



Agenda item 15

The budget of the International Seabed Authority

30 November 2020

STATEMENT

by

H.E. Michael W. Lodge

Secretary-General of the International Seabed Authority

in response to statements submitted by members of the Council

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1. The Secretary-General thanks the members of the Council for their constructive participation in the webinar held on 23 November 2020 to allow the Chair of the Finance Committee to introduce the report and recommendations of the Finance Committee. The Secretary-General also takes note with appreciation of the written statements submitted by members of the Council and is pleased to respond to the various requests for technical clarification and further information contained therein.

2. The Secretary-General also wishes to place on record once again his appreciation to the Chair and members of the Finance Committee for their hard work and support in scrutinizing the budget proposals for 2021-2022 and reaching consensus on a revised and significantly reduced budget proposal for the financial period 2012-2022. During its discussions, the Finance Committee took into account all relevant factors, including the questions that have been raised in the statements submitted by member States.

General approach to the budget and budget trend

3. The budget of the Authority continues to be based on the principle of cost-effectiveness and the evolutionary approach, as reflected in the 1994 Agreement.

4. The budget process also continues to be based on the principles set out in the 1994 Agreement, the Financial Regulations of the Authority and the practice followed by the Authority since its establishment. That is, that the proposed budget as submitted to the Assembly (ISBA/26/A/5-ISBA/26/C/18) is considered by the Finance Committee. Based on the discussions in the Finance Committee, a revised budget proposal is put forward by the Secretary-General (ISBA/26/A/5/Add.1-ISBA/26/C/18/Add.1) which reflects not only the consensus in the Committee but also a consensus between the

Secretary-General and the Committee. It is noted that all decisions on matters of substance in the Finance Committee, which includes representatives of the five largest contributors to the budget, shall be taken by consensus. The report and recommendation of the Committee therefore reflects this consensus.

5. If one reviews the trends in the budget of the Authority, it can be noted that the twin principles of cost-effectiveness and the evolutionary approach have been strictly observed. Thus, over the 10-year period between 1999-2019, the budget of the Authority increased by 74 per cent, reflecting the evolution in the implementation of the Authority's mandate. It is interesting to note that, over the same period, the budget of the Authority's sister institution, the International Tribunal for the Law of the Sea, also increased by 73 per cent. In absolute dollar terms, the ITLOS budget has always been and remains significantly larger than the budget for the Authority (\$24,114,219 for the period 2019-2020 as against \$18,235,850 for the Authority).¹ This clearly indicates that the rate of increase cannot be regarded as excessive. Indeed, given the Authority's relatively broader mandate and range of activities, it can be argued that the Authority remains relatively under-funded compared to other institutions and that priority has been given to cost-effectiveness over evolution. In this regard, it may also be pointed out that the number of plans of work for exploration has increased from 7 in 2000, to 30 in 2020, an increase in activity of 328 per cent.

6. Overall, the Secretary-General wishes to emphasize that the budget proposal compared with the budgets from previous financial periods prioritizes cost-saving measures against the realistic needs of the Authority to avoid under-budgeting and over-expenditure. The strategy applied during its preparation ensured the maintenance of relative proportions of expenditure at a level equivalent to prior periods without affecting administrative and programme expenditure. In that regard the budget sections maintain in most aspects the principles of cost effectiveness and zero nominal growth. The increase of \$2,065,512 for 2021-2022 compared to 2019-2020 therefore reflects the actual costs of staff due to full implementation of the ICSC comprehensive package of salaries and allowances, the increase in the number of meetings and related conference costs and to correct under-budgeting especially in the area of conference services.

