



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUNDS

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| | | |
| 1992 Fund Assembly | 92A18 | |
| 1992 Fund Executive Committee | 92EC59 | |
| Supplementary Fund Assembly | SA9 | |
| 1971 Fund Administrative Council | 71AC31 | • |

BUDGET FOR 2014

1971 FUND

Note by the Director

| | |
|----------------------------|---|
| Summary: | As indicated in document IOPC/OCT13/9/1, this document deals with the draft administrative budget of the 1971 Fund for the financial year 2014. The draft budget totals £505 300. An estimate is made of the payments to be made from the General Fund in respect of various incidents. |
| Action to be taken: | <u>1971 Fund Administrative Council</u> (a) Adopt the draft budget for 2014 in respect of the administrative expenses of the 1971 Fund as set out in Annex II; and (b) Authorise the Director to use the balance on the General Fund to pay for the administrative expenditure and minor claims expenses (paragraph 4.4.3). |

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 2014.
- 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^{<1>} 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>} The SDR (Special Drawing Rights) which is the unit of account used in the Conventions is valued on the basis of a basket of key international currencies and serves as the unit of account of the International Monetary Fund (IMF) and a number of other intergovernmental organisations.

- 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 IOPC/OCT13/9/2/3).
- 1.8 As for the individual incidents, reference is made to the information contained in the Director's comments and Notes to the 2012 Financial Statements (document IOPC/OCT13/5/6/3, Annex I and Annex V).
- 1.9 It should be noted that in this document any estimate 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 2014. This does not take into account the position of the 1971 Fund in respect of the admissibility of claims arising from the incidents.

2 Budget for administrative expenditure in 2014

- 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 2014, excluding the External Auditor's fee and expenses directly related to the respective Organisations, totals £4 165 960 (document IOPC/OCT13/9/1/1 (Budget for 2014 and Assessment of Contributions to the General Fund – 1992 Fund), Annex I). This figure is £173 700 (4%) lower than the 2013 budget figure of £4 339 660.
- 2.3 A summary of the administrative budget for the joint Secretariat is given below:

| Chapter | Proposed 2014 Appropriation £ | 2013 Appropriation £ | % Increase/(decrease) Appropriation on 2013 |
|--|--|-------------------------------------|--|
| I Personnel | 2 747 695 | 2 770 910 | (0.8)% |
| II General services | 792 415 | 923 250 | (14.2)% |
| III Meetings | 130 000 | 100 000 | 30.0% |
| IV Travel | 100 000 | 100 000 | 0.0% |
| V Other expenditure | 335 850 | 385 500 | (12.9)% |
| VI Unforeseen expenditure | 60 000 | 60 000 | 0.0% |
| Total Expenditure Chapters I-VI | 4 165 960 | 4 339 660 | (4.0)% |

- 2.4 As set out in document IOPC/OCT13/9/1/1, the Director proposes that the 1971 Fund should continue to pay a management fee to the 1992 Fund for the period 1 January-31 December 2014 in respect of the costs of running the joint Secretariat in accordance with the practice adopted since the 2004 financial year. It is proposed that the management fee should be set at £240 000 for the financial year 2014 compared to £247 500 for 2013. The draft budget has been prepared on that basis. If there were to be 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 for the 2013 audit which will be payable in 2014 will be £10 300. This fee is included in the appropriation for administrative expenses of £15 300 which covers expenses only attributable to the 1971 Fund and not covered by the management fee.
- 2.7 The draft administrative budget of the 1971 Fund for 2014 totals £505 300 and it is set out at Annex II.

