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110th session
Agenda item 6

C 110/6
16 May 2013
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RESULTS-BASED BUDGET: OUTLINE OF BUDGETARY IMPLICATIONS FOR 2014-2015

Note by the Secretary-General

SUMMARY

Executive summary:	This document sets out the Secretary-General's proposed budget outline for the 2014-2015 biennium prepared on the basis of transparent resource allocation and his continued review and reform process. The regular budget is proposed on the basis of Mixed Zero Growth targets, namely, Zero Nominal Growth for 2014 and Zero Real Growth of 2.9% for 2015. For other IMO budgetary Funds, the proposals are set at below Zero Nominal Growth for both years of the next biennium, that is, a 2% cut for 2014 and a 0.2% cut for 2015. Overall, the resource requirement for the next biennium under all IMO Funds (regular budget plus other IMO Funds) is proposed to be set at £90.07m, representing a biennial increase of 1.3% (£1.19m), reflecting a cut of 0.6% for 2014 and an increase of 2% for 2015. The assessment on Member States to finance the estimated regular budget resources is calculated, taking into account offsetting income projections, at £61.15m, representing a 0.2% cut for 2014 and an increase of 3% for 2015, which could be lowered subject to the Council's consideration of some options proposed by the Secretary-General.
Strategic direction:	4
High-level action:	4.0.1
Planned output:	4.0.1.2 and 4.0.1.3
Action to be taken:	Paragraph 63
Related documents:	C 109/4(e), C 109/INF.2; C 110/3, C 110/4(b), C 110/4(e); TC 63/4(a) and resolution A.1039(27)

I. INTRODUCTION

NEW BUDGETING PROCEDURE

1 It will be recalled that, at its 105th session in November 2010, the Council considered document C 105/3(a) concerning the alignment of the Organization's planning and budgeting cycles. In approving Option B presented therein, setting out an overlapping framework for implementation as from the 2012-2013 biennium, the Council approved the consequential amendments to the Organization's Financial Regulations, which were endorsed by the Assembly in resolution A.1042(27) in December 2011, as follows:

> REGULATION 3.4 The Secretary-General shall submit, in the second year of the biennium, an outline of the budgetary implications of the projected High-level Action Plan for the following biennium to the regular session of the Council prior to the regular session of the Assembly.
>
> REGULATION 3.5 The Secretary-General shall transmit the proposed budget for the following biennium to all Member States, not later than one month prior to the opening of the regular session of the Assembly in accordance with the Rules of Procedure of the Assembly. The proposed budget shall be submitted to the Assembly by the Council, together with the comments and recommendations of the Council thereon, following its extraordinary session prior to the regular session of the Assembly.

2 Under the adopted Option B (Overlapping framework), the planning and budgeting procedures are as follows:

.1 development by the Secretary-General of the draft Strategic Plan (SP), High-level Action Plan (HLAP) and the results-based budget (RBB) between March and September of Year 2, based initially on the draft planned outputs (POs) submitted to the Council and committees for approval;

.2 adjustment of the three drafts, as necessary, on the basis of the planned outputs actually finalized by the Council and committees during the period April to July of Year 2 (hence the overlap);

.3 the Council to meet in July of Year 2 (instead of June, as was the previous case) at which time it could consider, based on the progress made up to that time by the Secretary-General in developing the three drafts, any new trends, developments and challenges facing the Organization; an indication of any significant changes to IMO's strategic directions that may be required; and an outline budgetary projection for the next biennium;

.4 finalization of the three drafts by the Secretary-General by September of Year 2, taking into account any direction and guidance provided by the Council as a result of the foregoing;

.5 examination of all three drafts by the Council's Working Group on the Organization's Strategic Plan (CWGSP) in September/October of Year 2 and their subsequent transmission to the Council, with the Group's comments and recommendations; and

.6 review of all three CWGSP drafts by the Council at its extraordinary session immediately prior to the Assembly (December of Year 2), with subsequent adjustments by the Secretary-General as may be required, and final adoption by the Assembly of three corresponding resolutions, in December of Year 2.

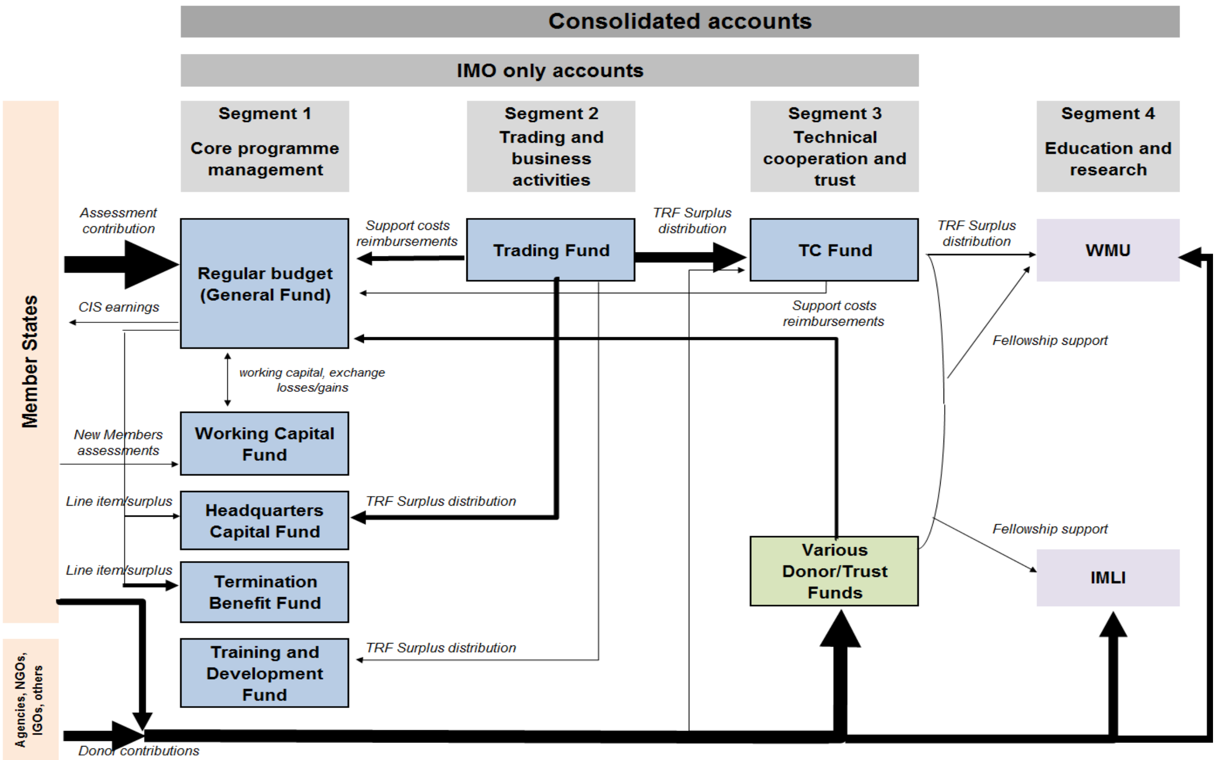
3 In line with the above sequence, this document sets out the Secretary-General's budgetary outlines and associated proposals for the 2014-2015 biennium, which will, once approved or adjusted by the Council, form the basis of the concrete RBB proposal linked to the draft SP and HLAP, for submission to the 27th extraordinary session of the Council later this year.

OUTLINE OF THE CURRENT BUDGET/FINANCIAL STRUCTURE

4 The delivery of IMO activities is currently carried out under a financial structure consisting of seven "internal" Funds and various "external" donor/trust Funds. In the financial accounts, all these funds are categorized under the following four segments:

- the Core programme management segment (which incorporates the regular budget/General Fund; the Working Capital Fund; the Headquarters Capital Fund; the Termination Benefit Fund and the Training and Development Fund);
- the Trading and other business activities segment;
- the Technical co-operation and trust funds segment (containing the Technical Co-operation Fund and all donor/trust Funds); and
- the Education and research segment (presenting the accounts of the World Maritime University (WMU) and the IMO International Maritime Law Institute (IMLI) in accordance with IPSAS).

Chart 1
Organization's Current Financial Framework



5 IMO's regular budget activities are mainly funded by assessments on its Member States and Associate Members. The annual budgets approved by the Assembly are reduced by any other anticipated income such as:

- reimbursements of administrative support costs from the Trading Fund (currently charged at 13% of annual expenditure), the Technical Co-operation Fund (support costs at 5% of expenditure) and various donor/trust Funds (5% to 13% support cost charges, depending on the type of Fund);

- available transfers from the surplus of the General Fund and/or other Funds, in particular from the Trading Fund; and

- miscellaneous income, including investment returns (interest), subletting income, etc.

6 In this respect, interest earnings from assessment contributions are returned to Member States in accordance with the Organization's Contribution Incentive Scheme (CIS). To avoid currency fluctuations affecting the budget, all US dollar-based expenditure is ring-fenced at the budgetary exchange rate and any gains or losses arising from the difference in the budgetary and actual rates are accounted for under the Working Capital Fund, as approved by resolution A.1039(27).

7 The Working Capital Fund is replenished by assessments on new Members of the Organization (i.e. only the part assessed on Members on 1 January 1976), and by the above-mentioned currency exchange gains.

8 The funding sources of the Headquarters Capital Fund are currently threefold: a line item reflected in the regular budget for replenishment; an allocation (currently 10%) of the annual cash surplus of the Trading Fund as stipulated in resolution A.1039(27); and interest accrued on the financial assets of the Fund. There used to be an occasional transfer into the Headquarters Capital Fund from the cash surplus of the General Fund.

9 The Termination Benefit Fund is currently funded by a regular budget line item for replenishment and interest accrued under the Fund. There used to be an allocation (previously 8.5%) of the annual cash surplus of the then Printing Fund, but this ceased when the Printing Fund was expanded to become the Trading Fund.

