INTERNATIONAL HYDROGRAPHIC ORGANIZATION



ORGANISATION HYDROGRAPHIQUE INTERNATIONALE

IHB File No. FO/599/01

CIRCULAR LETTER 33/2014 15 April 2014

# APPROVAL OF IHO RESOLUTION ON GUIDING PRINCIPLES FOR IHO FUNDS

Reference: IHO CL 05/2014 dated 08 January – Proposed IHO Resolution on Guiding Principles for IHO Funds

Dear Hydrographer,

1. The Directing Committee is pleased to inform you that the proposed IHO Resolution contained in the above-referenced Circular Letter has obtained the required two-thirds approval of the Member States. 56 positive votes have been recorded. At the same time there were 55 positive votes for the accompanying proposal by the Directing Committee to close the Printing Fund and to transfer the balance to the Internal Retirement Fund (IRF).

2. The adopted Resolution on Guiding Principles for IHO Funds will now be included in M-3 - *Resolutions of the IHO*. The Directing Committee will also proceed with the closure of the Printing Fund and implement the transfer of the balance to the IRF.

3. Ten Member States provided comments with their responses. These are reproduced in the Annex to this CL together with comments by the Directing Committee, as appropriate.

On behalf of the Directing Committee Yours sincerely,

Robert WARD President

Annex A: Member States' comments in response to CL 05/2014

## MEMBER STATES' COMMENTS IN RESPONSE TO CL 05/2014

# CANADA:

- a. Supports the closing of the Printing Fund.
- b. Supports the transfer of those funds to the IRF, if this is a one-time event.
- c. It is not apparent in the Proposed Guiding Principles that there are defined processes to be followed when creating or dissolving an IHO Fund.
- d. If such processes do not exist, consideration should be given to their development.
- e. The process of closing a fund should include how the closing balance is to be dispersed.

### IHB comment:

The purpose of the Resolution is to provide guidelines for the operation of the funds that exist. The Resolution is not intended to provide a mechanism or guidelines for funds to be established or disestablished. This is because, according to the principles set out in the IHO Financial Regulations, the establishment or disestablishment of an IHO fund requires a two-thirds majority agreement of the Member States. In other words, the establishment or disestablishment or disestablishment of every IHO fund must be considered on a case-by-case basis by the Member States according to the merits of each proposal.

**CHILE** congratulates the IHB for having proposed this resolution that clarifies the objective, uses and requirements for the different IHO funds administered by the IHB Directing Committee.

**CROATIA** strongly supports the IHO Resolution aiming to establish guiding principles to IHO funds.

## FRANCE:

Remove para. 4.3.2.5 "The purchase/replacement of assets (such as office equipment and administration software) and associated training and implementation costs". France proposes that this paragraph be deleted for the following two reasons:

- Firstly, the assets are already covered under "Depreciation of assets" in the IHO general budget with a view to covering their replacement at the end of their operational life (3 years for computer equipment and software, 5 years for office equipment). Therefore it is not necessary to forecast funds again for their replacement under the Renovation and Enhancement Fund.
- Secondly, it is specified in the 2012 IHO Finance Report on page 119 (**NB**: *page 115 in the English version*): "The renovation fund is kept for any major expenses incurred <u>for renovation purposes of the building</u>, in relation with those accepted by the "Domaines".

Thus the purpose of this fund is to cover infrastructure related expenditure and not, for example, to cover expenditure on computer equipment.

#### IHB comment:

The proposal does mean an extension of the initial scope of the renovation fund. The proposed extension is in accordance with the IHO accounting principles under which computer equipment and software are considered as an asset. In other words, their purchase is considered as a capital expense, rather than a routine operational expense. Such purchases generally occur infrequently and are therefore difficult to accommodate in an essentially fixed annual operating budget. For this reason, high-cost office equipment and software have been included within the scope of the fund in order to assure the longer-term upkeep of the IHB infrastructure. It is true that the depreciation of assets is a source of cash in the statement of cash flows. This is meant to offset the cash cost of acquiring new assets required to continue operations when existing assets reach the end of their useful lives. This will be reflected by including related allocations to and expenses from the Renovation and Enhancement Fund in the budget.

# JAPAN:

Does not approve the proposed IHO Resolution.

1. Guiding principles for IHO funds themselves should be established, and IHB's activities for establishing them should be highly appreciated. Looking closely into it, Japan considers that the principles need basic matters for "Guiding Principles", such as procedures about the establishment and closure of funds, and how to deal with the balance of closed funds, and that these matters should be incorporated into the proposed resolution.

