

## 6<sup>TH</sup> MEETING OF THE FINANCE AND ADMINISTRATION COMMITTEE (FAC)

*The Hague, The Netherlands, 23 to 27 January 2019*

### FAC 6 – Doc 04.2 SPRFMO Contingency Fund (FR, Annex 2) *Secretariat*

#### 1. Background

In 2016, the Commission adopted a Contingency Fund (Annex 2 of Financial Regulation<sup>1</sup>). The Commission shall determine the level of the Contingency Fund (Paragraph 5) with the intent “to accumulate it over time to reach and maintain a level equivalent to three months of the approved budget”. It was also determined (Paragraph 6) that “the Commission shall review the amount available in the Contingency Fund annually.”

##### 1.1. Purpose of the Contingency Fund (FR, Annex 2, Para 1)

“The Contingency Fund may be used for:

- a) Emergency expenses such as in the case of a force majeure event or a natural disaster;
- b) Unforeseen or unforeseeable extraordinary expenses that are necessary to meet a financial obligation;
- c) Ensuring essential operations of the Secretariat in the absence of sufficient Member contributions over and above the amount available in the Accumulated Surplus Account;
- d) Discharging obligations in the event the Convention terminates.”

##### 1.2. Status of the Contingency Fund

At the fifth Commission Meeting in Adelaide, Australia January 2017, the Commission allocated for the first time, NZ\$ 25,000 to the Contingency Fund. In accordance with the Commission’s decision, the Secretariat established a separate account for this purpose in 2017. At the following Commission Meeting in Lima, Peru January 2018, the Commission allocated another NZ\$ 24,327 to the Contingency Fund after reviewing the status of the Accumulated Surplus Account<sup>2</sup>.

The table below shows the status of the Contingency Fund as at 30<sup>th</sup> November 2018:

Financial Year	Meeting	Amount Allocated NZ\$	Balance NZ\$
2016-2017	5 <sup>th</sup> Commission Meeting	25 000	25 000
2017-2018	6 <sup>th</sup> Commission Meeting	24 327	49 327
Plus: Interest earned		554	49 881
<b>Contingency Fund Balance as at 30<sup>th</sup> November 2018</b>			<b>49 881</b>

<sup>1</sup> <http://www.sprfmo.int/assets/Basic-Documents/Financial-Regulations-March-2018.pdf>

<sup>2</sup> The Commission shall attempt to maintain the Accumulated Surplus Account at a level sufficient to finance operations during the first three months of the financial year.



During the Financial Year 2017-2018, Ecuador presented an objection against CMM 01-2018, resulting in a cost of NZ\$ 71,000 for the Organisation. This cost could only be covered with the funds available in the Accumulated Surplus Account due to insufficient amount in the Contingency Fund (NZ\$ 49,881). When this kind of “unforeseen extraordinary expense” occurs, it significantly reduces the balance of the Accumulated Surplus Account.

The current balance of the Contingency Fund (NZ\$ 49,881) is far below the level set (three months operational cost is about NZ\$ 266,000) by the Commission according to FR, Annex 2, para 5 (See Fig 1).

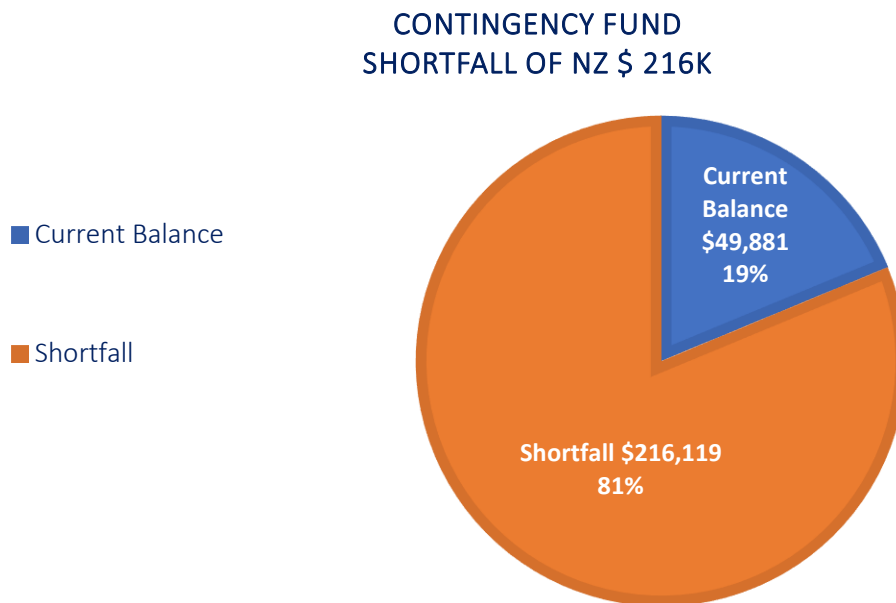


Figure 1 Status of the Contingency Fund

## 2. How to Rebuild the Contingency Fund

Building up the Contingency Fund has become an unresolved financial issue for SPRFMO.