10 The funding of the Training and Development Fund is currently made up of an allocation (1.5%) of the annual cash surplus of the Trading Fund, as stipulated in resolution A.1039(27); and interest accrued under the Fund.

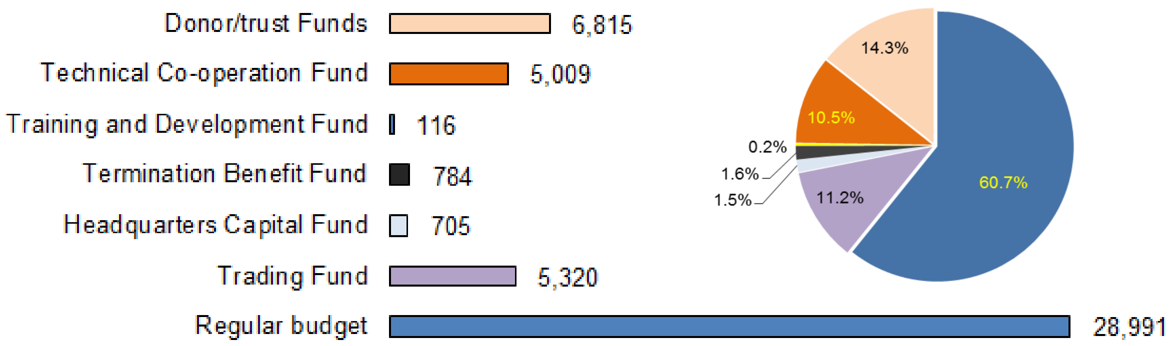
11 The Trading Fund is a self-financing entity, the expenditure of which is offset by the income generated through the sale of the Organization's publications and the provision of catering services.

12 The Technical Co-operation Fund's resources come mostly from an allocation (currently 80%) of the annual cash surplus of the Trading Fund, as stipulated in resolution A.1039(27), as well as interest accrued under the Fund. Occasionally, contributions from Member States are added, in particular donations of their earnings under the CIS. To support the financing of WMU, the Assembly has also decided, in resolution A.1039(27), to distribute to the University 5 per cent of the 80 per cent of the Trading Fund cash surplus allocated to the Technical Co-operation Fund. This is an interim measure, designed to support the University through a recent period of financial difficulty, until the Assembly decides otherwise.

13 Various donor/trust Funds have been established to manage monies allocated to the activities of the Integrated Technical Co-operation Programme (ITCP) and other organizational programmes. Such contributions are made by Member States, governmental agencies, intergovernmental bodies and other public, private and non-governmental sources. Support cost income, earned through third party agreements with donors on the technical co-operation activities, is also used to fund activities provided in the regular budget.

14 Chart 2 below shows a composition of the aforementioned Funds in terms of actual expenditure incurred in 2012. Approximately 60% of total IMO expenditure (£47.74m) was incurred under the regular budget (60.7%, £28.99m), while the Organization's ITCP and other extra-budgetary programmes accounted for a quarter (24.8%, £11.82m). Expenditure under the Trading Fund amounted to £5.32m, representing 11.2% of the total and the remaining three Funds (Headquarters Capital, Termination Benefit and Training and Development Funds) constituted 3.3%, with total expenditure amounting to £1.61m.

Chart 2
Scale and composition of expenditure by Funds in 2012 (expressed in £'000)

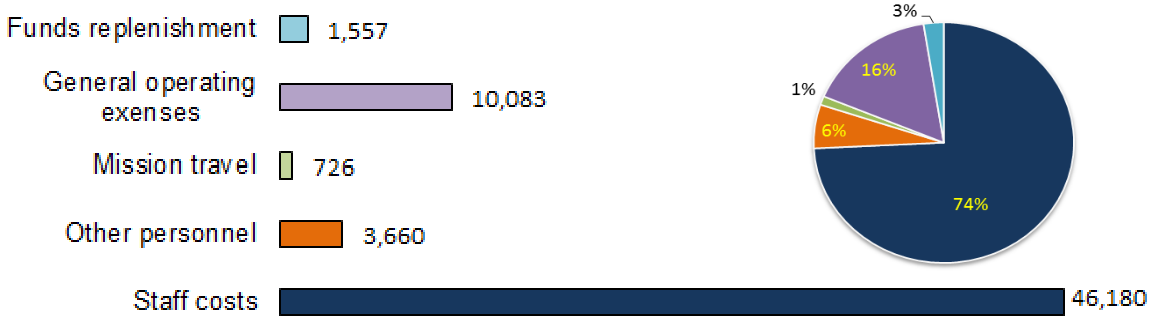


II. OUTLINE OF THE REGULAR BUDGET

WHAT IS THE ORGANIZATION'S REGULAR BUDGET FOR?

15 The major objects of expenditure for the delivery of the Organization's work programme are: staff costs; other personnel (including meetings personnel); official mission travel; general operating expenses (GOE); and the replenishment of established Funds. Of those components, the most significant is staff costs, which account for some 74% (£46.2m) of the approved budget for the 2012-2013 biennium (i.e. £62.2m), followed by general operating expenses (16%, £10.1m), other personnel costs (6%, £3.7m), Funds' replenishment (3%, 1.6m) and mission travel (1%, £0.7m).

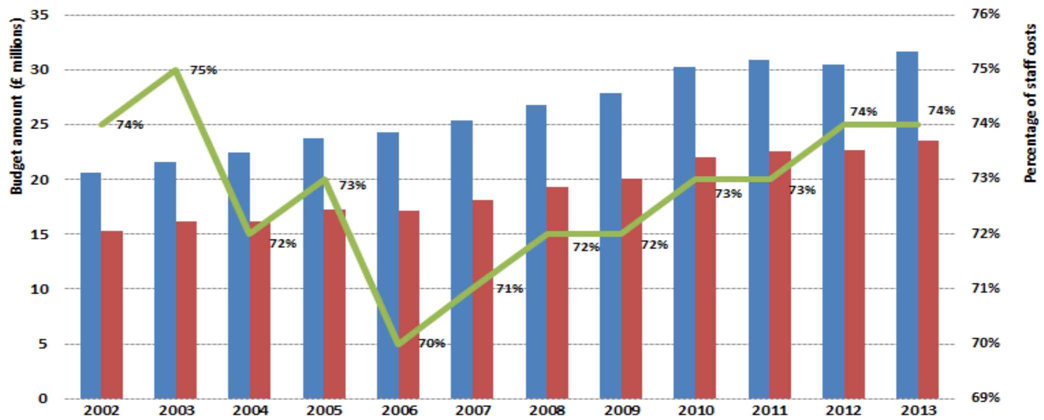
Chart 3
Major objects of expenditure in the regular budget for the 2012-2013 biennium



Review of growth in staff costs

16 The cost of staff comprises salaries, benefits and allowances and is, by its very nature, a fixed cost in the short- to medium-term. In this respect, the regular budget has grown, on average, some 4.4% per annum from 2002 to 2013, whilst the annual growth in the staff cost budget has been, on average, 4.8% during the same period. The portion of the staff cost budget within the total regular budget has fluctuated between 70% and 75%, with a peak of 75% in 2003, a drop to 70% in 2006, followed by steady growth since then, to 74% in this biennium.

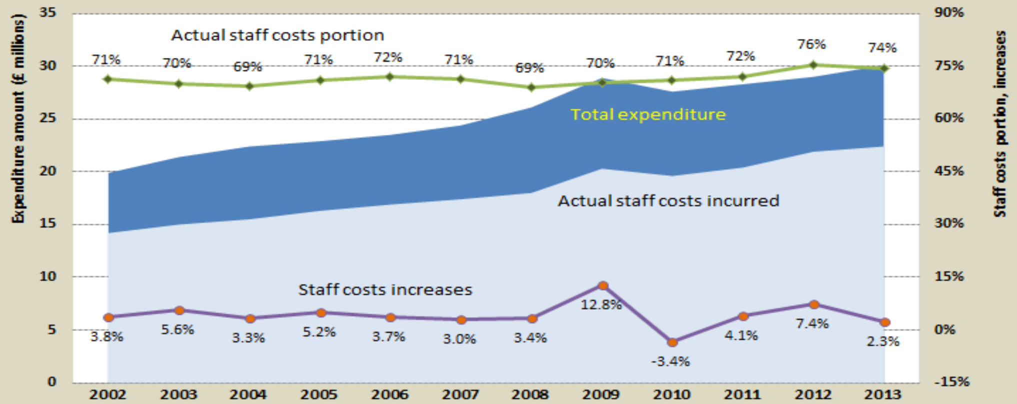
Chart 4
Changes in the staff cost budget portion in the regular budget (2002-2013)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total budget (£'m)	20.6	21.6	22.5	23.7	24.3	25.4	26.8	27.9	30.3	30.9	30.5	31.7
Staff costs budget (£'m)	15.3	16.2	16.2	17.2	17.1	18.1	19.3	20.1	22.0	22.6	22.7	23.5
Staff costs portion (%)	74%	75%	72%	73%	70%	71%	72%	72%	73%	73%	74%	74%

17 It may be observed from chart 5 below that actual staff expenditure reached £21.9m in 2012, representing an increase of 54% (£7.7m) compared with the sum of £14.2m incurred in 2002, while total regular budget expenditure increased by 46% (£9.1m) over the corresponding period, resulting in the portion of staff costs in the total expenditure to grow from 71% in 2002 to 76% in 2012. The annual change in actual staff costs varied from a drop of 3.4% (in 2010) to a surge of 12.8% (in 2009) but, overall, they have seen an average rise of 4.5% every year over the period 2002-2012, while the annual growth in total regular budget expenditure averaged 3.9% for the same period.

