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71FUND/AC.22/14

SHARING OF JOINT ADMINISTRATIVE COSTS BETWEEN THE 1992 FUND, THE 1971 FUND AND THE SUPPLEMENTARY FUND

Note by the Director

Summary:	The costs of running the joint Secretariat have to be shared between the 1992 Fund, the 1971 Fund and the Supplementary Fund. It is proposed that for 2008 the 1971 Fund and the Supplementary Fund should pay a flat management fee of £210 000 and £50 000 respectively to the 1992 Fund.
Action to be taken:	Decide on the apportionment between the three Organisations of the costs for the administration of the joint Secretariat.

1 The Issue

- 1.1 At their March 2005 sessions the governing bodies of the 1992 Fund, the 1971 Fund and the Supplementary Fund decided that the distribution of the costs of running the joint Secretariat should be made by means of the 1971 Fund and the Supplementary Fund paying flat management fees to the 1992 Fund (documents 92FUND/A/ES.9/28, paragraph 10.3, 71FUND/AC.16/15, paragraph 5.3 and SUPPFUND/A.1/39, paragraph 14.2).
- 1.2 At their sessions in October 2005 the governing bodies noted that in the Director's view it would, with a few exceptions, be very difficult to identify the volume of work of individual staff members which should be attributed specifically to the Supplementary Fund or to the 1971 Fund without requiring all staff to maintain records of time spent on tasks relating to those Funds, which would have given rise to a considerable administrative burden. It was noted that the Director had instead tried to assess how many working days per year the staff as a whole would devote to tasks relating to the 1971 Fund and the Supplementary Fund, in order to apportion the administrative budget on the basis of the daily costs of running the joint Secretariat. The governing bodies agreed with the approach taken by the Director.
- 1.3 At their sessions in October 2005 and October 2006 the governing bodies approved the Director's proposal for the management fees for 2006 and 2007 respectively on the approach set out in paragraph 1.2 above namely, on the number of working days which the staff as a whole during each year would devote to tasks relating to the 1971 Fund and the Supplementary Fund

respectively. For both years the management fees were set on the basis of 20 working days for the 1971 Fund and 5 working days for the Supplementary Fund.

- 1.4 At their sessions in October 2006 the governing bodies decided that for 2007 the 1971 Fund and the Supplementary Fund should pay a flat management fee similar to that paid in 2006 of £275 000 and £70 000 respectively to the 1992 Fund (documents 92FUND/A.11/35, paragraph 27.3, 71FUND/AC.20/24, paragraph 17.3 and SUPPFUND/A.2/23, paragraph 18.3).
- 1.5 It was decided that, in view of likely changes of the costs of running the joint Secretariat and the amount of work required by the Secretariat in the operation of the 1971 Fund and the Supplementary Fund, the management fees payable by those Funds should be reviewed annually.
- 1.6 The External Auditor in his Report on the 1992 Fund's 2006 Financial Statements noted that the management fees payable to the 1992 Fund by the 1971 Fund and Supplementary Fund were based on the Director's best estimates. The External Auditor recognised also that the current apportionment of fees is carried out on a reasonable basis and noted that the fees were agreed by the governing bodies of all three Funds (document 92FUND/A.12/8, Annex III, paragraphs 46 and 47).
- 1.7 In relation to the 2008 administrative budget the Director proposes that the management fees be set based on a reduction of the estimated number of working days which the staff as a whole during 2008 would devote to tasks relating to the 1971 Fund and the Supplementary Fund only ie 15 working days for the 1971 Fund and 3.5 working days for the Supplementary Fund. The work to be carried out for the 1971 Fund in 2008 is expected to be less as a result of reduced claims-related activities with the settlement of the *Pontoon 300* incident. As for the Supplementary Fund, (provided that the Fund is not involved in any incident), the work during 2008 will be limited to administrative tasks, eg in connection with the Supplementary Fund Assembly. Should a major incident occur which does involve the Supplementary Fund, the governing bodies may wish to reassess the apportionment.
- 1.8 On the basis set out above the Director has calculated the total costs per working day for the entire Secretariat, based on the administrative budget for 2008 (excluding External Auditor's fees) totalling £3 584 000 for 2008 (£3 530 250 for 2007) and 261 working days during the year. The daily costs of running the joint Secretariat would then be some £13 732 (£13 525 for 2007). Using this approach, the 1971 Fund should pay a management fee of some £205 980 (15 x £13,732) and the Supplementary Fund a fee of some £48 062 (3.5 x £13 732).
- 1.9 The Director therefore proposes that the 1971 Fund and Supplementary Fund should pay a management fee to the 1992 Fund for 2008 of £210 000 (24% reduction on 2007 fee) and £50 000 (28 % reduction on 2007 fee) respectively.

2 Action to be taken by the governing bodies

The governing bodies are invited:

- (a) to consider the apportionment of joint administrative costs between the 1992 Fund, the 1971 Fund and the Supplementary Fund for the period 1 January to 31 December 2008; and
 - (b) In particular, to consider the Director's proposal that for 2008, the 1971 Fund and Supplementary Fund should pay a management fee of £210 000 and £50 000 respectively to the 1992 Fund, as set out in paragraph 1.9.
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