#### IHB comment:

See comment in response to the observation of Canada.

2. The proposed transfer would be a way of dealing with the balance of the Printing Fund, but Japan considers that it is still unclear how much the transfer will reduce the debts of IRF, and the prospects of the IRF operation is not clearly shown in this CL. More concrete and quantitative information is necessary for us to consider this proposal.

#### IHB comment:

The Directing Committee regrets that insufficient information was provided to Japan to enable it to determine a position on the matter of transferring funds to the IRF.

As described in the Staff Regulations (IHO Publication M-7, revised March 2009), the Internal Retirement Fund (IRF) supports the IHO's independent retirement plan (pension scheme) for serving and retired members of the IHB staff who joined the IHB before 1 September 1987. The pensions of eight retired members and two current members of staff are covered by the IRF at present. The IHO has an absolute financial obligation to fund the retirement benefits of these pensioners. The IRF is now closed with all IHB staff entering service on or after 1 September 1987 being covered by more recent commercially-based Personal Retirement Plans.

The IRF is purposely maintained in low-risk investment accounts. In recent years, as reported in the Annual Financial Report of the Organization, these accounts have provided a much lower rate of interest than previously due to a general decrease in global interest rates. Taking into consideration the lower rates of interest and the progressive increase in liability for the two current staff members as they accrue more years of service before they retire (most likely in 2015 and 2018), the investment sum required to meet the liabilities of the IRF at the end of 2013 increased from  $3,028,394 \in to 3,106,509 \in .$  If the fund is to match its liabilities, there is now a 4.2% shortfall of  $130,872 \in .$  However, this will be reduced to  $65,489 \in (2.1\%$  shortfall) with the proposed transfer of the balance of the discontinued IHO Printing Fund to the IRF.

## THE NETHERLANDS:

Editorial suggestions:

- 4.1.1.4 Other organizations may provide financial support **to** the GEBCO Project from time to time.
- 4.2.1.6 Other organizations may provide financial support **to** the IHO Capacity Building Programme from time to time.
- 4.4.2.2 S-100 base<u>d</u> instead of S-100 base.

#### IHB comment:

The IHB will incorporate these editorial amendments in the published version of the Resolution.

**OMAN:** In paragraph 10 of the CL, it is mentioned that the digital printers are leased from a commercial supplier and funded from the annual budget. In the longer term, isn't it more economical if these printers are acquired? My comments are based on what explained without seeing the figures.

#### IHB comment:

The IHB has determined that it is more cost effective to lease printing equipment rather than to fund the cost of purchase, maintenance, upkeep and replacement of equipment.

**SINGAPORE:** Singapore does not agree that the balance of the Printing Fund be transferred to the IRF. Capacity Building should take priority. Hence the Printing Fund should be transferred to the Capacity Building Fund.

### IHB comment:

The reason that the Directing Committee, with the support of the Finance Committee Officers, proposed that the balance of the Printing Fund be transferred to the IRF is based on ensuring that the IHO will not be burdened by a significant pension liability in future years, coupled with the fact that on average in recent years the CB Fund has grown in value faster than the growth in applications for CB support. There is now more money in the CB Fund than ever before.

## UK:

The UKHO are concerned that the practice of transferring surpluses to support the IRF has become commonplace. This distorts the actual costs of running the IHB and relies on in year surpluses or changing requirements within existing funds such as proposed here to bail out a shortfall in the IRF.

It is noted that the IRF only applied to those benefits accrued for members prior to August 31<sup>st</sup> 1987 and, as such, this liability will reduce over time. However, the UKHO feels it would be appropriate for forecast fund shortfalls to be included in future budgets so that this very real cost is reflected within the total running costs of the IHB.

In so doing, any other surplus funds could be directly attributable to other areas aligned to the objectives of the IHO such as capacity building.

#### IHB comment:

The Directing Committee fully agrees with the comments of the UK. In future years, and as forecast in paragraphs 15 and 16 of the Foreword to the Finance Report for 2012, the Directing Committee will submit a more precise operational budget estimate that will include the hitherto unspecified obligations, such as the IRF obligation.

#### USA:

Generally, the U.S. position on surplus funds is that they belong to, and should be returned to, Member States. Provided that IHO Member States will continue to consider and approve proposed transfers of surplus funds to one or more of the IHO funds on a case-by-case basis, we do not object to either the principles or the proposed closure of the Printing Fund and the transfer of the balance of funds in the Printing Fund to the Internal Retirement Fund.