

Long-term strategy for increase in national contributions

The e-voting procedure on 2017 national contributions resulted in a decision to maintain the level for 2017 at the 2016 level. Given the near-term projection of budget deficit if national contributions continue to remain stable, Finance Committee and Bureau have recognized the importance of a well-justified long-term strategy, be it 5% for a fixed period of time, annual increases, or another solution to minimize a potential deficit.

This document presents the projected development of the deficit in the ICES budget, in a five-year perspective, to help frame the discussion, as well as suggests a potential way forward, seeking an increase in national contributions of 5% over a time period of either three (3) or five (5) years, given that the inflation level remains at or below the current level of 0.5%.

A proactive approach of National Delegates is needed to agree on the way forward, and securing an increase in national contributions, as referred to in Article 14, paragraph 2 of the 1964 ICES convention "The Council shall by a 2/3 majority vote of all Contracting Parties approve an annual budget of the Council".

It is clear that a combination of strategies is needed, as none of the strategies on their own will be enough to cover the anticipated deficit. An agreed increase in national contributions is, however, a first step.

1 Introduction

At a Council meeting in 1974 an allocation system was agreed, whereby national contributions were arranged in accordance to shares, ranging from one, one and a half, to four shares, one share having the value of 418,000 DKK (2017 figures). Greenland and the Faroe Islands share one share.

During the past 10 years the relative share of national contributions has decreased from 70% of total income in 2000–2001 to 57% of total income in 2010–2011, and is now down to 51% in 2015–2016. This is partly due to the lack of increase of the national contributions for 6 out the most recent 8 years (2010, and 2012–2015, and 2017), representing a substantial decrease for ICES income in the annual operating budget (approximately 12.3 million DKK).

To better understand and address this trend of stable contributions, Council decided that during the first part of 2016 the ICES General Secretary should visit Member Countries to explain the expanded scope and deliverables of ICES, as agreed in the ICES Strategic Plan, as well as the opportunities for Member Countries to make use of ICES services. This information would be related to the requested 2% increase of national contributions, which ranges from an additional payment of 8.400 DKK up to 33.500 DKK, depending on the number of shares held by the Member Country.

A number of Member Countries recognised that the increase was minimal and that the overall payment to ICES was small compared to the value of the services received and compared to contributions to other regional/global organizations. A variety of barriers to positive voting for annual increases were, however, provided:

- a general policy of no-increase in national contributions to IGOs;
- increases not possible on an annual basis, other periodicities could be explored;
- an increase not possible in the current timeframe/budget year.

2 Long-term projections of the ICES budget

The 2016 Finance Committee meeting looked at long-term projections for the ICES budget in relation to national contributions.

These projections showed that even with an annual 2% increase in national contributions from 2017- 2021, a deficit in the ICES budget was foreseen in 2019, 2020, and 2021. In addition to the anticipated 2% annual increase, the budget projections were based on an anticipated annual:

- project income (2019 – 2021) of 2,000,000 DKK;
- no inflation regulation of any MoUs;
- income in 2019-2021 from the ICES Journal of 1,400,000 DKK; and
- salary costs, inflation regulated with 1% for 2017, and 2% for 2018-2021.

Given the outcome of the 2017 voting, the new five year projections have been made with a 0% increase in national contributions. With this projection a deficit is expected already in 2018.

3 Possible long-term strategy for increase in national contributions

Finance Committee considered various strategies for the increase in national contributions, 1%, respectively 2% increase annually, and a 5% increase within a five-year timeframe. The model of 2% annual increase was the most financially beneficial.

The Finance Committee concluded that it is unlikely to find a strategy for achieving increases in national contributions that is agreeable to all 20 member countries. ICES should continue to pursue the aim of 100% cost recovery. The potential and implications of extraordinary budgetary contributions should be further developed. Longer term planning perspective and equitable increases is the preferred approach. If the next few years continue to result in no (0%) increase in national contributions other suboptimal strategies may need to be considered.

At the June Bureau meeting the following points were raised:

The General Secretary visits to Member Countries have been a positive experience, and many opportunities to discuss with countries, about finances as well as other issues. Albeit, the visits did not result in securing the required 2/3 majority needed for a 2% increase in 2017 national contributions, the voting did result in a simple majority (12 out of 20) voting in favour of a 2% increase in 2017.

Given the varying needs of Member Countries, it may not be possible to identify one strategy that is agreeable to all.

For some countries the longer-term planning perspective is important, while for others the annual 2% increase would be seen as preferable, and for some it would be preferred to request an increase from time to time.

Agreeing on a budget that would be locked in for a longer time period (e.g. 5 years) could also be dangerous politically and risk fixing the budget based on changing inflation rates.

An alternative could be to negotiate with Countries individually, but this poses a risk to the way the organization operates and moves away from the current share system. Finance Committee did not support the idea of different rates of increase for different countries as this was considered inequitable.