Chart 5
Changes in actual staff costs in the regular budget expenditure (2002-2013)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total expenditure(£'m)	19.9	21.4	22.4	22.9	23.5	24.4	26.1	28.9	27.6	28.3	29.0	30.1
Staff costs(£'m)	14.2	15.0	15.5	16.3	16.9	17.4	18.0	20.3	19.6	20.4	21.9	22.4
Actual staff costs portion (%)	71%	70%	69%	71%	72%	71%	69%	70%	71%	72%	76%	74%
Staff costs increases (%)	3.8%	5.6%	3.3%	5.2%	3.7%	3.0%	3.4%	12.8%	-3.4%	4.1%	7.4%	2.3%

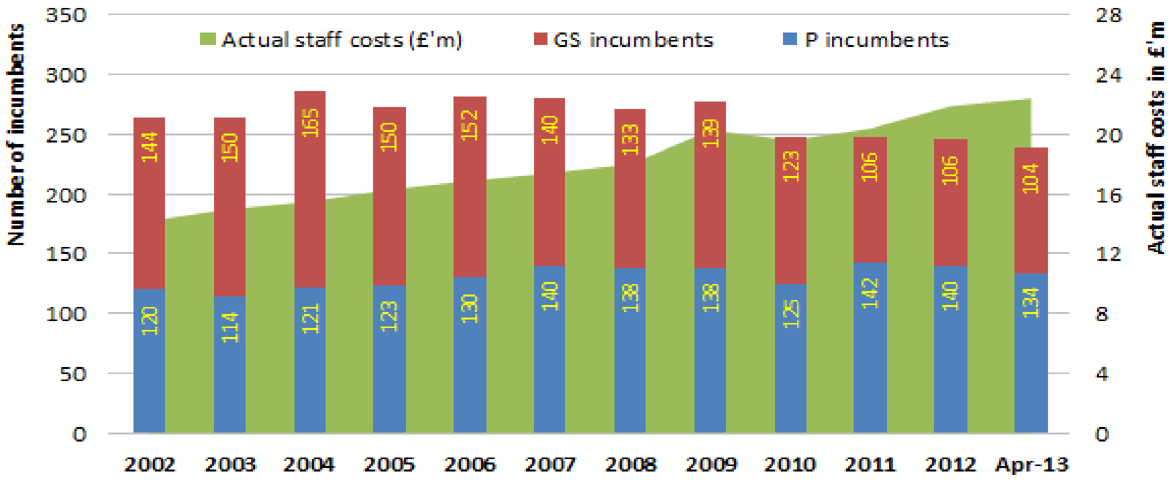
* Figures for 2013 are on the basis of projection as shown in document C 110/4(e)

18 A 2009 peak in actual staff costs was due to a change in the London cost-of-living adjustment (post adjustment) by the International Civil Service Commission (ICSC), to make up for the then rapid depreciation of the value of the sterling pound against the United States (US) dollar[1]. Conversely, the drop in 2010 was due partly to the introduction of the Trading Fund, which began bearing the cost of some staff members, and partly to the management's decision to freeze recruitment to vacant posts in order to curb expenditure following the significant cost increase of 2009. The comparatively high growth in actual staff costs in 2012 was due to the knock-on impact of the ICSC's decision to change the London post adjustment in December 2011, to reflect the then prevailing higher inflation rates in the United Kingdom (UK) economy. This change was over and above the estimated increase projected in the budget for the current biennium, leading the Secretary-General to absorb the increase by not filling most vacant posts for a longer period of time than expected (see paragraph 29 below).

19 As may be seen from chart 6 below, the number of current staff incumbents has been reduced by more than 10% to 238, as at April 2013, comprising 134 staff in the Professional and higher categories (P) and 104 staff in the General Service category (GS). This compares to a total of 277 (138 P and 139 GS) in 2009. This reduction, however, does not translate into an equivalent drop in actual staff costs and this is due to the application of annual statutory increments (increases in the pay scale step of 2% on average for P staff and 3.8% for GS staff), plus any change in the base salary pay scales and cost-of-living adjustments determined by the ICSC. Actual staff costs have thus grown in recent years, as shown in chart 6 below, even though the number of active incumbents has been reduced.

1 The official United Nations exchange rate in January 2008 was US$1.99 per pound but the sterling value dropped by 28% to US$1.44 in March 2009 when the cost-of-living adjustment was made.

Chart 6
Changes in the number of active staff by category and actual staff costs



20 The base salary scale for P staff, who are recruited internationally, is uniformly applicable for all United Nations officials regardless of their duty stations and it is reviewed annually by the ICSC, for approval by the United Nations General Assembly, on the basis of changes in the salaries paid to comparable staff in the United States federal civil service in the previous year. On the other hand, GS staff members are recruited locally and thus their salaries and allowances are established in accordance with the best prevailing conditions found locally for similar work. The salaries, allowances and conditions of employment of locally recruited GS staff are established through periodic, comprehensive local salary surveys carried out among employers at each duty station. The salary survey methodology developed by ICSC and approved by the United Nations General Assembly has recently been reviewed in terms of the survey frequency (surveys are currently conducted every four to five years[2] and are set to be conducted, in future, every eight to 10 years) and selection of the best comparable employers.

21 The overall steady growth in staff costs, however, has mostly been due to a rise in the costs of P staff. Of the actual total staff costs in 2012 of £21.9m, 79% (£17.3m) was for P staff and 21% (£4.6m) was for GS staff, compared to the 2002 ratio of 65% (£9.3m) and 35% (£4.9m), respectively. The costs for P staff have grown 86% while those for GS staff have decreased by 6% over the same period, which not only reflects a change in the composition of the number of active staff in the two categories (12% increase in P and 26% decrease in GS over the period of 2002-2012) but also the difference in annual pay rises between the two categories (average increases of 4.8% for P and 2.6% for GS in the period of 2002-2012). The drop in the number of active GS staff has been driven by two factors: a number of GS posts were converted to P posts through reclassification or personal promotion; and many backstopping GS posts were kept vacant year-on-year to cut costs. To some extent, this trend is a positive one – typically, P staff are those involved directly in technical/legal/policy delivery functions, while GS staff tend to constitute support and back office teams, and the reduction in GS numbers indicates that the Organization has managed, over time, to operate more efficiently in terms of administrative and support functions.

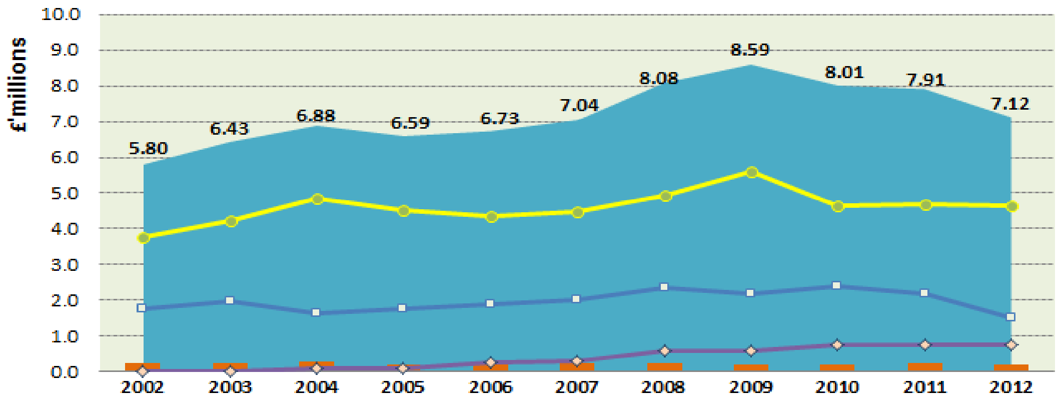
2 In between these surveys, salary scales are adjusted every 12 months on the basis of movement in the UK economic indices namely the Retail Price and Average Earnings Indices. The index movement is governed by a factor of up to 90% for purposes of periodic adjustments between surveys. For example, in the case of changes in 3% in inflation and 4% in earnings, interim adjustments are calculated to 3.15% (= (3%+4%)/2x90%).

Review of other budgetary items (non-staff costs)

22 Apart from expenditure on staff costs, other budgetary items in the regular budget accounted for 24% to 31% of total annual expenditure during the period 2002-2012, ranging between £5.8m to £8.59m, as may be noted from chart 7 below. These budget items include other personnel; mission travel; general operating expenses (GOE); and Funds' replenishment.

23 Other personnel costs encompass meetings' personnel, temporary assistance, consultants and GS overtime payment. They have varied between £1.53m and £2.38m, with an average of £1.97m for the period of 2002-2012. The most significant component of this object of expenditure is meetings' personnel (i.e. interpreters, external translators, précis-writers, etc.) which, in general, accounts for almost half of the total expenditure on this line item. The costs of temporary assistance averaged at 39%, while the costs for consultants and overtime payments represented 5% and 6%, respectively. Other personnel costs peaked in 2010 at £2.38m but have dropped some 36% to £1.53m in 2012, the lowest level for the period under review. This is due, in part, to efficiency measures that have brought down the external translation costs to only one third, and partly to austerity measures to limit the use of temporary assistance to a minimum.

Chart 7
Changes in other personnel costs and accumulated costs by object



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	5.80	6.43	6.88	6.59	6.73	7.04	8.08	8.59	8.01	7.91	7.12
Mission travel	0.25	0.24	0.27	0.22	0.22	0.25	0.23	0.21	0.22	0.26	0.19
Other personnel	1.77	1.98	1.65	1.77	1.91	2.01	2.33	2.20	2.38	2.18	1.53
GOE	3.78	4.21	4.86	4.50	4.35	4.48	4.94	5.60	4.64	4.69	4.64
Funds replenishment	-	-	0.10	0.10	0.25	0.30	0.58	0.58	0.77	0.78	0.76

24 In 2002, the costs of mission travel (airfares and daily subsistence allowances) amounted to £0.25m and, since then, they have been maintained more or less at that level, notwithstanding prevailing inflation over the years. The lowest outturn was in 2012 owing largely to the stringent application of policies introduced in 2004 to the effect that IMO representation in inter-agency coordination meetings or other international fora, using the regular budget, should be pursued only when necessary with the preference being for invitations to be received with costs being chargeable to sponsors. In addition, in order to make economies, as well as to achieve value for money in mission travel, rigorous efforts have been made through forward mission planning, advance reservation, use of restricted economy class tickets or teleconferencing, where appropriate.

