



BUDGET FOR 2008

Note by the Director

Summary:	This document deals with the draft administrative budget of the 1971 Fund for the financial year 2008. The draft budget totals £475 000. An estimate is made of the payments to be made from the General Fund in respect of various incidents.
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Action to be taken:	Adopt the administrative budget for 2008.
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1 Introduction

- 1.1 Article 18.5 of the 1971 Fund Convention requires the Assembly of the 1971 Fund to adopt the annual budget of the Organisation.
- 1.2 Financial Regulation 3 of the Organisation provides that the financial period of the 1971 Fund shall be the calendar year. The draft budget proposed by the Director therefore covers the period 1 January – 31 December 2008.
- 1.3 Article 12 of the 1971 Fund Convention provides that the Assembly shall determine the amount of contributions to be levied, if any.
- 1.4 The 1971 Fund Convention ceased to be in force on 24 May 2002 and so it has not been possible to levy further contributions to the General Fund since 2003.
- 1.5 The 1971 Fund's expenditure consists of:
 - (a) costs and expenses of the administration of the 1971 Fund, and any deficit from preceding years;
 - (b) payments of claims and claims-related expenses up to 1 million SDR per incident (minor claims); and
 - (c) payments of claims and claims-related expenses to the extent that the aggregate amount of the payments in respect of any one incident is in excess of 1 million SDR (major claims).
- 1.6 Expenses mentioned in sub-paragraphs (a) and (b) of paragraph 1.5 above have to be met from the General Fund (Financial Regulation 7.1(c)) and expenses with respect to major claims as defined

in sub-paragraph (c) above have to be met from Major Claims Funds (Financial Regulation 7.2(d)).

- 1.7 This document relates to payments from the General Fund only. The assessment of contributions to Major Claims Funds is dealt with in a separate document (document 71FUND/AC.22/16).
- 1.8 As for the individual incidents, reference is made to the information contained in the Financial Statements (document 71FUND/AC.22/5, Annex V, Schedule II) and to the various documents relating to incidents submitted to the 22nd session of the Administrative Council.
- 1.9 It should be noted that any estimate in this document of amounts to be paid by the 1971 Fund in compensation has been made solely for the purpose of the assessment of the balance on the General Fund as at 31 December 2008, without prejudice to the position of the 1971 Fund in respect of the claims.

2 Budget for administrative expenditure in 2008

- 2.1 At their March 2005 sessions, the 1992 Fund Assembly, the 1971 Fund Administrative Council and the Supplementary Fund Assembly agreed that the three Funds should have a joint Secretariat and that the 1992 Fund Secretariat should administer, in addition to the 1971 Fund, also the Supplementary Fund (documents 92FUND/A/ES.9/28, paragraph 7.3, 71FUND/AC.16/15, paragraph 4.4 and SUPPFUND/A.1/39, paragraphs 11.2 and 11.3).
- 2.2 The draft administrative budget for the joint Secretariat for 2008, excluding the External Auditor's fee and expenses directly related to the respective Organisations, totals £3 584 000 (document 92FUND/A.12/21, Annex I). This figure is £53 750 (1.5%) higher than the 2007 budget figure of £3 530 250.
- 2.3 A summary of the administrative budget for the joint Secretariat is given below:

CHAPTER	Proposed 2008 Appropriation £	2007 Appropriation £	% Increase/(decrease) Appropriation on 2007
I Personnel	2 152 700	2 042 350	5.4%
II General services	748 000	740 400	1.1%
III Meetings	175 000	200 000	(12.5)%
IV Travel	150 000	160 000	(6.2)%
V Miscellaneous expenditure (excluding external audit fees)	297 500	327 500	(9.2)%
VI Unforeseen expenditure	60 000	60 000	0.0%
Total Expenditure Chapters I-VI	3 584 000	3 530 250	1.5%

- 2.4 As set out in document 71FUND/AC.22/14, the Director proposes that the 1971 Fund should, in accordance with the approach adopted for the last three financial years 2005-2007, pay a management fee for the period 1 January – 31 December 2008 in respect of the costs of running the joint Secretariat. It has been proposed that the management fee should be reduced to £210 000 from the 2007 level of £275 000. The draft budget has been prepared on that basis. If the Administrative Council were to decide on a different apportionment of costs between the three Organisations, the draft budget would have to be revised accordingly.
- 2.5 An appropriation of £250 000 has been retained in the draft budget for the 1971 Fund to cover fees of lawyers and other experts and travel pertaining to the winding up of the 1971 Fund.

- 2.6 The External Auditor has provisionally indicated that the audit fee will be the same as 2007, ie £10 000 for the audit of the 1971 Fund's Financial Statements for 2007 which will be payable in 2008. This fee is included in the appropriation for Administrative expense of £15 000 which covers expenses only attributable to the 1971 Fund and not covered by the management fee.
- 2.7 The draft administrative budget for 2008 relating only to the 1971 Fund totalling £475 000 is set out in Annex II.