7. In relation to the revised budget proposal before the Council, it may be observed that the major increases in the budget relate to conference services. The biggest reason for this increase is that provision for conference services was severely under-budgeted in the budget for 2019-2020, leading to over-expenditure in 2019 that adversely impacted the implementation of other parts of the programmes of the Authority. This under-budgeting occurred because the Finance Committee and the Council insisted to reduce provision for conference services in the 2019-2020 budget by 2.9 per cent. For this reason, the Committee has rightly insisted on more accurate budgeting for the

¹ It may also be noted that the budget of ITLOS is entirely funded by member States, whereas in the case of the Authority, a percentage of the budget is funded through contractor overhead charges (cost recovery principle), so the overall burden on member States is significantly less in the case of the Authority.

forthcoming financial period. This includes itemizing each element of conference expenditure and moving some items that were previously considered under the General Administrative Budget (GAF) into the conference services budget. Examples of this are official hospitality and local transportation which were removed from the GAF and itemized under conference services at lower rates in order to ensure better controls over expenditures.

8. In relation to those items that show a significant increase, including the costs of the Jamaica Conference Centre, whilst those budget lines are based on real costs, the Finance Committee has requested the Secretary-General to take action to reduce those costs and report back to it at its 2021 meetings.

9. Specific observations are now made on some of the issues raised by delegations.

Specific observations

A. Interpretation costs

10. Several delegations have raised the issue of interpretation costs. The Secretary-General refers to the report of the Finance Committee on this matter, which reflects the discussions and sets out the detailed rationale behind the Committee's decision to implement a major cost-saving of \$390,000 over the financial period. The Secretary-General is confident that the implementation of remote interpretation services, which are now widespread within the United Nations system, will prove to be fit-for-purpose. To reassure delegations, the Secretary-General will take steps to ensure quality control and survey the level of satisfaction with the service provided. The Secretary-General would also point out that it is inconsistent to argue, as some delegations have argued on the one hand that more virtual and online meetings should be held in order to save costs, and on the other hand, that remote interpretation services should not be used because the Internet is not sufficiently reliable.

B. Staff costs

11. As noted in the report of the Finance Committee, a full discussion was held as to the staffing requirements of the Authority. Of the four posts under consideration, three of the posts are currently occupied on a temporary basis. The net financial impact of regularizing these posts is \$30,000 over the financial period. The Secretary-General has agreed to defer recruitment of the fourth new post requested (Graphic Designer/Copy Editor (P-2)) by at least six months, producing a minimum cost-saving of \$47,000.

12. It is not a simple matter to outsource services. Outsourcing can also lead to increased administrative and overhead costs, as well as delays and inconsistency in the quality and reliability of services. For example, in 2019, the Authority incurred costs of \$95,000 on graphic design and editing services, from 9 different suppliers, which is equivalent to the costs of a staff position. In-house provision of such services will be

cheaper, more efficient, and more reliable. The overall budget implication of this post is net zero since the same costs would need to be reflected in consultancy.

13. The Authority had previously a full-time staff position of Webmaster (P-4). This was abolished in 2017 and the relevant services outsourced. Experience has demonstrated that outsourcing is not an effective solution for several reasons, including high monthly costs of webhosting and email services, security concerns as well as well as concerns relating to storing the Authority's data in the jurisdiction of non-member countries. During the current budget cycle, the Authority has made a huge investment in a new website, with significantly enhanced capabilities and security and all related services have now been relocated in-house. The position of Webmaster (P-2) is essential to ensure the efficient and secure functioning of these services and is cost-neutral when cost savings on outsourcing are considered. It is noted that the post has been re-classified from P-4 to P-2 to more accurately reflect the level of the position.

C. The Enterprise

14. The Secretary-General confirms that financial provision for the Enterprise is not included in the revised budget proposal for 2022. The amounts appear as a placeholder only and it is noted that the Finance Committee decided to defer further consideration of this matter until its meetings in 2021, when it will make an appropriate recommendation to the Council.

D. Overhead charges

15. It will be recalled that the Finance Committee had requested the secretariat to establish a more accurate methodology for calculating contractor overhead costs benefiting from the ongoing implementation of the International Public Sector Accounting Standards in the accounting of the secretariat and to report, by the twenty-sixth session, on the exact costs for the supervision and administration of the contracts for exploration for the Committee to take up that question accordingly. This information was provided to the Committee (ISBA/26/FC/3) and duly considered. The conclusions and recommendations of the Committee are noted in its report to the Council at paragraphs 33 to 37. The Secretary-General has nothing further to add to the conclusions of the Finance Committee on this matter.