### 2.1 According to the Recommendation of the Performance Review Panel: Appropriation in the budget.

The 2018 Performance Review Panel assessed the Financial Position of the Organisation recommending to building up the Contingency Fund as per Paragraph 386 e of the Report of the SPRFMO Performance Review Panel, page 90: “*Recommends that the Commission include in the budget a provision for increasing progressively over a five year period the level of the contingency fund, and to reimburse any expenditures from the Fund for any Article 17 review process, until it reaches a level of 3 months of the operating budget as provided in the SPRFMO Financial Regulations*”;

### 2.2 According to other sources considered in the Financial Regulations:

Financial Regulation ANNEX 2 also advises that “*the Commission shall determine at its annual meeting the amount to be credited to the Contingency Fund from the following sources:*

- a. *Funds from the Interim Secretariat not otherwise utilised;*
- b. *Funds credited from the Accumulated Surplus Account to the Contingency Fund;*
- c. *By appropriation in the budget;*
- d. *Through voluntary contributions;*
- e. *Interest gained from the investments of the Organisation’s funds’*
- f. *Annual GST Returns;*
- g. *Any other source as decided by the Commission.”*



The Secretariat provides the table below to evaluate all possibilities for building up the Contingency Fund from the above sources:

Sources	Possible?	Secretariat’s Remarks
<i>a. Funds from the Interim Secretariat not otherwise utilised;</i>	No	“Funds from the interim Secretariat not otherwise utilised” were credited to the Accumulated Surplus Account in 2014. This Account is currently sustaining the average 3 months’ operating cost level.
<i>b. Funds credited from the Accumulated Surplus Account to the Contingency Fund;</i>	No	Accumulated Surplus Account is currently sustaining at its average 3 months’ operating cost level.
<b><i>c. By appropriation in the budget</i></b>	Yes	<b>Contingency Fund can be a budget item in the SPRFMO’s annual budget.</b>
<i>d. Through voluntary contributions;</i>	Yes	Yes, it is possible, but the level of uncertainty is high.
<i>e. Interest gained from the investments of the Organisation’s funds.</i>	No	Interest income has been credited to the Accumulated Surplus Account, this Account is currently sustaining at its average 3 months’ operating cost level.
<i>f. Annual GST Returns;</i>	No	Historical GST return from April 2014 up to 30 June 2016 has been used to pay off the historical superannuation of the Secretariat Staff Members; Since Financial Year 2017, GST returns has been credited to the Accumulated Surplus Account.
<i>g. Any other source as decided by the Commission.</i>	Yes	To be decided by the Commission.

The Pie Charts below illustrates the status of the Accumulated Surplus Account (NZ\$ 268,000) sustaining the average 3 months’ operational cost level (as per Financial Regulation 4.5).

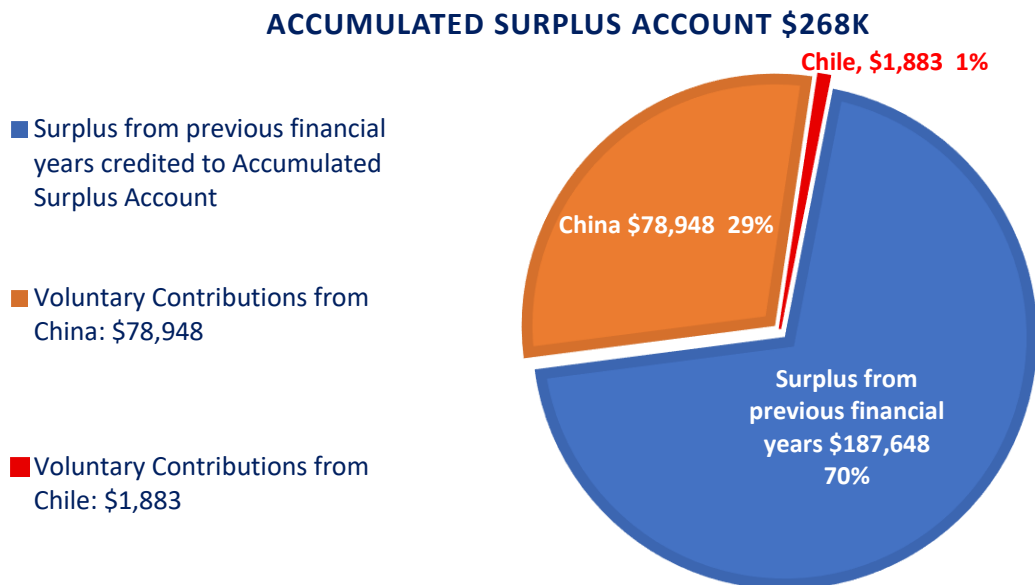


Figure 2 Status of the Accumulated Surplus Account



### 3. The Secretariat's Recommendation:

The existing principle of the Commission's Budget is "zero surplus", i.e. the funding from the Members is equivalent to expense of the Secretariat.

Based on this budget principle and the above analysis of the Status of the Accumulated Surplus Account, the Secretariat would like to recommend the Commission to consider, in line with the Performance Review Recommendations:

**Including in the Annual Budget the budget Item "Rebuilding the Contingency Fund" into the Non-Routine Expenses Budget Category, allocating NZ\$ 50,000 annually for the next five years.**

This way, in Financial Year 2024-2025 the Contingency Fund will have reached a similar level equivalent to three months of the approved (current) budget.