



IHB File No. FO/599/01

**FINANCE COMMITTEE  
CIRCULAR LETTER 01/2015  
21 April 2015**

**FINANCE COMMITTEE OFFICERS' MEETING**

**10 April 2015, IHB**

Dear Hydrographer,

1. The six-monthly meeting of the Finance Committee Officers (FCO) took place at the IHB in Monaco on 10 April in accordance with Article 14 of the General Regulations. The meeting comprised the Chair of the Finance Committee, Ms Muriel Natali-Laure (Monaco), the Vice-Chair, Mr Andrew Millard (United Kingdom) who participated via video-link, and the IHB Directing Committee. The Auditor, Ms Pascale Taramazzo, of Frank Morel Chartered Accountants and the IHB Manager Finance and Administration (MFA) and her assistant also attended. The following topics were presented and discussed at the meeting.

**Situation concerning the Personalised Retirement Plans of Some Staff**

2. The impact of the situation reported at the previous meeting (see FCCL 03/2014 dated 10 December) was further considered.

3. The Directing Committee recalled that as a consequence of Decision 15 of the XIII<sup>th</sup> Conference in 1987, the IHO internally-funded and managed pension scheme had been closed to newly recruited staff members. As a result of the 1987 decision, staff members who were recruited after 31 August 1987 were to be covered by commercially-based personalised retirement plans. The decision to move to commercially-based personalised retirement plans was made to reduce the long-term financial burden on the IHO of maintaining its own pension scheme.

4. In November 2014 the Directing Committee became aware that four staff members recruited after 1987 benefit from a clause in their commercial pension contracts drawn from the 4<sup>th</sup> edition of the Staff Regulations that was effective from 1993 to 2004 (see IHO CL 43/2004 dated 30 June). The clause provides an option for staff to choose a pension from their commercial personalized retirement plan contract or, in the case that the pension from the personalized retirement plan is worth less than the value of a similar pension under the Monaco Caisse autonome des retraites (CAR) system at the time of retirement, they may opt to allocate the capital in their commercially-based personalized retirement plan to the IHO and draw a pension at the CAR rate from the IHO instead. This, in effect, places a financial liability on the IHO to underwrite a failure of the commercially-based personalised retirement plans even though it was originally intended to reduce the financial burden.

5. As a consequence of the continuing drop in interest rates following the banking and financial crisis of 2008, it appears that the commercially-based personalized retirement plans now in place for some staff members are presently unable to compete with the CAR scheme. As a result, a staff member due to retire in August 2015 has exercised the option to take a CAR-equivalent pension instead of a pension based on their personalized retirement plan.

6. The Directing Committee pointed out that while the performance of the commercially-based personalized retirement plans and therefore the likelihood of whether staff will elect to take a CAR-equivalent pension or not cannot be predicted, sound accounting practice dictates that the IHO should plan for a near worst-case scenario. It may be that in the longer term the performance of the commercially-based personalized retirement plans improves to levels enjoyed prior to the global financial crisis, however, this cannot be assumed. The Directing Committee presented forecast figures and the estimated annual sums required to be added to the Internal Retirement Fund to cover a worst-case scenario.

7. The FCO agreed that assuming a near worst-case scenario was prudent and that an appropriate investment strategy was required to increase the funds available in the IRF to meet not only the existing staff covered by the IRF but also the potential to pay pensions to the four members of staff whose personalized retirement plans have been, in effect, underwritten by the IHO. The Directing Committee agreed to present a suitable plan as part of the 2016 and subsequent budgets.

8. The Vice-Chair of the Finance Committee observed that the minimum staff contribution to the IHO's internal retirement plan was and continues to be 7.5% of salary, whereas for the commercially-based personalised retirement plans introduced in 1987, the minimum level of contribution from staff was set at only 5% of salary. In both cases the IHO contributes a sum equivalent to 15% of salary. The Vice-Chair considered that this is a matter that should be considered further as part of the ongoing review of the IHO Staff Regulations.

9. The auditor highlighted the fact that staff recruited after 2004 do not have the benefit of the "CAR" based pension clause in the contracts of their commercially-based personalised retirement plans and that this may not be seen as an appropriate and equitable treatment of employees by an employer when compared to local workplace laws and regulations. The FCO noted this observation but pointed out that the IHO, as an intergovernmental organization operating under the terms of a Host Agreement with Monaco, has no specific obligation to follow local practices as it is governed by the requirements of the Convention on the IHO, and by the decisions of its Member States. Nevertheless, the FCO agreed that it would be appropriate to consider the general issues of equity as part of the continuing work being undertaken by the IHB in support of the review of the Staff Regulations.

#### **Basis for the Calculation of the Administration Fee for the Capacity Building Fund**

10. IHO Resolution 1/2014 - Guiding Principles for IHO Funds indicates that expenditure from the Capacity Building Fund can include ... *Administrative support for the management of the CB Fund.*

11. In 2013, Decision 9 of the 11<sup>th</sup> meeting of the Capacity Building Sub-Committee approved ... *the investment of up to 13% of the CB Funds to administrative tasks and project management but not to exceed 40 000 Euros.*

12. The Directing Committee sought the advice of the FCO on how the administration fee for the Capacity Building Programme allocated to the operational budget from the CB Fund should be calculated and reflected in the accounts of the IHO.

13. It was pointed out that there are regular occasions where CB events are cancelled at relatively short notice through no fault of the IHB. This usually occurs after most if not all of the IHB administrative activity has taken place. The Directing Committee proposed that the administration fee - which is intended to defray the costs of the administrative workload placed on the IHB, should therefore be based on the CB activities included in the approved CB Plan rather than on the CB activities actually achieved by the end of the year. The FCO agreed with this view.

#### **Annual Report – Recommendations from the Directing Committee**

14. The audited financial statement was presented to the FCO. It indicated a positive result for 2014 of 185,794.41€. The principal contributing factors to this positive result were:

- a. the payment of 2014 contributions and arrears by several Member States together with a consequential reduction in the requirement to offset the non-payment of annual contributions in the budget,
- b. less than anticipated travel expenses,
- c. a better return on investments, and

- d. additional income from interest on overdue contributions, the inclusion of capacity building administration levies as income and a reimbursement from work related accident insurance.

15. The Directing Committee proposed that in view of the newly discovered obligation to pay additional pensions in some circumstances, the budget surplus for 2014 should be allocated to the Internal Retirement Fund. This will meet the immediate obligation to support the additional staff pension due to be paid from August 2015 and would begin the ongoing allocation of budget funds to the IRF that will be required in future years. The FCO endorsed this proposal.

#### **Provisional Statement of Accounts (March 2015)**

16. The FCO reviewed the current financial situation. The Directing Committee and MFA presented the current financial statements and indicated that all aspects of the execution of the budget for 2015 were progressing satisfactorily. The FCO had no significant comments to make.

#### **Status of Member States' Contribution Payments**

17. The status of Member States' contribution payments was examined. It was noted that the amount received at the end of March was about 3% higher than the amount received at the same time last year, and an improvement over preceding years. The FCO were informed that the Syrian Arab Republic runs the risk of being suspended in 2015 because of its inability to pay its annual contributions due to various financial embargoes that have been put in place.

18. The FCO was informed that Viet Nam and Georgia became Member States of the Organization in March 2015, which will have a positive impact on income in 2015 and 2016.

#### **Next Meeting**

19. It was agreed that the next meeting of the Finance Committee Officers will take place at the IHB in Monaco on 6 November 2015.

On behalf of the Directing Committee  
Yours sincerely,



Robert WARD  
President