The current strategy to get costs covered from other international agreements (The Joint Norwegian-Russian Fisheries Commission) puts less pressure on pursuing increases in national contributions, but is unlikely to ensure financial coverage of the expected deficit even in the short-term.

The option to increase income by requesting payment for advice from member countries is not relevant for all (Canada and US).

Extra budgetary contributions from member countries could be a potential way to deal with the budgetary shortfalls.

Given the limited amount of equity remaining, future expected (following this five year projection period, 2017-2021) budget deficits will need to consider alternative means for meeting the shortfall.

Summary on possible strategies:

- Annual increase
- Bi-annual increase
- An increase for a fixed time interval
- Pursuing the 100% cost recovery, e.g. for recurrent advice to the Russian Federation, Iceland, Greenland, and the Faroe Islands
- Extra budgetary contributions

It is clear that a combination of strategies is needed, as none of the strategies on their own will be enough to cover the anticipated deficit. In order to avoid expected budget deficits, a proactive approach of National Delegates is required to provide input on potential strategies for securing increases in national contributions (percentage level/periodicity).

Active engagement from national delegates is also needed to ensure they have the required mandate to vote on behalf of their country at the appropriate time, as referred to in Article 14, paragraph 2 of the 1964 ICES convention "The Council shall by a 2/3 majority vote of all Contracting Parties approve an annual budget of the Council".

4 Suggested way forward to increase national contributions

Given the new strategy, departing from the usual proposal for a 2% increase in national contributions, it is proposed to:

1. Delay voting for 2018 until February 2017. This will give Delegates time to engage with the relevant authorities and to secure the mandate needed to vote on behalf of their country;
2. agree on a 5% increase in the national contributions for a given period of either 3 or 5 years;

3. agree on a condition, in case agreement is reached to increase the national contributions by 5% over a given period, that if the current inflation level increases substantially (i.e., more than a two-fold increase) there should be an opportunity to open the discussion on a corresponding increase in national contributions.

5 Background information

In the tables below a variety of scenarios are described for different long-term strategies for how to increase the national contributions.

The tables provide an overview of:

- Table 1. ICES Budget five-year projection with 0% increase in National Contributions.
- Table 2A. A 2 % increase annually in national contributions 2016-2021
- Table 2B:
 - 1) A 5 % increase one year, within a five year timeframe; and
 - 2) A 5 % increase one year, within a three year timeframe.
- Table 2C. A 1 % increase annually, within a five year timeframe.
- Table 3 Actual and proposed increases in national contributions 2012-2016, including the deficit in the budget.

TABLE 1 ICES Budget five-year projection with 0% increase in National Contributions.

	Revised	Forecast	Forecast	Forecast	Forecast
	Budget 2017 with 0% increase	Budget 2018 with 0% increase *)	Budget 2019 with 0% increase	Budget 2020 with 0% increase	Budget 2021 with 0% increase
National Contribution	22,781,000	22,781,000	22,781,000	22,781,000	22,781,000
Income from Commissions	16,106,235	16,115,000	16,115,000	16,115,000	16,115,000
Other Income	5,855,650	5,712,000	5,712,000	5,712,000	5,712,000
TOTAL INCOME	44,742,885	44,608,000	44,608,000	44,608,000	44,608,000
Salaries	34,440,000	34,403,907	35,653,888	35,710,891	36,391,318
Office Expenses	2,017,885	2,017,885	2,017,885	2,017,885	2,017,885
IT Expenses	2,893,000	2,893,000	2,893,000	2,893,000	2,893,000
Expenses for ASC	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000
Travel and meetings	5,730,000	5,730,000	5,730,000	5,730,000	5,730,000
Publications	675,000	675,000	675,000	675,000	675,000
TOTAL EXPENSES	46,825,885	46,789,792	48,039,773	48,096,776	48,777,203
Operating result	-2,083,000	-2,181,792	-3,431,773	-3,488,776	-4,169,203
Interest	-100,000	-200,000	-200,000	-200,000	-200,000
Council decision to transfer from Equity	-1,983,000	-1,275,000	-1,275,000	-318,750	0
Result	0	-706,792	-1,956,773	-2,970,026	-3,969,203

*) Even a 2% increase will lead to a deficit of DKK 471,500

Assumptions, on the basis of which table Table 1 has been elaborated

- National contribution increased by 0% each year
- Project income is approximately 2,000,000 each year from 2019 to 2021
- The MoU with clients are not inflation regulated
- ICES Journal earns 1,400,000 each year in 2019-2021
- Salaries are inflation regulated with 1 % in 2017, and with 2% in 2018-2021

The following has not been included to the table, but are potential additional/higher income figures to be considered