3 Estimated balance as at 31 December 2013

3.1 Estimated balance

The estimated surplus at 31 December 2013 of £2 384 997 is arrived at as shown in the table below.

| | £ | £ |
|---|---------|-----------|
| Balance brought forward as at 1 January 2013 | | 2 892 797 |
| <i>Plus</i> | | |
| Interest to be earned in 2013 (estimate) | 10 000 | |
| | | 10 000 |
| <i>Less</i> | | 2 902 797 |
| Management fee and External Auditor's fee for 2013 (see paragraph 3.3.1) | 257 800 | |
| Costs for winding up the 1971 Fund (see paragraph 3.3.2) | 50 000 | |
| Minor claims expenditure in 2013 (Annex I) | 209 000 | |
| Expenditure in 2013 relating to closed Major Claims Fund | 1 000 | |
| | | 517 800 |
| Estimated balance as at 31 December 2013 | | 2 384 997 |

3.2 Income

Interest to be earned in 2013

Interest income during 2013 from the investment of the General Fund's assets is estimated at £10 000. This estimated yield is based on an average principal of approximately £2.7 million.

3.3 Expenditure

3.3.1 The administrative expenses for 2013 are estimated to be some £257 800 as set out below:

- Management fee of £247 500 payable to 1992 Fund (see document [IOPC/OCT12/11/1](#), paragraph 9.1.4).
- External audit fees of £10 300 for 2012 Financial Statements payable in 2013.

- 3.3.2 As at 30 June 2013 some £7 400 has been spent on matters relating to the winding up the 1971 Fund. It is envisaged that further costs will be incurred in the remaining six-month period. The total cost to be incurred in 2013 has been estimated at £50 000.
- 3.3.3 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 2013. It is expected that fees totalling £209 000 will be incurred during 2013 in respect of two incidents involving the 1971 Fund.
- 3.3.4 Some legal costs may be incurred in respect of the *Aegean Sea* incident in defending the interests of the 1971 Fund in court.

4 Estimates for 2014

- 4.1 The General Fund balance as at 31 December 2014 is estimated as follows:

| | | £ | £ |
|------|---|-----------|-----------|
| | ESTIMATED INCOME | | |
| Plus | Balance as at 31 December 2013 (paragraph 3.1) | 2 384 997 | |
| | Interest to be earned in 2014 | 10 000 | |
| | Total estimated income 2014 | | 2 394 997 |
| LESS | ESTIMATED EXPENDITURE | | |
| Plus | Management fee, administrative costs including External Auditor's fee and winding up – Budget 2014 (Annex II) | 505 300 | |
| | Minor claims expenditure 2014 (Annex III) | 679 000 | |
| | Total estimated expenditure 2014 | | 1 184 300 |
| | GENERAL FUND BALANCE 31 DECEMBER 2014 | | 1 210 697 |

4.2 Income

Interest to be earned in 2014

Interest income during 2014 from the investment of the General Fund's assets is estimated at £10 000. This estimated yield is based on an average principal of approximately £2 million.

4.3 Expenditure

- 4.3.1 The administrative costs for 2014 total £505 300 as detailed in Annex II.

Minor claims expenditure in 2014

- 4.3.2 The two incidents, *Plate Princess* and *Iliad*, in respect of which payments may have to be made from the General Fund during 2014 amounting to £679 000, are listed in Annex III. This estimate does not include any provision for the payments which, although not expected to be due before 2014, actually have to be made earlier.
- 4.3.3 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 and will incur some costs. It should be noted that the amount payable in indemnification may exceed the balance amount payable from the General Fund.
- 4.3.4 It is envisaged that only costs will be incurred in respect of the *Plate Princess* incident.

4.4 Estimated balance

- 4.4.1 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.
- 4.4.2 As shown in paragraph 4.1, the General Fund balance as at 31 December 2014 is estimated at some £1.2 million.
- 4.4.3 The Director is of the view that the balance on the General Fund as at 31 December 2014 should be sufficient to cover any payments of compensation, indemnification or other incident-related expenses payable by the General Fund to be made after 31 December 2014, as well as the 1971 Fund's share of the administrative expenditure until the 1971 Fund is wound up.
- 4.4.4 With respect to the *Plate Princess* incident, a Major Claims Fund would need to be set up if the claims and claims-related expenses were to exceed the 1 million SDR (£851 165) payable by the General Fund. The levy of contributions to this Major Claims Fund would be payable by the contributors in the States that were Members at the time of the incident, based on the contributing oil receipts of the calendar year 1996.
- 4.4.5 In October 2004, the 1971 Fund 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

1971 Fund Administrative Council

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

- (a) to adopt the draft budget for 2014 in respect of the administrative expenses of the 1971 Fund as set out in Annex II; and
- (b) to authorise the Director to use the balance on the General Fund to pay for the administrative expenditure and minor claims expenses (paragraph 4.4.3).