25 General operating expenses (GOE) are grouped into four broad categories of expenditure: Headquarters premises; communications/IT/equipment; office expendables; and ancillary provisions. From the expenditure data for 2002-2012, it can be said that approximately two thirds of GOE has been used for running the Headquarters premises, which includes rent/rates/insurance (42% of the actual GOE outturn in 2012); contractual services for

security, cleaning and physical maintenance of the building (44%); and utilities such as electricity, gas and water (14%). The resources used for the Headquarters premises ranged between £2.3m and £3.3m for the period under review and the actual outturn in 2012 was £3.0m, which is comparable to the 2008 outturn, notwithstanding soaring utility bills in the United Kingdom (UK) economy and demonstrating improved market-testing, consumption and cost control. Conversely, expenditure on communications/IT maintenance/minor equipment has doubled over the period from £0.56m in 2002, to £1.12m in 2012, which is mainly attributable to an increase in investments in ICT, office automation equipment and outsourcing of some operations (SAP hosting and support maintenance). The increased use of advanced information and communications technologies and systems has, however, contributed to a significant reduction in the costs of office expendables, which have dropped 75% from a peak in 2009 of £1.18m to £0.29m in 2012. In respect of ancillary provisions, which, among others, covers shared costs of jointly-financed United Nations bodies, external audit fees and public information and outreach, the actual outturn has averaged at some £0.3m over the years, although the 2012 outturn was much lower, at £0.21m, due to austerity measures.

26 Finally, the regular budget also includes line items to provide monies that are required to cover the work programmes in other Funds of the Organization. In previous years, funds were provided to support TC activities and the Training and Development Fund, but since 2008, the line items are limited to the replenishment of resources for the Headquarters Capital Fund and the Training and Development Fund. The annual provision for the two Funds in recent years has been no more than £0.8m, even though there has been a great need for an increase to meet investment requirements, as well as the Organization's post-employment liabilities in compliance with IPSAS (see paragraph 57).

WHAT HAS BEEN DONE AND WHERE ARE WE NOW?

27 The regular budget approved for 2012 by means of resolution A.1039(27) was a cut of 1.1% on the budget for 2011, leading the Organization's management to be extremely cautious and conservative over the budget and expenditure status, and eventually leading to the achievement of approximately a 5% saving in the approved appropriation. The saving is attributable principally to a number of stringent austerity and efficiency measures which the Secretary-General introduced on his appointment, initially to offset the knock-on effect of post adjustment changes, which had resulted in an unexpected 6.2% pay rise for P staff. Determined by the ICSC in December 2011, this increase in post adjustment consequently had a significant impact on the Organization's budget for 2012, which had been approved on the basis of only a 2% projected pay rise for P staff.

28 In order to address the excess increase throughout the biennium, the Secretary-General's measures included, among others, an immediate freezing of recruitment to vacant posts; strict application of provisions in the Staff Regulations and Staff Rules relating to retirement, with extensions being granted only in exceptional cases of compelling need; establishment of the Review and Reform Steering Group and its Subgroups; and the careful monitoring of the budget and of expenditure execution throughout the year. In respect of the latter, economies were achieved in the costs of meetings' personnel, owing to the reduced use of external translation and the rescheduling of interpretation services; through reductions in maintenance costs for the Headquarters building and in communications through the shift to "PaperSmart" document production and conduct of meetings; and through increased use of internet telephony and cuts in mission travel.

29 As a result of the post adjustment rise, the actual number of filled staff work-months in 2012 was limited to 2,959, which is equivalent to 247 posts (i.e. 141 Professional and 106 General Service posts). The overall expenditure level in terms of the appropriation for staff costs, turned out to be 94%. It may therefore be seen that the Secretary-General's austerity and efficiency measures allowed the Secretariat to maintain staff costs within the

appropriation, whereas the use of the full staff complement of 298 staff, as approved under the 2012-2013 budget, would have produced a significant over-expenditure. At the same time, service delivery by the Secretariat was maintained, in spite of hardships to staff due to the need to cover vacant posts and take on new work under the Secretary-General's review and reform process, the various initiatives of which have nevertheless been motivating and morale-lifting factors in unsettling economic times. Further efforts in this direction will therefore continue to be made over the coming years under the Review and Reform process, which is intended to be a continuous organizational development.

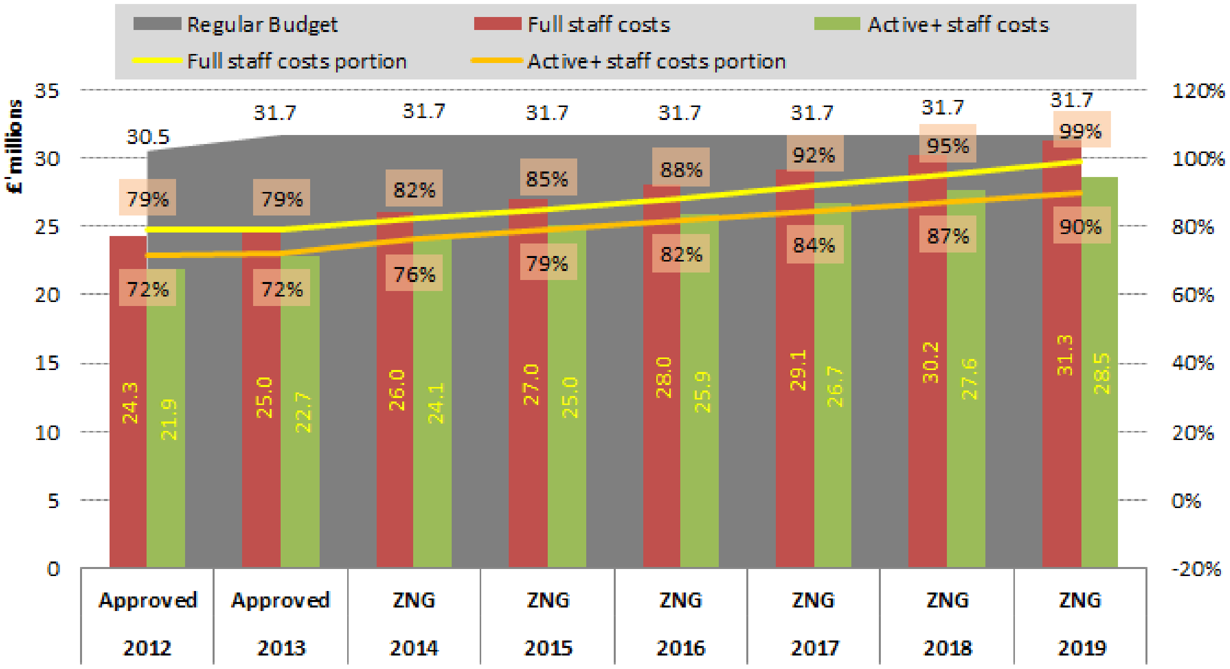
WHERE ARE WE HEADING?

Staff costs portion under Zero Nominal Growth budgets

30 As of 1 April 2013, the number of active staff in the regular budget is 238 (comprising 134 P and 104 GS) and vacant posts totalled 60 (comprising 20 P posts and 40 GS posts). If all 298 posts approved for the current biennium were to be maintained in the next biennium, the funds required to meet their full costs (except for the Deputy Secretary-General's post) are estimated at £26m for 2014 and £27m for 2015, on the assumption of: very conservative annual pay rises of 2.5% determined by the ICSC, in addition to normal statutory increments; inflation of 2.5%; and the prevailing exchange rate (May 2013) of US$1.55 per pound. The same costs would then increase to £31.3m by 2019.

31 However, even if there were no budget increase at all in future biennia (i.e. Zero Nominal Growth (ZNG) is applied on the 2013 total budget of £31.7m), the full costs of the approved staff complement of 298 would, alone, account for 82% and 85% of a ZNG budget for 2014 and 2015, respectively, as shown in chart 8 below. On that basis, the remaining balances (£5.7m for 2014 and £4.7m for 2015) are insufficient to cover the costs of the four other objects of expenditure (i.e. other personnel, mission travel, general operating expenses and Funds' replenishment), the actual outturn of which amounted to £7.1m in 2012. By 2019, the portion would increase to 99% of the ZNG scenario budget, leaving virtually no funds for other budget items.

Chart 8
Changes in the portion of future staff costs under the ZNG scenario



32 When the staffing scenario is based on the number of currently active staff, plus around half of the currently vacant posts being filled in 2013 (=active+ staff), the resulting costs are estimated at £24.1m for 2014 and £25m for 2015, accounting for 76% and 79%, respectively, of the ZNG scenario budgets. The remaining balances of £7.6m (=31.7-24.1) and £6.7m (=31.7-25) barely reach the 2012 costs of the other budget items of £7.1m. As previously shown, however, staff costs will keep increasing over the years as a result of annual statutory increments and inflation and thus, by 2019, the staff costs portion would increase to 90% of the ZNG scenario budget, with a balance of only £3.2m (=31.7-28.5) for other budget items in that year. This leads to the natural conclusion that the ZNG scenario cannot be a viable option for a small organization like IMO, where staff costs are the main component of the regular budget.