- Additional recurrent advice income of around 1 million DKK
- Additional project income (Potentially a bigger project income 2019-2021, but requires activation of more "proactive" approach)

TABLE 2A

A 2 % increase annually in national contributions 2016-2021													
Number of shares	1.9% 2016	Payment 2016 DKK with 1,9% increase	0% 2017	Payment 2017 DKK with 0% increase	2% 2018	Payment 2018 DKK with 2% increase	2% 2019	Payment 2019 DKK with 2% increase	2% 2020	Payment 2020 DKK with 2% increase	2% 2021	Payment 2021 DKK with 2% increase	Total increase 2016 - 2021 per share(s)
1 share	8.000	418.000	8.000	418.000	8.360	426.360	8.527	434.887	8.698	443.585	8.872	452.457	34.457
1,5 shares	12.000	627.000	12.000	627.000	12.540	639.540	12.791	652.331	13.047	665.377	13.308	678.685	51.685
2 shares	16.000	836.000	16.000	836.000	16.720	852.720	17.054	869.774	17.395	887.170	17.743	904.913	68.913
3 shares	24.000	1.254.000	24.000	1.254.000	25.080	1.279.080	25.582	1.304.662	26.093	1.330.755	26.615	1.357.370	103.370
4 shares	32.000	1.672.000	32.000	1.672.000	33.440	1.705.440	34.109	1.739.549	34.791	1.774.340	35.487	1.809.827	137.827
ICES budget Total 54,5 shares	436.000	22.781.000	436.000	22.781.000	455.620	23.236.620	464.732	23.701.352	474.027	24.175.379	483.508	24.658.887	1.877.887

TABLE 2B

1) A 5 % increase one year, within a five year timeframe

Number of shares	1.9 % 2016	Payment 2016 DKK with 1,9% increase	0% 2017	Payment 2017 DKK with 0% increase	5% 2018	Payment 2018 DKK with 5% increase	0% 2019	Payment 2019 DKK with 0% increase	0% 2020	Payment 2020 DKK with 0% increase	0% 2021	Payment 2021 DKK with 0% increase	Total increase 2016 - 2022 per share(s)
1 share	8.000	418.000		418.000	20.900	438.900							20.900
1,5 shares	12.000	627.000		627.000	31.350	658.350							31.350
2 shares	16.000	836.000		836.000	41.800	877.800							41.800
3 shares	24.000	1.254.000		1.254.000	62.700	1.316.700							62.700
4 shares	32.000	1.672.000		1.672.000	83.600	1.755.600							83.600
ICES budget Total 54,5 shares	436.000	22.781.000		22.781.000	1.139.050	23.920.050		23.920.050		23.920.050		23.920.050	1.139.050

2) A 5 % increase one year, within a three year timeframe

Number of shares	1.9 % 2016	Payment 2016 DKK with 1,9% increase	0% 2017	Payment 2017 DKK with 0% increase	5% 2018	Payment 2018 DKK with 5% increase	0% 2019	Payment 2019 DKK with 0% increase	0% 2020	Payment 2020 DKK with 0% increase	5% 2021	Payment 2021 DKK with 5% increase	Total Increase 2016 – 2023 per share(s)
1 share	8,000	418,000		418,000	20,900	438,900					21,945	460,845	42,845
1,5 shares	12,000	627,000		627,000	31,350	658,350					32,918	691,268	64,268
2 shares	16,000	836,000		836,000	41,800	877,800					43,890	921,690	85,690
3 shares	24,000	1,254,000		1,254,000	62,700	1,316,700					65,835	1,382,535	128,535
4 shares	32,000	1,672,000		1,672,000	83,600	1,755,600					87,780	1,843,380	171,380
ICES budget Total 54,5 shares	436,000	22,781,000		22,781,000	1,139,050	23,920,050		23,920,050		23,920,050	1,196,003	25,116,053	2,335,053

TABLE 2C

A 1 % increase annually, within a five year timeframe													
Number of shares	1.9 % 2016	Payment 2016 DKK with 1,9% increase	1% 2017	Payment 2017 DKK with 1% increase	1% 2018	Payment 2018 DKK with 1% increase	1% 2019	Payment 2019 DKK with 1% increase	1% 2020	Payment 2020 DKK with 1% increase	1% 2021	Payment 2021 DKK with 1% increase	Total increase 2016 - 2021 per share(s)
1 share	8,000	418,000	4,180	422,180	4,222	426,402	4,264	430,666	4,307	434,972	4,350	439,322	21,322
1,5 shares	12,000	422,000	4,220	426,220	4,262	430,482	4,305	434,787	4,348	439,135	4,391	443,526	21,526
2 shares	16,000	836,000	8,360	844,360	8,444	852,804	8,528	861,332	8,613	869,945	8,699	878,644	42,644
3 shares	24,000	1,254,000	12,540	1,266,540	12,665	1,279,205	12,792	1,291,997	12,920	1,304,917	13,049	1,317,967	63,967
4 shares	32,000	1,672,000	16,720	1,688,720	16,887	1,705,607	17,056	1,722,663	17,227	1,739,890	17,399	1,757,289	85,289
ICES budget Total 54,5 shares	436,000	22,781,000	227,810	23,008,810	230,088	23,238,898	232,389	23,471,287	234,713	23,706,000	237,060	23,943,060	1,162,060

