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RESOURCE MANAGEMENT

(f) Development of a long-term plan for the future financial sustainability of the Organization

Note by the Secretary-General

SUMMARY

Executive summary: This document provides an outline of the development of the Organization's long-term plan for future financial sustainability in response to the Assembly's request in resolution A.1039(27)

Strategic direction: 4

High-level action: 4.0.1 and 4.0.3

Planned output: 4.0.1.2 and 4.0.3.1

Action to be taken: Paragraph 17

Related documents: Resolution A.1039(27); C 108/3/3 and C 108/5(e)

Introduction

1 The Council will recall that the Assembly, at its twenty-seventh session, by means of resolution A.1039(27), whilst approving the appropriations for the 2012-2013 biennium, invited the Secretary-General to develop and submit to the Council, during the current biennium, a long-term plan for the future financial sustainability of the Organization and to explore measures, taking into account the linkages to the Strategic and High-level Action Plans, to allow the Organization to continue addressing high-priority safety, security, facilitation of maritime traffic and environmental issues, as well as legal matters related thereto, by identifying cost-savings and efficiencies.

2 In the light of the above, the Secretary-General has included, as one of the objectives of his review and reform process, the development of a long-term plan for the Organization's future financial sustainability, together with the examination of cost-saving and efficiency measures, taking into account the priority linkages to the Strategic and High-level Action Plans (see document C 108/3/3, in particular paragraphs 2 to 5 thereof). It is the Secretary-General's intention to submit an initial draft of the plan to the Council, at its 109th session, for consideration and comment.

Financial sustainability – forward planning

3 It is the firm belief of the Secretary-General that a long-term financial plan should enable proactive management of the Organization's finances, rather than reactive responses to financial difficulties as they occur. Through the process of developing the long-term financial plan, the Organization can have the prospect of combining financial forecasting with broad strategies to identify future challenges and opportunities, causes of financial and budgetary imbalances, and measures and policies to secure financial sustainability. The long-term financial sustainability plan makes the Organization and Member States mindful of the long-term impacts of today's decisions, which sets the stage for balanced budgets in successive years, by avoiding temporary solutions, and also sets boundaries on the budget process and creates an understanding of budget priorities, thereby reducing any unnecessary conflict during the budgeting process. The long-term plan should incorporate a longer-term, more strategic perspective into planning and budgeting and should optimize the Organization's ability to manage sustainable operations by enabling a financial strategy to be developed that can balance the needs of new programme demands in a certain period, with the ongoing financial constraints faced by Member States and under the current narrow revenue stream.

4 In this respect, the Secretary-General aims, through the development of the Organization's long-term financial sustainability plan, to ensure: the ability to make certain its current and future delivery of the Organization's work programme linked to the Strategic and High-level Action Plans and resulting financial requirements; and the ability to retain sufficient, robust financial capacity to be able to manage and absorb future financial risks so that significant variations of the annual/biennial percentage increases in the assessment contributions of Member States can be eliminated.

Scope of the plan

5 Mindful of the scope of the plan mandated by the Assembly in resolution A.1039(27), the Secretary-General intends to examine a range of potential budgetary growth scenarios, most of which have been previously aired in discussion, including future biennial budgets based on zero nominal growth, zero real growth, real growth or combinations thereof. Those scenarios would be considered based on assumptions on the Secretariat's staff complement remaining at either the current, temporarily reduced level (owing to the need to limit budgetary increases during the 2012-2013 biennium by keeping a number of established Secretariat posts not only vacant but also unbudgeted) or reverting to the levels of previous biennia.

6 For each such scenario, it is intended that the plan should cover the calculation of corresponding and comparative appropriation/assessment data, showing growth or reductions in programme and support volumes; and forecasts of the status and usage of the Organization's funds in helping to meet projected expenditure and reserves. In addition, the study would provide potential and consequential efficiency measures; and an assessment of the impact of such measures on the effectiveness of the Organization's delivery mechanism in handling the ever-increasing workload and challenges ahead with the limited resources available to both Member Governments and the Secretariat. In turn, the effects of those impacts will also be analysed carefully as they may dictate a need for new or reformed elements of the delivery mechanism, for example: the sub-committee structure; current work methods; the Secretariat's meetings support arrangements; the need for practicable mechanisms for priority setting among work programmes; deployment and re-deployment of essential office support functions within the Secretariat; policies for the outsourcing of services; and emerging responsibilities of the Secretariat such as providing machinery to ensure implementation of the IMO audit scheme.

7 The financial sustainability plan will thus cover the Organization's Funds (which include the regular budget/General Fund, the Working Capital Fund, the Trading Fund, the Headquarters Capital Fund, the Termination Benefit Fund, the Technical Co-operation Fund and the Training and Development Fund) as well as various donor trust funds. However, the plan will not include a financial sustainability analysis of the World Maritime University and the IMO International Maritime Law Institute because their funding and budget structures are much different from the Organization's and, in addition, their budgets are not approved by the IMO governing bodies (Council and Assembly).

8 The following paragraphs describe the methodology by which the essential elements of the Secretary-General's long-term financial sustainability plan are to be developed. In so doing, account will also be taken of the outcomes of other work being carried out, as a holistic package, under the review and reform process described in document C 108/3/3, including shorter-term efficiency gains related to meeting arrangements and associated methods of work, all aimed at reducing the burden and cost of work, described in document C 108/5(e) on budget considerations for 2012 and 2013.