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ANNEX I

Estimated General Fund claims expenditure in 2013

(Figures in Pounds sterling)

| Incident | Date | Maximum Payable from General Fund: 1 million SDR | Expenditure up to 31/12/12 | | Balance Payable from General Fund at 31/12/12 | 2013 Expenditure | | | | Estimated Total General Fund Expenditure in 2013 | Estimated Total General Fund Expenditure up to 31/12/13 | Estimated Balance Payable from General Fund 31/12/13 |
|-----------------------|----------|--|----------------------------------|---|---|------------------------------|-------------------------------|---------------------------|-------------------------------|--|---|--|
| | | | Compensation paid up to 31/12/12 | Claims-related expenses paid up to 31/12/12 | | Compensation/Indemnification | | Claims-related expenses | | | | |
| | | | | | | Paid 01/01/13-30/06/13 | Estimate 01/07/13-31/12/13 | Paid 01/01/13-30/06/13 | Estimate 01/07/13-31/12/13 | | | |
| <i>Iliad</i> | 09/10/93 | 930 977 | - | (315 695) | 615 282 | - | - | - | (50 000) | (50 000) | (366 000) | 565 000 |
| <i>Plate Princess</i> | 27/05/97 | 851 165 | - | (578 110) | 273 055 | - | - | (8 127) | (150 000) | (159 000) | (738 000) | 114 000 |
| | | | | | | | | | | (209 000) | | |

Figures in brackets show outflow.

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ANNEX II

Draft 2014 Administrative Budget for 1971 Fund

(Figures in Pounds sterling)

| STATEMENT OF EXPENDITURE | | ACTUAL 2012 EXPENDITURE | 2012 BUDGET APPROPRIATIONS | 2013 BUDGET APPROPRIATIONS | 2014 BUDGET APPROPRIATIONS |
|---------------------------------------|--|----------------------------|-------------------------------|-------------------------------|-------------------------------|
| I | Management fee payable to 1992 Fund by 1971 Fund | 255 000 | 255 000 | 247 500 | 240 000 |
| II | Costs for winding up of the 1971 Fund | 17 526 | 250 000 | 250 000 | 250 000 |
| III | Administrative costs including External Audit fees | 10 300 | 15 400 | 15 300 | 15 300 |
| 1971 Fund Budget Appropriation | | 282 826 | 520 400 | 512 800 | 505 300 |

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ANNEX III

Estimated General Fund claims expenditure in 2014

(Figures in Pounds sterling)

| Incident | Date | Maximum Payable from General Fund: 1 million SDR | Estimated Balance Payable from General Fund at 31/12/2013 | 2014 Estimated Expenditure | | | Estimated Total General Fund Expenditure in 2014 | Estimated Total General Fund Expenditure up to 31/12/14 | Estimated Balance Payable from General Fund at 31/12/2014 |
|-----------------------|----------|--|---|----------------------------|-----------------|-------------------------|--|---|---|
| | | | | Compensation | Indemnification | Claims-related expenses | | | |
| <i>Iliad</i> | 09/10/93 | 930 977 | 565 000 | - | (515 000) | (50 000) | (565 000) | (931 000) | - |
| <i>Plate Princess</i> | 27/05/97 | 851 165 | 114 000 | - | - | (114 000) | (114 000) | (852 000) | - |
| | | | | | | | (679 000) | | |

Figures in brackets show outflow.