3 Predicted balance as at 31 December 2007

3.1 Income

Interest to be earned in 2007

Interest income during 2007 from the 1971 Fund's investment of the assets of the General Fund is estimated at £200 000. This estimated yield is based on an average principal of approximately £4.5 million.

3.2 Expenditure

3.2.1 The administrative expenses for 2007 are estimated to be some £285 000 as set out below:

- Management fee payable to 1992 Fund (cf document 71FUND/AC.20/24, paragraph 17.3) of £275 000.
- External audit fees for 2006 Financial Statements payable in 2007 of £10 000.
- Costs for winding up the 1971 Fund. No payment had been made as of 30 June 2007 and no expenditure is envisaged to be incurred for the remaining six-month period.

3.2.2 As can be seen from Annex I, it is anticipated that no payments of compensation or indemnification from the General Fund will be made during 2007. It is expected that fees totalling £152 000 will be incurred during 2007 in respect of six incidents involving the 1971 Fund.

3.3 Estimated balance

The estimated surplus at 31 December 2007 of £4 635 661 is arrived at as shown in the table below.

	£	£
Balance brought forward as at 1 January 2007		4 872 661
<i>Plus</i>		
Previous years' General Fund contributions receivable in 2007	0	
Interest to be earned in 2007 (estimate)	200 000	
	200 000	200 000
		5 072 661
<i>Less</i>		
Management fee and External Auditor's fee for 2007 (cf paragraph 3.2.1)	285 000	
Minor claims expenditure in 2007 (Annex I)	152 000	
		437 000
Estimated balance as at 31 December 2007		4 635 661

4 Estimates for 2008

4.1 Income

Interest to be earned in 2008

Interest income during 2008 from the 1971 Fund's investment of the assets of the General Fund is estimated at £200 000. This estimated yield is based on an average principal of approximately £4 million.

4.2 Expenditure

4.2.1 The administrative expenditure for 2008 totals £475 000 as detailed in section 2.

Minor claims expenditure 2008

4.2.2 The incidents in respect of which payments may have to be made from the General Fund during 2008 amounting to £1 557 000 are listed in Annex III.

4.2.3 It is envisaged that compensation/indemnification will be paid in respect of two incidents, namely the *Iliad* and *Alambra*.

4.2.4 With respect to the *Iliad* incident, the Director is of the view that the 1971 Fund will not be called upon to pay compensation but may have to pay indemnification up to some £750 000 and will incur some costs.

4.2.5 Concerning the *Alambra* incident, the shipowner's insurer has maintained in legal proceedings that the pollution was due to the shipowner's intentional wrongful act and that the insurer therefore had no liability, neither under the insurance contract nor under Estonian law. The shipowner and his insurer did nevertheless settle and pay some claims in 2004. If the insurer were to be exonerated from liability the remaining claims would fall under the 1971 Fund Convention. The balance on the General Fund (some £722 000) may therefore be paid in 2008.

4.2.6 It is envisaged that only costs will be incurred in respect of the *Kriti Sea*, *Plate Princess*, *Katja* and *Al Jaziah 1* incidents.

4.2.7 It is estimated that the payments by the 1971 Fund from the General Fund in 2008 relating to specific incidents will total £1 557 000. This estimate does not include any provision for the payments which, although not expected to be due before 2008, actually have to be made earlier.

Working capital

4.2.8 The governing bodies of the 1971 Fund have last decided, in October 2002, to maintain the working capital at £5 million (document 71FUND/AC.9/20, paragraph 18).

4.2.9 At its October 2002 session the Administrative Council decided not to levy contributions to the General Fund (document 71FUND/AC.9/20, paragraph 19.5). As stated in paragraph 1.4 above, since the 1971 Fund Convention ceased to be in force on 24 May 2002, it has not been possible to levy further contributions to the General Fund since 2003.

4.3 Estimated balance

4.3.1 The General Fund balance as at 31 December 2008 is estimated as follows:

		£	£
	ESTIMATED INCOME		
	Balance as at 31 December 2007	4 635 661	
<i>Plus</i>	Interest to be earned in 2008	200 000	
<i>Plus</i>	Transfer from <i>Pontoon 300</i> Major Claims Fund to be closed in 2008 (cf document 71FUND/AC.22/16, paragraph 5.3)	100 000	
	Total estimated income 2008		4 935 661
	ESTIMATED EXPENDITURE		
	Management fee, External Auditor's fee and Winding up-Budget 2008 (Annex II)	475 000	
<i>Plus</i>	Minor claims expenditure 2008 (Annex III)	1 557 000	
	Total estimated expenditure 2008		2 032 000
	GENERAL FUND BALANCE 31 DECEMBER 2008		2 903 661

4.3.2 As shown in the table above, the General Fund balance as at 31 December 2008 is estimated at some £2.9 million.

4.3.3 The Director takes the view that the surplus on the General Fund as at 31 December 2008 should be sufficient to cover any payments of compensation, indemnification or other incident-related expenses to be made after 31 December 2008 as well as the 1971 Fund's share of the administrative expenditure until the 1971 Fund is wound up.