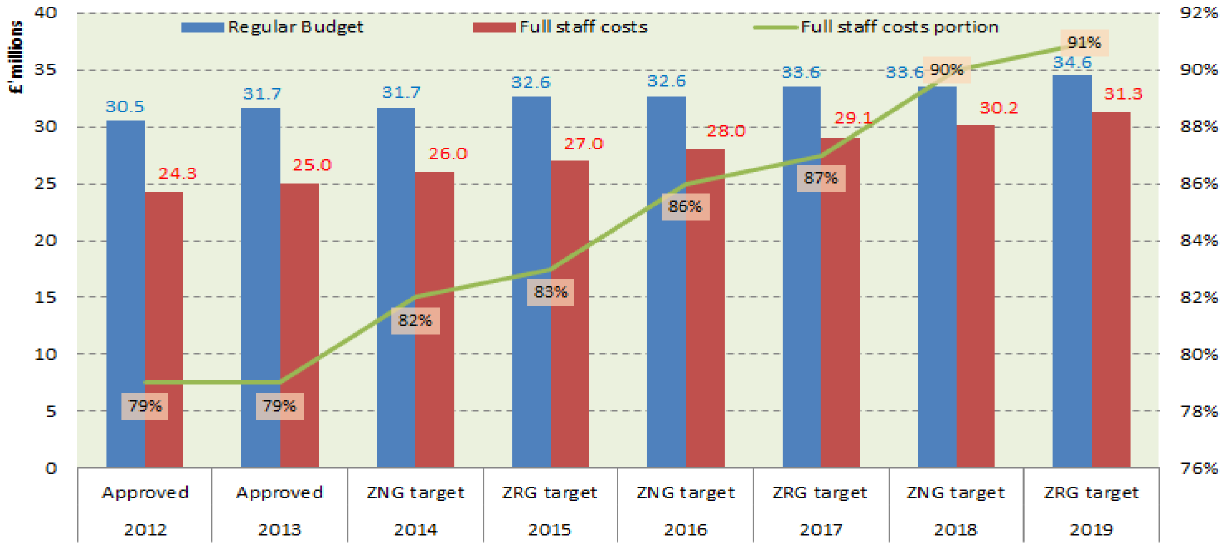
Staff costs portion under Mixed Zero Growth budgets

33 While ZNG offers no increase in the budget, the Zero Real Growth (ZRG) scenario would allow for resources to increase only in line with pay and price changes and no increase in programme volumes. Thus, any resources required to meet an expansion in the mandate would need to be delivered through the continued practice of harsh austerity measures or through redeployment of resources available from the change in priority setting. ZRG affords a degree of balance between the pressures arising as a result of the global economic situation and the risks associated with providing insufficient resources to deliver an expanding work programme.

34 As indicated in document C 109/4(e), however, regarding the development of a long-term plan for the future financial sustainability of the Organization, it is the Secretary General's intention to set, as a goal, the delivery of "Mixed Zero Growth", which aims at delivering for example, ZNG for a year/biennium followed by ZRG in the next, with a return to ZNG thereafter.

35 Chart 9 below shows that the budget for the first year of the new biennium is set at the same level as for the previous year, while the budget for the second year is set at only 2.9% above the first year's budget, to take account of pay and price changes. Under this MZG scenario, the portion of staff costs against the annual budgets would be 82% in 2014 and 83% in 2015, with the balances available for other budget items being £5.7m for 2014 and £5.6m for 2015, neither of which even reach the actual outturn shown in 2012 of £7.1m.

Chart 9
Resource requirements for the costs of full staff complement and its portion in MZG



WHAT WOULD BE THE OPTIONS?

36 As chart 5 above (page 6) shows, the actual staff costs portion in the regular budget outturn has ranged between 69% and 76% during the period of 2002-2012 and, on average, it was 71%. Taking into account that the 2012 staff costs outturn represented 76% of total expenditure, the Secretary-General has set a 75% staff cost target (or upper limit), within an overall MZG scenario of less than 3% growth over the next biennium (i.e. ZNG in the first year and less than 3% ZRG in the second). For the longer-term period (i.e. the 2016-2017 biennium and beyond), however, it will be extremely difficult to achieve the 75% target under a continued 3% MZG scenario. To achieve that target would require a 5% MZG scenario, in addition to further efforts at rationalization by, for example, addressing future vacancies on the retirement of staff in senior posts (e.g. abolition, downgrading, transfer to areas of key requirements).

37 To deliver the MZG goal with a cap in the staff costs portion of 75%, it is essential to fully implement the structural efficiency measures and strategies emerging from the Secretary-General's review and reform programme. In this respect, as detailed in document C 110/3/1, the proposed Sub-Committee structure reform must be progressed; work methods and reporting practices must be further reviewed to increase efficiency; and a priority-setting mechanism should be established and implemented. The review and reform should be embraced not as a one-off exercise in cost-cutting, but as an on-going process, a way of life for the Organization for the foreseeable future. Such changes will require sacrifices on the part of the Secretariat, and also changes in the meeting delivery mechanism which will necessarily have an impact on the services received by Member States, but this is a necessary consequence of delivering an expanded mandate with limited resources over the long term.

38 In respect of efforts at the rationalization of work and office arrangements, adequate resources will need to be deployed to meet the new challenges arising from the implementation of the mandatory audit scheme, goal-based standards (GBS) and more effective provision of technical co-operation. However, it is envisaged that addressing these measures in future may only be feasible when vacancies become available as a result of the retirement/separation of staff members. Taking that opportunity, therefore, the Secretary-General intends to undertake a thorough functional review of the Secretariat, its structure and staff complement and, at each retirement/separation, an analysis of the functions and priority of the vacated post, to determine: whether the post is still required to be filled; whether the post can be downgraded; whether the post can be abolished and or transferred to other fields where new work programmes require associated resource assignments.

39 The Council may wish to note that, as an exercise of the review and reform process, and with a view to assessing the feasibility of applying the MZG target for the next biennium, an initial review has been undertaken by Directors of their own divisional structure and individual post allocations, taking into account current and expected vacancies as well as future staff requirements and focusing on:

- Expected changes from the next biennium in respect of the meetings delivery mechanism (sub-committee structure and simplified reporting);
- Refining of administrative arrangements through designing shared services, pooling/centralized arrangements of similar functions and shifting from back to front line support;
- Regrading, re-defining and redeploying of established posts through assessment of actual workload and thereby merging/combining/rearranging relevant functions;
- Abolishing/merging of small sections/units to avoid silo structures and expand flexibilities in utilizing the resources on a broader base;

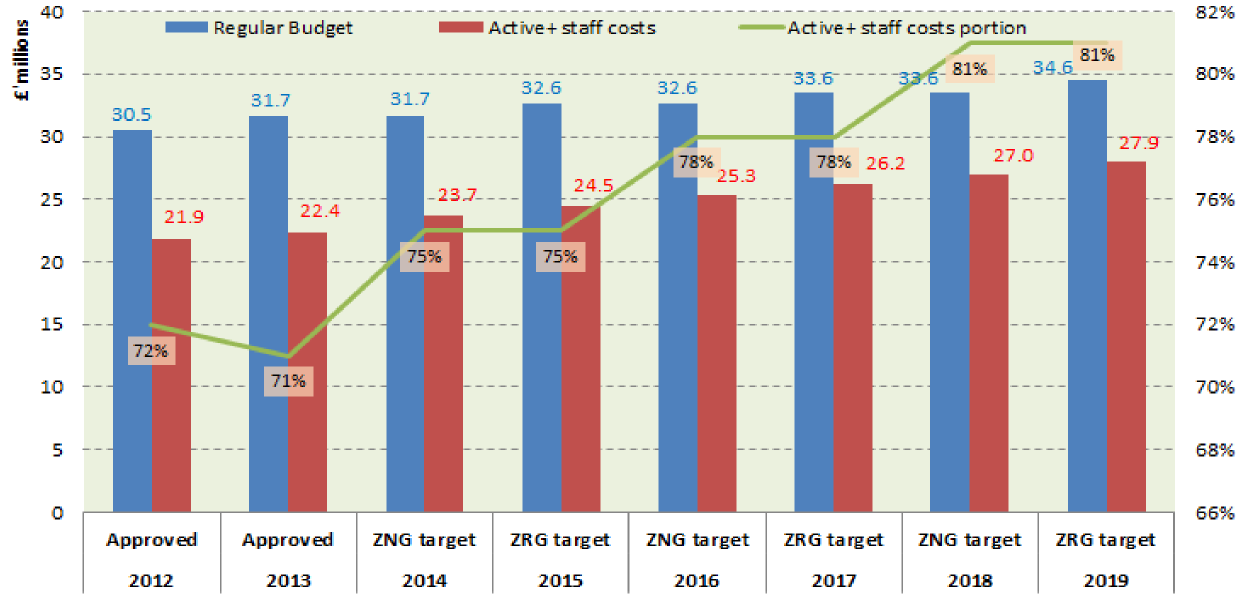
- Identifying of posts to abolish; be redundant ; or with a low-priority;
- Exploring of flexible and multi-disciplinary task teams;
- Increases in use of temporary assistance/consultancy and availability of APOs/ secondees/interns; and
- Assessment of the possibility, scope and timing of outsourcing.

