



BUDGET FOR 2008 AND ASSESSMENT OF CONTRIBUTIONS TO THE GENERAL FUND

Note by the Director

Summary:	This document deals with the draft administrative budget of the Supplementary Fund for the financial year 2008. The draft budget set out in the Annex totals £63 500. The need for 2007 contributions to the General Fund is examined.
Action to be taken:	Adopt the administrative budget for 2008.

1 Introduction

- 1.1 Under Article 16.2 of the Supplementary Fund Protocol in conjunction with Article 18.5 of the 1992 Fund Convention, the Supplementary Fund Assembly shall adopt the annual budget of the Supplementary Fund.
- 1.2 Financial Regulation 3 of the Organisation provides that the financial period of the Supplementary 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 11 of the Supplementary Fund Protocol provides that the Assembly shall determine the amount of contributions to be levied, if any.
- 1.4 The Supplementary Fund's expenditure consists of:
 - (a) costs and expenses of the administration of the Supplementary Fund and any deficit from preceding years; and
 - (b) payments of claims.

2 Loans from the 1992 Fund

- 2.1 At its March 2005 session, the Supplementary Fund Assembly decided that the first financial period of the Supplementary Fund should cover the period 3 March – 31 December 2005 and adopted a budget with a total expenditure (including the management fee payable to the 1992 Fund) of £225 000 for that period (document SUPPFUND/A.1/39, paragraph 34). The 2005 budget included appropriations for administrative costs relating only to the Supplementary Fund and reimbursement with interest of payments made prior to 3 March 2005 by the 1992 Fund on behalf of the Supplementary Fund (document SUPPFUND/A.1/39, Annex III).

- 2.2 At its March 2005 session the Supplementary Fund Assembly took the view that it would be preferable to postpone the first levy of contributions to the Supplementary Fund until its 1st extraordinary session to be held in the autumn of 2005. The Assembly decided to request the 1992 Fund Assembly to authorise the Director of the 1992 Fund to make the necessary funds available in the form of loans from the 1992 Fund. It was agreed that such loans would be repaid, with interest, when the Supplementary Fund had received the first levy of contributions (document SUPPFUND/A.1/39, paragraphs 35.1 and 35.2). This request was granted by the 1992 Fund Assembly (document 92FUND/A/ES.9/28, paragraph 20.2).
- 2.3 At its 1st extraordinary session in October 2005 the Supplementary Fund Assembly noted that the 1992 Fund Assembly had decided that the 1992 Fund should not raise any contributions for payment in early 2006. For this reason the Supplementary Fund Assembly considered it preferable to postpone the first levy of contributions to the Supplementary Fund until the autumn of 2006 and decided to request the 1992 Fund Assembly to authorise the Director to make the necessary funds available to the Supplementary Fund in the form of loans.
- 2.4 At its 10th session also held in October 2005, the 1992 Fund Assembly granted the request referred to in paragraph 2.3 and authorised the Director to make the necessary funds available to the Supplementary Fund in the form of loans to be repaid, with interest, when the Supplementary Fund had received the first levy of contributions decided by its Assembly, to the extent that this could be done without prejudice to the operations of the 1992 Fund (document 92FUND/A.10/37, paragraph 30.13).
- 2.5 At its 2nd session in October 2006 the Assembly decided to levy contributions of £1.4 million (including the working capital of £1 million) to the General Fund payable by 1 March 2007.
- 2.6 As at 31 December 2006 the total loans made by the 1992 Fund to the Supplementary Fund amounted to £246 447 (including the management fee payable to the 1992 Fund for 2005 of £125 000 and for 2006 of £70 000) and interest on the loans, calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate, amounted to £13 291.
- 2.7 No additional loans were made in 2007. The loans made by the 1992 Fund to the Supplementary Fund were repaid with interest on receipt of the contributions in early 2007. A total of £260 526 was repaid to the 1992 Fund including interest of £14 079.

3 Budget for administrative expenditure in 2008

- 3.1 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).
- 3.2 The draft administrative budget for the joint Secretariat, 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) for 2008. This figure is £53 750 (1.5%) higher than the 2007 budget figure of £3 530 250.

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3.3 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%

3.4 As set out in document SUPPFUND/A.3/14, the Director proposes that the Supplementary 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 £50 000 from the 2006-2007 level of £70 000. The draft budget has been prepared on that basis. If the Assembly were to decide on a different apportionment of costs between the three Organisations, the draft budget would have to be revised accordingly.