4.3.4 At its 15th session in October 2004 the Administrative Council approved the Director's proposal for the distribution of any surplus on the General Fund once all the incidents involving the 1971 Fund have been settled (document 71FUND/AC.15/21, paragraph 17.11).

5 Action to be taken by the Administrative Council

The Administrative Council is invited, in accordance with Article 12 of the 1971 Fund Convention:

- (a) to take note of the information contained in this document;
- (b) to consider for adoption the draft budget for 2008 in respect of the administrative expenses of the 1971 Fund as set out in Annex II;
- (c) to take note of the Director's observations as regards the balance on the General Fund (paragraph 4.3.3); and
- (d) to authorise the Director to use the balance of the working capital to pay for the administrative expenditure and minor claims expenses.

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ANNEX I

General Fund claims expenditure in 2007

(Figures in Pounds Sterling)

Incident	Date	Maximum Payable from General Fund: 1 million SDR	Expenditure up to 31/12/06		Balance Payable from General Fund at 31/12/2006	2007 Expenditure				Estimated Total General Fund Expenditure in 2007	Estimated Total General Fund Expenditure up to 31/12/07	Estimated Balance Payable from General Fund 31/12/07
			Compensation paid up to 31/12/06	Claims related expenses paid up to 31/12/06		Compensation/Indemnification		Claims related expenses				
						Paid 1/1/07-30/6/07	Estimate 1/7/07-31/12/07	Paid 1/1/07-30/6/07	Estimate 1/7/07-31/12/07			
<i>Iliad</i>	09/10/93	930 977	0	(156 865)	774 112	0	0	(40 078)	(10 000)	(51 000)	(208 000)	723 000
<i>Kriti Sea</i>	09/08/96	943 599	0	(213 919)	729 680	0	0	(6 379)	(3 000)	(10 000)	(224 000)	719 000
<i>Plate Princess</i>	27/05/97	851 165	0	(42 593)	808 572	0	0	(2 361)	(47 000)	(50 000)	(93 000)	758 000
<i>Katja</i>	07/08/97	839 335	0	(21 524)	817 811	0	0	(3 689)	(6 000)	(10 000)	(32 000)	808 000
<i>Al Jaziah 1</i>	24/01/00	826 950	(566 166)	(98 899)	161 885	0	0	(3 414)	(7 000)	(11 000)	(677 000)	150 000
<i>Alambra</i>	17/09/00	917 680	0	(175 184)	742 496	0	0	0	(20 000)	(20 000)	(196 000)	722 000
										(152 000)		

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ANNEX II

DRAFT 2008 ADMINISTRATIVE BUDGET FOR 1971 FUND

(Figures in Pounds Sterling)

STATEMENT OF EXPENDITURE		ACTUAL 2006 EXPENDITURE	2006 BUDGET APPROPRIATIONS	2007 BUDGET APPROPRIATIONS	2008 BUDGET APPROPRIATIONS
I	Management fee payable to 1992 Fund by 1971 Fund	275 000	275 000	275 000	210 000
II	Costs for Winding up of the 1971 Fund	5 640	250 000	250 000	250 000
III	Administrative costs including External Audit fees	10 000	10 000	10 000	15 000
1971 Fund Budget Appropriation		290 640	535 000	535 000	475 000

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ANNEX III

General Fund claims expenditure in 2008

(Figures in Pounds Sterling)

Incident	Date	Maximum Payable from General Fund: 1 million SDR	Estimated Balance Payable from General Fund at 31/12/2007	2008 Estimated Expenditure			Estimated Total General Fund Expenditure in 2008	Estimated Total General Fund Expenditure up to 31/12/08	Estimated Balance Payable from General Fund at 31/12/2008
				Compensation	Indemnification	Claims related expenses			
<i>Iliad</i>	09/10/93	930 977	723 000	0	(750 000)	(5 000)	(755 000)	(963 000)	0
<i>Kriti Sea</i>	09/08/96	943 599	719 000	0	0	(10 000)	(10 000)	(234 000)	709 000
<i>Plate Princess</i>	27/05/97	851 165	758 000	0	0	(40 000)	(40 000)	(133 000)	718 000
<i>Katja</i>	07/08/97	839 335	808 000	0	0	(10 000)	(10 000)	(42 000)	798 000
<i>Al Jaziah I</i>	24/01/00	826 950	150 000	0	0	(20 000)	(20 000)	(697 000)	130 000
<i>Alambra</i>	17/09/00	917 680	722 000	(702 000)	0	(20 000)	(722 000)	(917 680)	0
							(1 557 000)		