40 The Secretary-General and his senior management have carefully and examined the outcome of this initial review, which took account of the number of Secretariat work-months (and equivalent number of posts) that had been purposefully left unbudgeted in order to reduce the overall budget for this biennium; the number of further work-months (and equivalent number of posts) that, additionally, have been kept vacant during this biennium in order to ensure implementation of Secretary-General's austerity and efficiency measures; the impact of those consequently unavailable work-months on the delivery of planned work; and the work-months required from now until the end of the 2014-2015 biennium viewed against current and future vacancies. As a result of the analysis, the Secretary-General and his senior management identified the need to fill a number of key posts, together with the opportunity to abolish other posts. Consequently, the Secretary-General has decided to initiate the overdue recruitment to 29 vacant posts in the regular budget as early as possible in 2013, and also to abolish 33 regular budget posts (comprising 6 P and 27 GS posts), as of the 2014-2015 biennium. In this context, the posts to be filled involve functions associated with the Organization's core programme of work, for which specific competences and expertise are required within the Secretariat at all times, and the continued absence of which have an incrementally negative impact on the quality and standard of the related work. While a high vacancy rate among such posts has indeed helped to deliver a short-term austerity programme, it is not sustainable to rely on other incumbent staff members to permanently take on additional workloads, as both quality and productivity are then potentially jeopardized, and this has been the case in some key areas such as marine technology, environmental protection, translation, technical assistance delivery, internal oversight, knowledge management and SAP reporting. Turning to the posts to be abolished, these represent 11% of the regular budget staff complement of 298 approved for the current biennium under resolution A.1039(27) and, where required, their functions can be performed using some of the options highlighted in the preceding paragraph. It may be noted that, as a corollary to the Secretary-General's proposal, a further number of 33 posts has been identified for reclassification, most of which will entail downgrading by one or two grades, as early as from this year. And, finally, the proposal also includes the abolition of eight GS posts under the Trading Fund, representing 22% of the 36 posts approved for the Organization's commercial activities during the current biennium. The restructuring of the Organization and rationalization of the Secretariat will continue through to the forthcoming biennia.

41 With the staffing scenario in the regular budget being based on a reduction in the staff complement to 265 posts, together with the planned reclassification of 33 posts, staff costs are estimated at £23.7m for 2014 and £24.5m for 2015. This represents 75% of the MZG scenario budget, which itself entails ZNG for 2014 followed by a 2.9% growth in 2015. The balances remaining would stand at £8m (=31.7-23.7) and £8.1m (=32.6-24.5) for 2014 and 2015, respectively, to cover other objects of expenditure under the regular budget.

42 The staff costs portion will nevertheless grow to 78% in the following biennium and to 81% thereafter, as can be seen in chart 10 below. If, however, the MZG scenario were to consider a 5% increase in every second year of a biennium, instead of the 2.9% envisaged above, then the staff costs' portion of the total budget would not rise above 77% for all coming years up to and including 2019.

Chart 10
Forecast of staff costs and their portion under the reduced complement and MZG



WHAT WOULD BE THE CONSEQUENTIAL ESTIMATES OF BUDGET AND ASSESSMENT?

Proposed budgets for the 2014-2015 biennium

43 The proposed cut of 33 posts in the regular budget is estimated to result in a reduction in staff costs of £3.1m for the next biennium, and the planned reclassification of another 33 posts will further reduce staff costs by £1.3m for the biennium. Table 1 below shows the outline of the proposed budget allocation by object of expenditure for each year of the next biennium, as compared with the budgets approved for the current biennium. The allocation for staff costs for 2014 and 2015 is based on the proposals indicated in the previous section and in chart 10 above. The staff cost portion is set at 75% of both the ZNG budget for 2014 (the same amount as in 2013 of £31.686k) and the ZRG budget for 2015 (a 2.9% increase on the 2014 budget of £31,686k). The remaining 25% (£7,956k for 2014 and £8,100k for 2015) is allocated among the other four budget items, as shown in the table below, taking into account the actual outturn in 2012 and the forecast outturn in 2013 provided in document C 110/4(e).

Table 1
Proposed regular budget outline for the 2014-2015 biennium

Regular Budget	Approved budget (£'000)			MZG target estimates (£'000)			Biennial
	2012	2013	Total	2014 (ZNG)	2015 (ZRG)	Total	Changes
Staff costs	22,700	23,480	**46,180**	23,730	24,518	**48,248**	**4.5%**
Other personnel	1,727	1,933	**3,660**	1,922	1,922	**3,844**	**5.0%**
Mission travel	351	375	**726**	300	308	**608**	**-16.3%**
General operating exenses	4,985	5,098	**10,083**	4,966	5,090	**10,056**	**-0.3%**
Funds replenishment	757	800	**1,557**	768	780	**1,548**	**-0.6%**
Total	**30,520**	**31,686**	**62,206**	**31,686**	**32,618**	**64,304**	**3.4%**
Year-on-year changes	**-1.1%**	**3.8%**	**1.7%**	**0.0%**	**2.9%**	**3.4%**	
Staff costs portion	74%	74%	**74%**	75%	75%	**75%**	

44 For 2014, due to limited resources under the ZNG proposal for that year, all budget items other than staff costs are set at below their corresponding budgets for 2013, ranging from -1% (other personnel) to -20% (mission travel). Even for the proposed ZRG period of 2015, corresponding amounts are only 1.8% (£144k) above the 2014 figures for those items, and thus still remain below the respective budgets for 2013. In biennial terms, the proposed budget for 2014-2015 (£64.3m) represents an increase of 3.4% (£2.1m) compared with the approved budget for the current biennium of £62.2m. The biennial total for "other personnel", while composed of annual budgets that are less than the 2013 budget, represents a biennial increase of 5%, which is due to the comparatively low budget for 2012. More importantly, however, it will be necessary to make additional provision for temporary assistance, consultants and overtime to make up for the significant voids arising from the abolition of the 33 regular budget posts.

45 It should be noted that the outline of the proposed budget is based on the assumption of movement in various parameters affecting the pay and price changes: 2.5% inflation; 2.5% pay rises in addition to statutory increments and operational United Nations exchange rates for May 2013 (US$1.55 per pound). If the actual economic indices move unfavourably against the assumed levels in the next biennium, there would be a risk for the Organization to face a shortfall in the budget management unless any cost increase from external and uncontrollable factors is absorbed within the approved budget. It is, however, the Secretary-General's view that there will be no more buffer at all in the proposed budget to absorb any unexpected cost increase because of the cuts in staff posts for the next biennium, which used to provide headroom to cope flexibly with any unpredicted costs through vacancy management .

46 With regard to the continued restructuring of the Organization and rationalization of the Secretariat as stated in paragraphs 38 to 40, there is a need to undertake a thorough functional review of the Secretariat and it would be desirable for such a diagnosis of the Secretariat to be carried out by an independent third party or a consulting group during the next biennium. The exercise is estimated to cost £0.5m and in order to maintain the next biennium's budget within the MZG parameters, the Secretary-General, while welcoming any donation from Member States for this work, is of the view that funding can be made available from a one-off clearance of all residual monies in dormant funds established for various projects and programmes which were completed several years ago (some have been dormant for more than 10 years), the balance of which totalled some US$1m, as at 31 December 2012. Once the Council endorses the use of those dormant funds, the funds will be transferred, with earmarks for the functional review, to the trust fund established for research and development.

Need for a new mechanism to cope with pay rises

47 With respect to the risks identified in paragraph 45, if any significant pay rise is made by the ICSC beyond the 2.5% assumption, through the established methodology of post adjustment changes for Professional staff and interim adjustments to the salaries for GS staff, the expenditure for staff costs would exceed the allocated budget. The Secretary-General is of the view that the matter should be discussed by the Council in order to establish a new mechanism under which the Council would be directly involved in endorsing supplementary funding for any future ICSC-mandated increase in pay that is over and above corresponding increases projected in the Organization's budget. He is also of the view that, in order for IMO to stay in line with the United Nations common system, any ICSC-mandated increase beyond the budgetary assumption of 2.5% should be paid immediately without delay. However, to cover such unforeseen and unbudgeted cost increases, the Secretary-General proposes that a special contingency account be set up under the General Fund for this purpose, rather than reverting to Member States for additional assessment contributions. Depending on the scale of

the additional staff cost, the excess might be absorbed within approved appropriations, if the amount of the excess would be small enough to be absorbed, through further efficiency measures where feasible, or might have to be funded by the special contingency account (e.g. an increase of 3% or more, instead of 2.5%). If funded by the special account, the additional staff cost would, in effect, constitute a supplementary budget, which would have to be presented to, and endorsed by, the Council in accordance with regulation 3.8 of the Organization's Financial Regulations. This supplementary budget would be submitted to the Council at its first session following the related ICSC decision, for endorsement.

48 It is also proposed that the initial resources of this contingency account be built up by setting aside for that purpose the budgetary surpluses arising from the regular budget for 2012 (£1.5m) and 2013 (forecast at £1.5m). Any similar budgetary surplus in future years should also be set aside for the special account. Another option would be to explore the feasibility of allocating a portion of the Trading Fund surplus, through the review and revision of its current surplus distribution formula (see paragraph 58 below).

Assessment levels for the next biennium

49 Member States' assessments for the next biennium are not only dependent on the proposed budget shown in table 1 above, but are also affected by the extent of any offsetting income, including reimbursements, and the scope for optional transfers to the regular budget from the reserves of any other Funds. As may be seen in table 2 below, the overall effect of the projected offsetting income is a reduction of 0.2% in assessment for 2014 and an increase of 3% in 2015. However, the related assessment level does not preclude any proposal that the Council may wish to make with respect to the alternative use of the resources available in the other Funds of the Organization.