TABLE 3

Actual and proposed increases in national contributions 2012-2017, including the deficit in the budget

		actual 2012	actual 2013	actual 2014	actual 2015	actual 2016	actual 2017	actual Total		Proposed 2012	Proposed 2013	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017	Proposed Total		Diff.
Price for one share (DKK)		410,000	410,000	410,000	410,000	418,000	418,000			428,000	437,000	446,000	455,000	464,000	473,000			
Inflation		0.0%	0.0%	0.0%	0.0%	1.9%	0.0%			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%			
no of shares:		53.5	53.5	53.5	53.5	53.5	53.5			53.5	53.5	53.5	53.5	53.5	53.5			
Belgium	2	820,000	820,000	820,000	820,000	836,000	836,000	4,952,000		856,000	874,000	892,000	910,000	928,000	946,000	5,406,000		-454,000
Canada	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Denmark	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Estonia	1	410,000	410,000	410,000	410,000	418,000	418,000	2,476,000		428,000	437,000	446,000	455,000	464,000	473,000	2,703,000		-227,000
Finland	1.5	615,000	615,000	615,000	615,000	627,000	627,000	3,714,000		642,000	655,500	669,000	682,500	696,000	709,500	4,054,500		-340,500
France	4	1,640,000	1,640,000	1,640,000	1,640,000	1,672,000	1,672,000	9,904,000		1,712,000	1,748,000	1,784,000	1,820,000	1,856,000	1,892,000	10,812,000		-908,000
Germany	4	1,640,000	1,640,000	1,640,000	1,640,000	1,672,000	1,672,000	9,904,000		1,712,000	1,748,000	1,784,000	1,820,000	1,856,000	1,892,000	10,812,000		-908,000
Iceland	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Ireland	2	820,000	820,000	820,000	820,000	836,000	836,000	4,952,000		856,000	874,000	892,000	910,000	928,000	946,000	5,406,000		-454,000
Latvia	1	410,000	410,000	410,000	410,000	418,000	418,000	2,476,000		428,000	437,000	446,000	455,000	464,000	473,000	2,703,000		-227,000
Lithuania	1	410,000	410,000	410,000	410,000	418,000	418,000	2,476,000		428,000	437,000	446,000	455,000	464,000	473,000	2,703,000		-227,000
Netherlands	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Norway	4	1,640,000	1,640,000	1,640,000	1,640,000	1,672,000	1,672,000	9,904,000		1,712,000	1,748,000	1,784,000	1,820,000	1,856,000	1,892,000	10,812,000		-908,000
Poland	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Portugal	2	820,000	820,000	820,000	820,000	836,000	836,000	4,952,000		856,000	874,000	892,000	910,000	928,000	946,000	5,406,000		-454,000
Russia	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Spain	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Sweden	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
United Kingdom	4	1,640,000	1,640,000	1,640,000	1,640,000	1,672,000	1,672,000	9,904,000		1,712,000	1,748,000	1,784,000	1,820,000	1,856,000	1,892,000	10,812,000		-908,000
USA	3	1,230,000	1,230,000	1,230,000	1,230,000	1,254,000	1,254,000	7,428,000		1,284,000	1,311,000	1,338,000	1,365,000	1,392,000	1,419,000	8,109,000		-681,000
Total National Contribution	53.5	21,935,000	21,935,000	21,935,000	21,935,000	22,363,000	22,363,000	132,466,000		22,898,000	23,379,500	23,861,000	24,342,500	24,824,000	25,305,500	144,610,500		-
Faeroe Islands		328,000	328,000	328,000	328,000	334,400	334,400	1,980,800		335,000	342,000	349,000	356,000	371,200	378,400	2,131,600		-150,800
Greenland		82,000	82,000	82,000	82,000	83,600	83,600	495,200		83,000	85,000	87,000	89,000	92,800	94,600	531,400		-36,200
Total Total Contributions	1	410,000	410,000	410,000	410,000	418,000	418,000	2,476,000		418,000	427,000	436,000	445,000	464,000	473,000	2,663,000		-187,000
																		-
		22,345,000	22,345,000	22,345,000	22,345,000	22,781,000	22,781,000	134,942,000		23,316,000	23,806,500	24,297,000	24,787,500	25,288,000	25,778,500	147,273,500		12,331,500