other planned consultancy fees. The IOTC registered an over-expenditure of US\$20,325 for consultants in 2018 (+13% variance).

### ***Duty travel (2.6)***

17. Duty travel mostly includes travel of the Secretariat staff to participate in meetings of the Commission but may include some travel to relevant events hosted by other organisations. A quarterly travel plan is compulsory and is submitted to FAO for approval. Details of the travel undertaken in 2018 under the support of the Commission, are provided in Appendix 1. The Secretariat registered an under-expenditure on duty travel of approximately \$23,827 (-18%) in 2018. This under expenditure was due to most IOTC meetings being held in Seychelles.

### ***Meetings (2.7)***

18. The cost for meetings in 2018 was over-spent by \$22,169 (+21%) due to the increased costs to host the Scientific Committee (SC21), WPDSC14, WPM09, WPNT08 and WPTT20 meetings in Seychelles, and the unanticipated hosting of the TCAC04 and TCPR01 meetings in Seychelles in February. The expenditures under this category include the rental of meeting facilities, data lines, sound and interpretation equipment as required, as well as incidentals such as transport, and breaks.

### ***Interpretation (2.8)***

19. The costs for interpretation included interpreter fees (\$73,778) and travel (\$23,565) for teams of 4-6 interpreters at the Commission, Compliance Committee, SCAF, TCMP, the Scientific Committee, TCAC and TCPR meetings. There was a saving of \$42,657 (-30%) due to efforts to optimise the numbers of interpreters required, and savings in travel by using interpreters from the regions where the meetings were being held.

### ***Translation (2.9)***

20. The translation budget line was under-spent by \$3,559 (-3%).

### ***Equipment (2.10)***

21. The equipment budget was over-spent by \$769 (+3% variance). This covered the procurement of some important new equipment to strengthen IT security and improve the local network (firewall, routers, etc.). Computers were also purchased for the new staff.

### ***General operating costs (2.11)***

22. General Operating costs include a series of expenditures related to the normal functioning of the Secretariat office. Table 3 shows a detail of the costs for 2018. The difference between budgeted (\$75,000) and actual operating costs (\$60,038) represents a 20% saving.

### ***Printing (2.12)***

23. The printing budget line was utilised for expenses related to the printing of IOTC species identification cards. There was a saving of \$3,797 (-19%) for this account line in 2018.

### ***Contingencies (2.13)***

24. As required by provisions in the Financial Regulations, a contingency budget line provides for miscellaneous expenditures that are encountered by the Secretariat and do not fit into the pre-defined account structure of the operating expenditures. These funds were not used in 2018.

### ***Meeting Participation Fund (MPF) (2.14)***

25. The approved MPF budget for 2018 was \$200,000 and a total \$250,903 was spent. This over-expenditure was possible because of extra-budgetary contributions received from Australia and China. Details on the status of the MPF are provided in IOTC-2019-SCAF-05.

### ***Additional Contributions by Seychelles (3)***

26. This additional contribution has been negotiated under the Headquarters Agreement between FAO and the

Government of Seychelles. The current contributions from the Government of Seychelles are intended to defray some of the costs of operating the Secretariat, including costs of the Secretariat's Information Technology consultant. No additional contributions were received in 2018.

**Deficit Contingency (4)**

27. There was no deficit contingency amount included in the 2018 budget.

**FAO Project Service Cost (5)**

28. The FAO Project Servicing cost in 2018 was \$131,393, representing a saving of 18% compared to the budgeted amount.

**Table 2.** Detail of Staff-Related Costs During 2018 (in US\$)

	<b>General Service Staff</b>	<b>Professional Staff</b>
Base Salary Actual	84,683	667,641
Overtime / Secondment	2,695	11,250
Basic Medical Insurance Plan	27,131	31,507
Contribution to FAO entitlement fund	50,243	510,625
Pension plan	16,486	213,345
Post Adjustment	-	298,170
ICRU	5,439	51,433
Adjustment Staff Cost Variance	8,994	41,019
Total	\$195,670	\$1,824,990
<b>Grand Total</b>		<b>\$2,020,660</b>