Table 2
Offsetting income and assessment for the 2014-2015 biennium

Regular Budget	Approved(£'000)		MZG proposal(£'000)		Biennial Totals		Biennial Changes	
	2012	2013	2014 (ZNG)	2015 (ZRG)	2012-13	2014-15	£'000	%
	(a)	(b)	(c)	(d)	(e=a+b)	(f=c+d)	(g=f-e)	(g/e)
Expenditure estimates total (A)	**30,520**	**31,686**	**31,686**	**32,618**	**62,206**	**64,304**	**2,098**	**3.4%**
Reimbursements from Trading Fund	710	713	670	684	1,423	1,354	**-69**	**-4.9%**
Donor support costs income	663	663	750	750	1,326	1,500	**174**	**13.1%**
Miscellaneous income	140	140	150	150	280	300	**20**	**7.1%**
Offsetting income total (B)	1,513	1,516	1,570	1,584	3,029	3,154	**125**	**4.1%**
Assessment (C=A-B)	**29,007**	**30,170**	**30,116**	**31,034**	**59,177**	**61,150**	**1,973**	**3.3%**
Year-on-year changes (%)	**-1.0%**	**4.0%**	**-0.2%**	**3.0%**				

50 The offsetting income for the next biennium is estimated at £3.15m, representing a 4.1% increase on the amount set for the current biennium. Reimbursements from the Trading Fund, for administrative backstopping costs, are estimated to decrease slightly on the basis of the Fund's overall reduced expenditure plan, reflecting the proposed abolition of 8 GS posts financed by it (see paragraph 40). The Organization also receives annual support cost income (at the rate of up to 13% levied on the total expenditure of donor/trust fund projects and 5% on the TC Fund delivery) to offset the administrative and technical backstopping costs of projects. In light of the outturn in recent years and of forecast delivery, the support cost income is estimated to increase by 13% (£174k). In turn, miscellaneous income, which comprises rental income from the subletting of meeting rooms and office space, as well as interest earned from the investment of funds not needed for immediate requirements, is also estimated to increase by modest levels. There are three major factors which can limit the amount of interest earned in any year: interest rates; treasury policy; and

the Contribution Incentive Scheme (CIS). With the very low interest base rates in the United Kingdom (0.5%), recent interest earnings from regular deposits have been extremely limited and there is little that the Organization can do to address those rates. That said, in respect of treasury investments, steps have been taken to improve returns through a robust treasury policy, allowing funds, based on longer-term cash flow forecasting, to be placed on longer deposit periods (up to six months, instead of 1 to 3 months, previously), with higher rates.

51 In this respect, the only option available to increase earnings is to examine the continued maintenance of the CIS. The purpose of establishing the CIS in 1988 was to encourage Member States to pay their dues promptly, through a system under which Members earn points based on the timing and amount of their payment of assessed contributions, with any interest earned on those contributions being apportioned on the basis of those points and credited to the account of the respective Member States in accordance with resolution A.629(15). The interest earnings by Member States, in proportion to the timing of the payment of their contributions each year, has decreased to less than £100k in recent years (£54k in 2011 and £74k in 2012), while the costs of staff to manage the scheme are now significant as compared to its earnings. In this regard, taking into account three factors – namely, that IMO is one of very few organizations maintaining a CIS or equivalent; that the Organization enjoys among the highest collection rates for assessed contributions in the United Nations system; and that the sanction of withdrawing the right to vote (Article 61 of the IMO Convention) remains in place – the Secretary-General is of the view that it is time to consider its reform, either through abolition or replacement. The abolition of the CIS will certainly increase the Organization's offsetting income, but it could potentially lead to delayed payments and resultant cash flow difficulties. On the other hand, the replacement of the CIS with, for example, a scheme to charge interest on overdue assessments would be another option, under which all interest earnings would be used to reduce the assessment, while an incentive for prompt payment would be retained by avoiding interest penalties. However, Member States with long overdue balances would see their unpaid dues rising each year, potentially making it increasingly difficult to return to full credit. In view of these potential effects, any radical change that may be adopted might first be approved on a trial basis, with collection rates being reviewed at the end of a biennium to determine what impact, if any, the changes have made.

III. OUTLINE OF THE FUNDS OF THE ORGANIZATION

52 The Assembly has established, by means of various resolutions, some budgetary Funds, which directly or indirectly affect the regular budget, namely: the Trading Fund; the Headquarters Capital Fund; the Termination Benefit Fund; the Training and Development Fund; and the Technical Co-operation Fund. In the resolutions, rules covering the required controls over each of the Funds (the management of the funds, their purpose and the types of expenditure) are clearly established. The allocation of resources to undertake the activities supported by these Funds is submitted to the Council and Assembly as part of the biennial results-based budget proposals. Additionally, various donor/trust Funds are established by the Secretary-General in accordance with the Financial Regulations and Financial Rules (FRFR) of the Organization and the availability and allocation of resources under such Funds depends on their respective donor agreements and terms of reference. The use of donor/trust Funds is reported to the Council.

Proposed expenditure plan

53 Table 3 below shows the outline of the Secretary-General's proposed budget plan for the next biennium of the Organization's other Funds, excluding the various donor/trust Funds. Overall, the plan intends to cut resource requirements for the next biennium by 3.4% (£0.9m), which represents, in year-on-year terms, a 2% cut for 2014 and a 0.2% reduction for 2015.

Table 3
Proposed budget outline of the Organization's other Funds for the 2014-2015 biennium

Other Funds of the Organization	Approved(£'000)		Proposal		Biennial Totals		Biennial Changes	
	2012 (a)	2013 (b)	2014 (c)	2015 (d)	2012-13 (e=a+b)	2014-15 (f=c+d)	£'000 (g=f-e)	% (g/e)
Trading Fund	6,168	6,195	5,824	5,944	12,363	11,768	**-595**	**-4.8%**
Headquarters Capital Fund	1,118	1,194	930	950	2,312	1,880	**-432**	**-18.7%**
Termination Benefit Fund	796	980	844	997	1,776	1,841	**65**	**3.7%**
Training and Development Fund	138	143	136	141	281	277	**-4**	**-1.4%**
Technical Co-operation Fund	5,294	4,645	5,159	4,841	9,939	10,000	**61**	**0.6%**
Total	**13,514**	**13,157**	**12,893**	**12,873**	**26,671**	**25,766**	**-905**	**-3.4%**
Year-on-year changes	**2.2%**	**-2.6%**	**-2.0%**	**-0.2%**				

54 Major contributions to the planned reductions will come from the Trading Fund and the Headquarters Capital Fund. Whilst the reduced budget plan under the Headquarters Capital Fund will be based mainly on the prioritization and rationalization of new and recurrent investments in Organization's ICT facilities and systems, the proposed cut back in the Organization's commercial activities has its origin in the Secretary-General's efficiency measures which, in particular, include the abolition of 8 GS posts (22%) financed by the Trading Fund that were approved as part of that Fund's staff complement for the current biennium (a total of 36 posts). In addition, various outsourcing options for certain commercial activities will continue to be explored through market testing. With respect to the Termination Benefit Fund, the small biennial increase shown in table 3 reflects two main components: the number of Professional staff expected to retire (6 in 2014 and 10 in 2015); and the increase in premium payments for the after service health insurance (ASHI) due to both inflation and growth in the number of retirees on the ASHI scheme (the number of retirees on the scheme is expected to grow to 213 by the end of 2015, from 197 as at the end of 2012). In respect of the budget plan for the Technical Co-operation Fund, a very slight increase is proposed due to the decreasing level of the Fund's reserves, the detail of which is provided in document TC 63/4(a) – Technical Co-operation Fund allocation for 2014-2015.

55 The reduced expenditure plan under the Trading Fund, combined with the increase in its target income of £1.36m (6.2%) for the next biennium, is expected to improve the surplus (income over expenditure) by some £1.95m (20.3%) compared with the plan approved for the current biennium (table 4). In this respect, the current surplus distribution formula, which was approved by the Assembly in resolution A.1039(27), is to transfer: 80% of the in-year surplus to the Technical Co-operation Fund (and out of the 80%, an allocation of 5% is ring-fenced to support the finances of the World Maritime University (WMU) until such time as the Council recommends other measures for the University's future sustainable funding); 10% for the Headquarters Capital Fund; and 1.5% for the Training and Development Fund. The remaining 8.5% is kept in the Trading Fund to build up funds to meet its post-employment liabilities (ASHI, accrued annual leave and repatriation grants) as required under the International Public Sector Accounting Standards (IPSAS).

Table 4
Income and expenditure plan of the Trading Funds for the 2014-2015 biennium

Trading fund	Approved(£'000)		Proposal		Biennial Totals		Biennial Changes	
	2012	2013	2014	2015	2012-13	2014-15	£'000	%
	(a)	(b)	(c)	(d)	(e=a+b)	(f=c+d)	(g=f-e)	(g/e)
Publication sales	10,525	9,578	10,931	10,506	20,103	21,437	**1334**	**6.6%**
Catering income	618	664	557	663	1,282	1,220	**-62**	**-4.8%**
Miscellaneous income	314	285	350	336	599	686	**87**	**14.5%**
Total Income	**11,457**	**10,527**	**11,838**	**11,505**	**21,984**	**23,343**	**1,359**	**6.2%**
Publishing expenditure	4,899	4,883	4,633	4,669	9,783	9,302	**-480**	**-4.9%**
Catering expenditure	1,269	1,312	1,191	1,275	2,581	2,466	**-115**	**-4.5%**
Total Expenditure	**6,168**	**6,195**	**5,824**	**5,944**	**12,363**	**11,768**	**-595**	**-4.8%**
Surplus	**5,289**	**4,332**	**6,014**	**5,561**	**9,621**	**11,575**	**1,954**	**20.3%**

Funding for post-employment liabilities

56 The Organization's post-employment liabilities amounted to £29.8m as at the end of 2012, which comprised £27m for staff under the regular budget, £1.6m for staff under the Trading Fund and £1.2m for project personnel under the TC Fund and various donor/trust Funds. The review of the 2012 financial statements (annex 1 to document C 110/4(b)) reveals that the balance of the Trading Fund, after the anticipated distribution of the 2012 in-year surplus, is more than enough to cover the post-employment liabilities concerning the Trading Fund staff. This means that there is no longer a requirement to preserve the 8.5% surplus portion in the Trading Fund, unless the liabilities increase rapidly. The 8.5% is equivalent to £0.53 million, when applied to the in-year surplus of 2012.