E. Programme budget

16. The programme budget has been increased by only 5.5 per cent over the financial period despite the fact that two programmes have been consolidated into one and two new programmes have been created reflecting the priorities identified and endorsed by member States in the context of the High Level Action Plan.

17. In general, the Secretary-General takes the position that it is neither appropriate nor wise to budget and plan on the basis of the most negative future scenario, especially

where that scenario is currently unknown or speculative. In this regard, it should be considered that any savings resulting from the inability to deliver programmes will be reflected in a future reduction in assessed contributions. This is already the case in relation to the budget for 2021, where assessed contributions will be reduced by the savings realized from the 2020 budget (currently estimated at a minimum of \$300,000). Furthermore, it may easily be the case that in the case of such a prolonged and unexpected negative scenario, the Authority will be exposed to substantial additional costs, such as deferred home leave entitlements for staff members, additional costs for the implementation of the Authority's Business Recovery Plan and costs related to remote working entitlements.

18. In relation to costs of workshops, including travel costs, it has been noted that the cost of online or virtual workshops is not significantly less, and in some cases can be more, than the cost of physical workshops. For example, the recent workshop on a REMP for the Area of the Mid-Atlantic Ridge cost an estimated amount of \$140,000, including compilation of data reports, consultancy, online production costs, video-editing and transcription. The only savings made from online workshops is in relation to the travel costs of staff members and participants from developing countries. The equivalent of these costs is spent on technology support. Furthermore, it must be recalled that local costs of workshops are generally supported by the host government or institution. It is therefore an over-simplification to suggest that online workshops can be held at significantly lower cost.

19. Some specific questions have been raised in relation to individual line items. These are at a level of specificity that is more appropriate for discussion within the Finance Committee and have in fact been discussed by the Committee in detail and on the basis of detailed accounting records. Whilst specific responses have been provided to the delegation concerned, it is not considered necessary or appropriate to include those responses here, which would raise the prospect of the Council replicating functions that are properly devolved to the Finance Committee.

Arrears

20. The Secretary-General is pleased to inform the members of the Council that, since the report of the Finance Committee was published, and following the Secretary-General's appeal made at the thirtieth meeting of the States Parties to the Convention, the number of members of the Authority in arrears of contributions for more than two years has decreased. In May 2020, the number stood at 57 members. This has now decreased to 47 members. Whilst the total amount of outstanding contributions continues to be a concern for the sound financial management of the Authority, the Secretary-General wishes to acknowledge the great efforts made by members, even in adverse economic situation, to discharge their arrears and support the work of the Authority.

Conclusion

21. The Secretary-General wishes to reiterate that the budget proposal for the financial period 2021-2022 continues to respect the principles of cost-effectiveness and the evolutionary approach. In preparing the proposed budget, the Secretary-General continued to make best efforts to introduce cost-saving measures to restrain increases in the general administrative budget, including conference services, while maintaining the functioning of the secretariat at the necessary level to ensure efficient and timely delivery of the Authority's mandate. Those efforts included a detailed analysis of actual costs, facilitated by the introduction in 2020 of the enterprise resource planning system for the secretariat, which revealed under-estimation of some budget lines and under-expenditure in other areas, leading to greater transparency in the current budget proposal.

22. The budget proposal has been subjected to intense scrutiny by the Finance Committee as required by the provisions of the 1994 Agreement. Based on the detailed scrutiny of the Committee and by consensus, a revised budget proposal has been put forward which reflects a considerable reduction in the original proposal. Nevertheless, taking into account the constructive feedback received from the Committee, the Secretary-General is satisfied that the revised budget proposal contained in ISBA/26/A/5/Add.1-ISBA/26/C/18/Add.1 appropriately reflects the estimated budgetary requirements for the Authority for the financial period 2021-2022. It should be highlighted that the Committee worked diligently preparing the appropriate recommendations, based on which the Council could act to submit the proposed budget to the Assembly in accordance with the applicable framework.

23. The Secretary-General therefore urges members of the Council to endorse the recommendations of the Finance Committee and adopt the two draft decisions contained in the report of the Committee.