Major considerations in the development of the long-term financial plan

9 The long-term financial plan is to address issues impacting the Organization's financial sustainability. It may be used to identify future financial challenges and opportunities through financial forecasting and analysis, and then, based on that information, to devise strategies to achieve financial sustainability. The process of the development of the plan has begun by reviewing and analysing the past trend of cost and funding patterns (i.e. income, expenditure and reserves) of the Organization's work programmes, together with the changes in the associated economic indicators¹, of the United Kingdom economy, over the past 22-year (11 biennia) historic period from 1990 to 2011.

10 The long-term financial plan involves greater uncertainty than anything short-term, because it requires a shift away from the short-term perspective associated with annual budgeting, towards a 10-year perspective not normally associated with the Organization's financial management and, accordingly, the relevant parameters are not easily predictable in the long term. Thus, while planning for the long term is necessary, the plan must be flexible to account for the uncertainty and challenges inherent to it. Revenue sources and expenditures that are not controllable by the Organization and which are prone to significant variation (such as currency gains/losses due to exchange rate variations) will need to be carefully examined as major fluctuations in these will result in significant variations in long-term assessments.

11 In this respect, the next aspect of the plan's development involves a financial forecast of the Organization covering a 10-year (5 biennia) period from 2012 to 2021 with the emphasis being placed on service delivery under various parameters/scenarios, which do not simply project the status quo but, rather, take into account a range of possible futures confronting the Organization. At the same time, assessments of the key financing challenges facing the programme and its delivery will be undertaken; some critical issues which have, or are expected to have, an impact on the financial condition of the Organization over future biennia will be identified; and risk factors, in particular, any prospective funding gaps, will be analysed. It should be noted that the financial forecast and plan will be focused on the cash basis in general but the issue of funding the long-term liability associated with post-employment benefits will be addressed in compliance with the International Public Sector Accounting Standards (IPSAS).

¹ These include inflation and income data and changes of the pound sterling value against the United States dollar.

12 Based on the assessment of challenges, identified issues and analysed risks, the Secretary-General will explore possible options and measures with specific and practical recommendations for mobilizing stable resources to support long-term programme objectives, reducing unnecessary costs, and making the flow of future funding more reliable. The options, measures and recommendations will be presented to the Council for direction on implementation of the plan. The plan will not only cover the longer-term cost-saving and efficiency measures but also reflect the financial implications of the outcomes of the Secretary-General's review and reform process, which include, among others, prospective changes and new arrangements in the meetings' delivery mechanism; technical co-operation activities; investment in information technology and communication; and human resource management.

13 The financial plan is expected to bring a long-term perspective to resource allocation that is necessary for setting realistic boundaries on what the Organization can accomplish and to help direct resources to the highest priority activities. A long-term perspective integrates strategic planning and budgeting, enabling the Organization to forecast, envisage and actively communicate challenges and opportunities before they arise. In this regard, the final phase of the plan will include a modelling exercise to assess financial affordability levels and funding requirements in order to meet service delivery needs and commitments under the draft updated Strategic and High-level Action Plans and consequent planned outputs, which will lead eventually to the budget proposal for the 2014-2015 biennium. The current results-based budgeting (RBB) structure will be reviewed to see how the requirements of the RBB and those of budgetary review and decision-making might be aligned under parameters to be established for long-term resource requirements, which match at least the time frame of the Strategic Plan, to allow for more effective long-term planning. In addition, as there are many competing demands for limited financial resources, the Secretary-General recognizes the need for an organization-wide priority setting methodology and practical mechanisms that enable priority setting among work programmes and planned outputs and the effective allocation of resources. Key principles and methodologies for priority setting will be developed alongside the long-term financial sustainability plan.

Summary of methodology and time frame

14 In summary, the process of long-term financial sustainability planning will incorporate: the review and analysis of the past trend of cost and funding patterns along with associated economic indicators; the forecast of the financial status for the next five biennia under various parameters/scenarios whilst identifying financial challenges, issues and risks; an exploration and devising of possible options and measures for closing any funding gaps and securing reliable funding; and a modelling exercise of budgetary implications for the immediate 2014-2015 biennium under new methodologies of priority setting for high-level actions and planned outputs.

15 In addition, the Secretary-General will carry out his study on the need for improvements of the delivery mechanism with a view to providing his proposals for changes to the current mechanism covering such fields as sub-committee structure, work methods, Secretariat's meeting support arrangements, priority setting mechanisms and policies for the outsourcing of services and employment of seconded officers, among other topics.

16 To provide sufficient time for preparation of the budget for the next biennium, the Secretary-General's draft long-term financial sustainability plan is to be presented to C 109 for its consideration and endorsement. Any further guidance and request from C 109 will be reflected in the revised draft long-term financial sustainability plan for submission to C 110. The Secretary-General also intends to submit his draft budget proposals for the 2014-2015 biennium to C 110 for consideration. Following the discussion and decisions made at C 110,

the Secretary-General will, as appropriate, finalize his budget proposals for the 2014-2015 biennium for submission to the Council at its twenty-seventh extraordinary session. C/ES.27 will forward, after consideration, the budget proposals and, if necessary, the revised financial sustainability plan and its recommendations to the twenty-eighth session of the Assembly for its consideration and approval.

Action requested of the Council

17 The Council is invited to note the information provided and comment as it may deem necessary.