57 In respect of funding the liabilities for the regular budget staff, the Council, at its 105th session in 2010, approved a methodology[3] for that purpose but the budget eventually approved for the current biennium could not reflect the methodology due to the need to limit any increase in the budget and assessment. The funding gap calculated under the endorsed methodology amounts to £12.7m as at the end of 2012. On the other hand, for the post-employment liabilities related to the personnel under the TC Fund staff and donor/trust Funds, no funding approach has been yet been sought, due to difficulties in negotiating and convincing donors to set aside funds for that purpose. In this regard, it is proposed that the Organization should set a levy of 7% on the salaries of staff under those Funds, so that the collected levy can be pooled under the Termination Benefit Fund for their benefit. In addition, it would also be necessary to change the previously endorsed methodology for measuring the funding gap, from the current "respective segment approach" to an "all of IMO segments"[4] approach, so as to cover all staff members at the corporate level. In such a case, the liabilities under the Trading Fund would move, together with the corresponding assets, to the Termination Benefit Fund. When measured through the proposed "all of IMO segments" approach, there is no funding gap at all, at the corporate level and as at the end of 2012, to fulfil the post-employment liabilities for all staff employed by IMO but, instead, a surplus of £0.3m.

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3 The funding for post-employment liabilities is to be considered under respective segments of the final accounts of the Organization. As regular budget staff costs are under the core programme segment, which includes the accounts of the Working Capital Fund, the General Fund, the Headquarters Capital Fund and the Termination Benefit Fund, any shortfall from reflecting the post-employment liabilities in the segment will be funded over 20 years (10 biennia).

4 Under this approach the post-employment liabilities would be considered by all IMO Funds, excluding donor/trust Funds The whole IMO segments will cover Funds under: the Core Programme segment (Working Capital Fund, General Fund, HQCF, TBF and TDF); the Trading and Business segment (Trading Fund); and part of the TC and Trust Funds segment (TC Fund). The segment for WMU and IMLI will be excluded and the reserves under donor/trust Funds are not taken into account the measuring the funding gap.

Consideration of a revision of the Trading Fund surplus distribution

58 With regard to the 8.5% in-year surplus portion currently retained in the Trading Fund, as noted in paragraphs 55 and 56 above, the Council is invited to consider the illustrative options in table 5 below:

- Taking into account the Organization's continuous need for investment in ICT, and the constraints of the line item provision in the regular budget, it is proposed to increase the distribution to the Headquarters Capital Fund to 12.5% (common to all Options);

- If the corporate level (or "all of IMO segments") approach proposed in paragraph 57 is endorsed, for the measurement of any funding gap in the post-employment liabilities of all IMO staff, it is necessary to provide some nominal funds (say, 1% point of the above-mentioned 8.5% in-year surplus) to the Termination Benefit Fund to account for any prospective increase in the Trading Fund's staff liabilities, which will henceforth be accounted for under the Termination Fund in accordance with the new approach (common to all Options);

- The residual 5% may then be used for either the reduction of Member States' assessed contributions (Option A), or the build-up of reserves in the special contingency account (Option B) to be set up to address any pay rises that may need to be covered under supplementary budget proposals, as stated in paragraphs 47 and 48 above. The 5% distribution of the in-year surplus would be £0.28m for 2014 and £0.3m for 2015 and would, under Option A, reduce the assessment by 1% for each year of the biennium; and

- Alternatively, the residual 5% may be distributed equally between assessment reductions and the accumulation of contingency reserves (Option C).

Table 5
Proposed distribution options of the Trading Fund surplus

	Technical Co-operation Fund	(Ringfence for WMU*)	HQs Capital Fund	Termination Benefit Fund	Training and Development Fund	Trading Fund	General Fund for Assessment Reduction	General Fund for the Contingency Account
Resolution A.1014(26)	75.0%	-	15.0%	8.5%	1.5%	-	-	-
Resolution A.1039(27)	80.0%	(4.0%)	10.0%	-	1.5%	8.5%	-	-
Proposed Option A	80.0%	(4.0%)	12.5%	1.0%	1.5%	-	5.0%	
Proposed Option B	80.0%	(4.0%)	12.5%	1.0%	1.5%	-	-	5.0%
Proposed Option C	80.0%	(4.0%)	12.5%	1.0%	1.5%	-	2.5%	2.5%

* The ring-fence for the WMU is 5% of the 80% surplus to be allocated to the Technical Co-operation Fund, which corresponds to 4% (=80%x5%) of the 100% surplus.

IV. SUMMARY CONCLUSIONS AND ACTION REQUESTED OF THE COUNCIL

Summary of the proposed outline of the budgets

59 In drawing up his budget proposals for the 2012-2013 biennium, the Secretary-General has placed emphasis on the provision of a transparent framework of resource allocation and the reflection of opportunities for enhanced efficiency through his ongoing review and reform process, whilst recognizing the Membership's public expenditure constraints and the imperative of making economies in all aspects of IMO's activities.

60 Based on the above, the regular budget is proposed at ZNG for 2014 and ZRG of 2.9% for 2015, the biennial effect of which is a 3.4% increase over the current biennium (see table 1). For other IMO budgetary Funds, excluding the various donor/trust Funds, the proposals are set at below ZNG for each year of the next biennium, that is, a 2% cut for 2014 and a 0.2% cut for 2015, the biennial effect of which is a 3.4% reduction on the budgets for the current biennium (see table 3). Overall, the resource requirement for the next biennium under all IMO Funds (regular budget plus other IMO Funds) is proposed to be set at £90.07m, representing a biennial increase of 1.3% (£1.19m), reflecting a cut of 0.6% for 2014 and an increase of 2% for 2015, as shown in table 6 below.

Table 6
Proposed outline of budgets for the 2014-2015 biennium

All IMO Funds	Approved(£'000)		Proposal (£'000)		Biennial Totals		Biennial Changes	
	2012 (a)	2013 (b)	2014 (c)	2015 (d)	2012-13 (e=a+b)	2014-15 (f=c+d)	£'000 (g=f-e)	% (g/e)
Regular Budget (A)	**30,520**	**31,686**	**31,686**	**32,618**	**62,206**	**64,304**	**2,098**	**3.4%**
Other IMO Funds (B)	**13,514**	**13,157**	**12,893**	**12,873**	**26,671**	**25,766**	**-905**	**-3.4%**
Trading Fund	6,168	6,195	5,824	5,944	12,363	11,768	-595	-4.8%
Headquarters Capital Fund	1,118	1,194	930	950	2,312	1,880	-432	-18.7%
Termination Benefit Fund	796	980	844	997	1,776	1,841	65	3.7%
Training and Development Fund	138	143	136	141	281	277	-4	-1.4%
Technical Co-operation Fund	5,294	4,645	5,159	4,841	9,939	10,000	61	0.6%
Total (C=A+B)	**44,034**	**44,843**	**44,579**	**45,491**	**88,877**	**90,070**	**1,193**	**1.3%**
Year-on-year changes	**-0.1%**	**1.8%**	**-0.6%**	**2.0%**				

61 The assessment on Member States to finance the estimated regular budget resources is calculated at £61.15m, taking into account offsetting income projections of £3.15m, representing a biennial increase of 3.3% (£1.97m) and, in year-on-year terms, a 0.2% cut for 2014 and an increase of 3% for 2015 (see table 2). However, the assessment could be reduced if the Secretary-General's proposals on the closure of the CIS (see paragraphs 50 and 51) and the reallocation of part of the Trading Fund surplus (see paragraph 58) were to be approved.

62 On the basis of the Council's discussion and conclusions on the Secretary-General's budget outlines and various proposals contained in paragraph 63 below, the Secretary-General will submit to the 28th regular session of the Assembly (preceded by the 27th extraordinary session of the Council) his results-based budget proposal containing the Secretariat's business plan for the next biennium and the results-based framework to establish a linkage between the outlined budget (as may be amended by the Council) and the draft high-level actions and planned outputs for the next biennium. A draft Assembly resolution on the budget proposals for the next biennium will also be provided to C/ES.27 for its consideration and forwarding, with its comments and recommendations, to the Assembly.

Action requested of the Council

63 The Secretary-General invites the Council to consider his budget outlines and proposals and to:

.1 endorse his MZG policy for the regular budget for the next biennium, representing ZNG for 2014 and ZRG of 2.9% for 2015, while noting that the increase in staff costs is capped at 75% of the regular budget (paragraphs 36 and 37 and table 1);

.2 endorse the proposed abolition of 33 regular budget posts and 8 Trading Fund posts, which will reduce the staff complement to 265 and 28, respectively, in the next biennium (paragraph 40);

.3 agree to the transfer, to the Research and Development Trust Fund, of all residual monies in dormant funds established for various projects and programmes, and to the use of such residual monies for the conduct of a comprehensive functional review of the Secretariat (paragraph 46);

.4 endorse the establishment of a special contingency account in the General Fund to address unexpected pay rises beyond the approved budgetary assumption and the proposed procedure for the use of that account (paragraph 47); and endorse the proposed method of financing the contingency account (paragraph 48);

.5 agree on a preliminary basis to the financing of the regular budget by Member States' assessments calculated on the basis of anticipated offsetting income as indicated in table 2; and, noting that the assessment might be further reduced through the abolition of the CIS and/or the use of part of the Trading Fund surplus, approve the abolition of the CIS or its suspension for four years (paragraph 51) and/or adopt Option A or C in table 5 (paragraph 58);

.6 endorse the proposed budget plan for the Organization's other Funds, representing a budget that is set at below ZNG, with a biennial cut of 3.4% (paragraphs 53 and 54 and table 3);

.7 approve a new methodology for the measurement of funding gaps in the IPSAS post-employment liabilities, based on the consolidation of the post-employment liabilities of all IMO staff under the Termination Benefit Fund, which requires the transfer of liabilities and corresponding assets in the Trading Fund to the Termination Fund and a levy of 7% on all future project personnel (paragraphs 56 and 57);

.8 approve one of the Options in table 5 for a revised formula for the distribution of the Trading Fund surplus, and recommend its adoption by the Assembly (paragraph 58); and

.9 note that the Secretary-General will provide to C/ES 27, for its consideration, his detailed results-based budget reflecting the conclusions and decisions of C 110, together with a related draft Assembly resolution (paragraph 62).

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