**Table 3.** Detail of General Operating Expenditures in 2018 (in US\$)

<b>Category</b>	<b>Actual Costs</b>
Telephone	5659
Internet	23520
Postage	3959
Office Supplies	7704
Water	882
Newspapers and adverts	1691
Cleaning	4182
Vehicles operating and maintenance	2912
Website hosting and development	9530
<b>TOTAL</b>	<b>\$60,038</b>

## FINANCIAL STATUS

### *The 2018 budget was underspent, and the total of outstanding contributions has increased*

29. A total of US\$3,302,139 was spent in 2018 against a budget of US\$3,905,655 (-15%).
30. The cumulative total of outstanding contribution payments was \$2,889,010 as of 31 December 2018. The IOTC Secretariat continues to pursue payment of these outstanding arrears and has been taking action in the form of generic reminder circulars and letters addressed directly to CPCs. A significant and immediate risk remains that FAO will stop expenditures against the IOTC project until contributions match commitments.

### *IOTC received extra-budgetary funds in 2018*

31. In 2018, the IOTC benefitted from work undertaken using extra-budgetary funds provided by some Members (Appendix 1). In 2018, the Secretariat managed seven multi-year projects funded by the European Union (DG Maritime Affairs and Fisheries) that were in various stages of completion. These projects supported technical assistance to developing countries to improve implementation of at sea observer scheme, data collection; and the work of the both the Scientific Committee and Compliance Committee.
32. The Regional Observer Programme (ROP) also received \$1,505,551 of contributions in 2018 from the fleets participating in the programme. Expenditures in 2018 amounted to \$1,104,180.
33. In 2018 the IOTC Meeting Participation Fund (MPF) was augmented by \$20,000 of extra-budgetary contributions received from China and \$30,842 from Australia. This increased the total 2018 MPF budget to \$250,842. Details on the MPF are provided in IOTC-2019-SCAF16-05.
34. The Commission also benefitted from IOTC-relevant compliance activities being undertaken and paid for through the World Bank's SWIOFISH 2 Project being implemented by the Indian Ocean Commission, with technical input from the IOTC Secretariat.

### *IOTC has a balance of funds of around +\$1.3 million*

35. According to the FAO financial system, as of 31 December 2018 the IOTC has a balance of funds of around US\$ 1.3 million. These accumulated funds have built up as a result of some underspending, savings and because there was a sizeable contingency deficit allocation in the respective budgets of 2016 and 2017<sup>1</sup>.
36. A level of accumulated funds in excess of US\$1 million is considered to be essential to ensure a positive cash flow and continuity of IOTC's activities<sup>2</sup>. This level of accumulated funds is especially important for IOTC during the first part of the year when approximately \$2 million is committed for staff salaries, and not all contributions have been received. However, it should be noted that the use of accumulated funds to cover for the current shortfalls in contribution payments is not sustainable, as these funds could be exhausted quickly at the recent levels of arrears.
37. In 2019 the Standing Committee on Administration and Finance will discuss proposed amendments to the IOTC Financial Regulations (document IOTC-2019-SCAF16-09). This discussion will include the possible establishment of a 'working capital fund' that would provide a transparent and strategic mechanism for the Commission to manage the use of any accumulated funds.

## SUGGESTED ACTION BY THE STANDING COMMITTEE ON ADMINISTRATION AND FINANCE

That the SCAF:

- a) **NOTE** paper IOTC-2019-SCAF16-04 which includes the Financial Statement and supporting documentation for the financial period 1 January to 31 December 2018.

<sup>1</sup> According to the FAO financial system, as of 31 December 2018 the IOTC had a balance of funds of around US\$ 1.5 million. Within this balance there are some 2019 contributions that were received in 2018 (+US\$ 445,131) and a transfer of US\$ 200,000 was already made to the 2019 MPF (-US\$ 200,000). A more indicative figure to use as the balance is therefore US\$ 1,301,642 .

<sup>2</sup> The independent report on the costs and benefits of maintain the institutional link with FAO (IOTC-2016-S20-05) recommended that such a 'capital reserve fund' is necessary, in the region of US\$ 1 million - similar to those of other tuna RFMOs.