3.5 The External Auditor has provisionally indicated that the audit fee will be the same as 2007, ie £3 500 for audit of the Supplementary Fund's 2007 Financial Statements which will be payable in 2008. This fee is included in the appropriation for Administrative expense of £13 500 which covers expenses only attributable to the Supplementary Fund.

3.6 The draft administrative budget for the Supplementary Fund for 2008 totalling £63 500 is set out in the Annex.

4 Predicted balance as at 31 December 2007

4.1 Income

Contributions

4.1.1 As set out in paragraph 2.5 above the Assembly decided at its 2nd session in October 2006 to levy contributions of £1.4 million for receipt by 1 March 2007.

Interest to be earned in 2007

4.1.2 The income in interest during 2007 from the Supplementary Fund's investment of the assets of the General Fund is estimated at £30 000. This estimated yield is based on an average principal of approximately £800 000.

4.2 Expenditure

4.2.1 Reimbursement with interest of loans made by the 1992 Fund to the Supplementary Fund up until the receipt of 2006 contributions in early 2007 totalling £260 526.

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4.2.2 The administrative expenses for 2007 of £73 500 is as set out below:

- Management fee payable to 1992 Fund (cf document SUPPFUND/A.2/23, paragraph 18.3) of £70 000.
- External audit fees for 2006 Financial Statements payable in 2007 of £3 500.

4.3 Estimated balance

The surplus at 31 December 2007 is estimated at £1 082 610 and is arrived at as shown in the table below

	£	£
Balance brought forward as at 1 January 2007		0
<i>Plus</i>		
General Fund contributions receivable in 2007	1 386 636	
Interest to be earned in 2007 (estimate)	30 000	
		1 416 636
<i>Less</i>		
Repayment of loans made by the 1992 Fund with interest (cf paragraph 2.6 and 2.7)	260 526	
Administrative expenditure in 2007 (cf paragraph 4.4)	73 500	
		334 026
Estimated balance as at 31 December 2007		1 082 610

5 Estimates for 2008

5.1 Income

Interest to be earned in 2008

Interest income during 2008 from the Supplementary Fund's investment of the assets of the General Fund is estimated at £50 000. This estimated yield is based on an average principal of approximately £1 million.

5.2 Expenditure

5.2.1 The administrative expenditure for 2008 totals £63 500 as detailed in section 3.

Working capital

5.2.2 In order to enable the Supplementary Fund to respond to unforeseen expenditure which will most probably be modest, the Supplementary Fund Assembly decided at its March 2005 session that the Supplementary Fund should have a working capital of £1 million (document SUPPFUND/A.1/39, paragraph 33.2). At its October 2006 session, the Assembly decided to maintain the working capital at that amount (document SUPPFUND/A.2/21, paragraph 18).

5.2.3 The Director proposes that the working capital should be maintained at £1 million.

5.3 Estimated balance

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

		£	£
	ESTIMATED INCOME		
<i>Plus</i>	Balance as at 31 December 2007	1 082 610	
	Interest to be earned in 2008	50 000	
	Total estimated income 2008		1 132 610
<i>LESS</i>	ESTIMATED EXPENDITURE		
	Administrative expenses including management fee, Budget 2008 (Annex)	63 500	
	Total estimated expenditure 2008		63 500
<i>Plus</i>	Working Capital		1 000 000
	SURPLUS ON GENERAL FUND 31 DECEMBER 2008		69 110

5.3.2 As shown from the estimates in the table above, no contributions will be needed to balance the 2008 budget of the General Fund.

6 Director's proposal

In the light of the estimates set out in paragraph 5.3.1 above the Director proposes that there should be no levy of 2007 contributions to the General Fund.

7 Action to be taken by the Assembly

The Assembly is invited:

- (a) to take note of the information contained in this document;
- (b) to consider for adoption the draft budget for 2008 for the administrative expenses of the Supplementary Fund (paragraph 3.6 and Annex);
- (c) to consider the Director's proposal that the working capital of the Supplementary Fund should be maintained at £1 million (paragraph 5.2.3); and
- (d) to decide in respect of the assessment of 2007 contributions to the General Fund (paragraph 6).

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ANNEX

DRAFT 2008 ADMINISTRATIVE BUDGET FOR THE SUPPLEMENTARY 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	70 000	70 000	70 000	50 000
II	Administrative expenses (including external audit fees)	11 996	15 000	15 000	13 500
Supplementary Fund Budget Appropriation		81 996	85 000	85 000	63 500