**Appendix 1. Extra Budgetary Funds 2018**

Project No.	Area of Work	Donor	Description	Total Funding Amount US\$	Expenditures 2018 US\$	End date
MTF/INT/314/MUL	Compliance	Multiple donor-participants ROP	Regional Observer Programme	3,877,669	1,104,180	31/12/2020
GCP/INT/233/EC	Stock Assessment	EC	Population structure of IOTC species in the Indian Ocean: Estimation with next generation sequencing technologies and Otolith micro-chemistry	1,529,487	-	30/09/2019*
GCP/INT/256/EC	Capacity Building	EC	Assistance to foster compliance-technical assistance to developing countries to improve implementation of at-sea observer scheme and data collection	159,515	6,109	31/12/2017
GCP/INT/258/EC	Science	EC	Support to the Scientific Committee Programme of Work	634,872	149,497	30/04/2018
GCP/INT/304/EC	Compliance	EC	Technical assistance to developing countries to improve compliance with IOTC CMMs	216,346	56,734	31/12/2019
GCP/INT/305/EC	Science	EC	Support to the Scientific Committee Programme of Work (2018)	721,153	276,916	31/12/2019*
GCP/INT/322/EC	Science	EC	Support to the implementation of the IOTC ROS (2018)	850,682	-	31/07/2020
GCP/GLO/983/EC	Science	EC	Support to the Scientific Committee Programme of Work (2019)	392,136		31/12/2019*
MPF Extra-budgetary	Meetings	China	Extra funds for meeting participation	20,000	20,000	31/12/2018
MPF Extra-budgetary	Meetings	Australia	Extra funds for meeting participation	30,842	30,842	31/12/2018
<b>Total</b>				<b>8,432,702</b>	<b>1,644,278</b>	

\* to be extended

**Appendix 2. Staff travel in 2018**

<b>MEETING/EVENT</b>	<b>DATE AND LOCATION</b>	<b>DUTY TRAVEL (No. of Secretariat Participants)</b>
Compliance Support Mission	16-25 January: Mauritius and Mozambique	1, external funding
Capacity building activities in support of compliance by IOTC CPCs, Follow up Compliance Support Mission	28-31 January: Colombo, Sri Lanka	1
2nd Tuna Compliance Network meeting	14-20 February: Honiara, Solomon Islands	2
FAO observer training workshop	17-24 February: Colombo, Sri Lanka	2
IOTC MSE workshop and ISSF Assessment workshop	12-24 March: Lisbon, Portugal	1
Global Record Open-Ended Technical and Advisory Working Group - 4th meeting + PSMA Open-Ended Technical Working Group on Information Exchange	11-18 April: London, United Kingdom	1
Seeking high level agreement for receiving EU funded capacity development relating to the Regional Observer Scheme	15-21 April: Tehran, Iran	1
IOTC Commission meetings	10-27 May: Bangkok, Thailand	7
9th International Fisheries Observer and Monitoring Conference	11-15 June: Madrid, Spain	1
FISH-i Africa 7th Task Force Meeting	24-29 June: Maputo, Mozambique	1, external funding
CSM / PSM training; e-PSM training	1-7 July: Mombasa, Kenya	1
RSN, COFI and Tuna RFMOs meetings. Meeting with the Independent Chairperson of the FAO Council. ABNJ Tuna PSC.	5-19 July: Rome, Italy	1
IOTC Working Party on Ecosystem and Bycatch	8-15-September: Cape Town, South Africa	3
IOTC Working Party on Billfish	9-16 September: Cape Town, South Africa	1
CSM/PSM training: PSM experience sharing	15-23 September: Port Louis, Mauritius	1, external funding (IOTC terminals)
e-PSM training and WPICMM02 preparation meeting	29 September-6 October: Maputo & Beira, Mozambique	1, external funding (IOTC terminals)
IOTC Swordfish-MSE workshop	3-13 November: Ispra, Italy	1
PSM/E-PSM training	30 October-7 November: Cape Town & Durban, South Africa	1, external funding (IOTC terminals)
e-PSM training	18-24 November: Antsiranana & Antananarivo, Madagascar	1
Workshop to guide the development of Phase II of the ABNJ Common Oceans Programme. Meetings with FAO counterparts.	4-8 December: Rome, Italy	1, external funding
Data compliance support mission	8-14 December: Karachi, Pakistan	2