

2021 Financial Forecast & Bridge Budget for 2022

A Secretariat Paper

7 July 2021

1. Introduction

1.1. The purpose of this paper is to:

- Provide the Commission with a long-term outlook of its financial situation
- Present for endorsement the audited financial accounts for the financial years 2018, 2019 and 2020 (Financial Regulation B.5).
- Provide a forecast of the financial position for the 2021 (current) financial year (Financial Regulation D.2).
- Propose an interim budget for the 2022 financial year for adoption (Financial Regulation D.2).
- Update the Commission on progress in the collection of financial contributions and arrears (Financial Regulation E.4).

2. Long-Term Outlook

2.1. The Commission continues to face extensive financial challenges.

2.2. In summary, the key challenges are:

- **Recurring deficit budgets as expenditure levels in the agreed work programme continually exceeds income which is unsustainable.**
- **That the agreed level of income is either late or not paid, which will eventually result in the Commission running out of cash and not being able to operate.**

2.3. The Commission will be able to balance its budget in 2022 by rolling forward savings from 2021 (due to cancelled meetings). However, these savings are one-off and will not resolve the ongoing problems in the Commission's budgeting processes which are caused in large part by the rising costs of meetings and services due to inflation, and the Commission agreeing to undertake activities with associated ongoing costs, that in total exceed the available annual revenue.

2.4. Based on the current level of arrears, the starting deficit for 2023 could be as high as £217k.

2.5. In order to be sustainable in the medium to long term the Commission needs to balance its budget by either reducing its work programme, increasing its income or a combination of both.

2.6. The Budgetary Sub-Committee (BSC) is developing a balanced budget proposal for the 2023/24 biennium that will set a precedent at IWC68 for balanced budgets going forward, as well as a strategy to ensure the long-term financial stability of the Commission (see BSC group summary paper).

2.7. This strategy will be presented to IWC68 and would be applied from the 2023/24 biennium onwards if agreed by the Commission.

3. Audited Accounts – 2018, 2019 & 2020

- 3.1. Financial Regulation B.5 requires the Commission to review and adopt the accounts from the period since it last met. As the 2020 meeting was cancelled, there are 3 sets of accounts to adopt which will all be submitted as papers to the Virtual Special Meeting.
- 3.2. The accounts under consideration are those for the 2018, 2019 and 2020 financial years.
- 3.3. All of the accounts mentioned in 3.2 received a 'clean' audit opinion, which means that the auditor agrees that they show a 'true and fair' view of the Commission's financial position.
- 3.4. The accounts for these years have also had their presentation improved to try and make them more accessible to stakeholders.

4. 2021 Financial Forecast

- 4.1. Table 1 below provides an update as to the forecast final position against the 2021 'bridge' budget in accordance with Financial Regulation D.2. as at 6 July 2021.
- 4.2. As a result of unspent funds from 2020 being brought forward, the bridge budget set a modest surplus of £6k.
- 4.3. Contributions remained frozen and income from bank interest reduced due to a low interest rate environment. Interest earned from overdue contributions increased due to an increase in the number of countries in arrears.
- 4.4. Salary budgets were in line with expectations (including inflation and step-increases where applicable), although staff benefits were higher than expected due to unanticipated increases in the price of health insurance premiums.
- 4.5. Many budget lines achieved one-off underspends due to the COVID-19 pandemic. IT and Secretariat's running costs were temporarily lower as staff continue to work at home in line with UK Government directives.
- 4.6. The pandemic resulted in IWC 68 being postponed for a second time to 2022. The scheduled in-person Scientific Committee meeting was also cancelled (with a virtual meeting being held instead). Although an in-person Commission meeting will not proceed in 2021, there will be some costs incurred in hosting the Virtual Special Meeting in September 2021.
- 4.7. Overall, these circumstances are expected to result in an underspend of c.£121k for the 2021 financial year.
- 4.8. However, collection rates of core financial contributions have been poorer than usual, likely due to the lack of in-person meetings and the economic impacts of COVID-19. The 2021 provision for bad debt is expected to increase substantially if the situation does not improve. **The Commission cannot operate without contributions and the amount of cash available is finite. Non-payment of contributions is causing a substantial risk to the Commission's operations and all Commissioners are urged to take immediate action to ensure that all contributions and arrears are paid.**
- 4.9. Due to unpaid contributions and the ongoing uncertainties surrounding COVID-19, the financial situation continues to evolve and these figures could vary as the year progresses. The Secretariat is actively monitoring the situation, and will keep the Bureau and Chairs of F&A and BSC updated as necessary.

Table 1: Forecast against the 2021 'bridge' budget

		2021 Agreed Budget	Forecast to end 2021	2022 Bridge Budget
	<i>Expected inflation</i>			2%
	INCOME			
	All Income			
1	Financial Contributions	(1,656,600)	(1,656,619)	(1,656,600)
2	Interest on Overdue Financial Contributions	(4,900)	(7,897)	(6,000)
3	Interest Receivable on Cash Balances	(3,000)	(2,000)	(1,000)
	TOTAL INCOME	(1,664,500)	(1,666,516)	(1,663,600)
	EXPENDITURE			
4	Staffing Costs Subtotal	961,700	958,065	988,700
5	Staff Benefits Subtotal	51,800	70,033	72,500
6	Travel for Representation & Bureau Meeting Subtotal	41,500	11,398	36,000
7	Professional/Consultancy Fees Subtotal	16,800	15,375	17,300
8	Secretariat Running Costs Subtotal	61,800	35,054	51,500
9	Information Technology Subtotal	73,300	55,785	71,500
10	Meetings Subtotal	129,200	24,546	370,600
11	Bank Charges, Depreciation & Provisions Subtotal	95,700	148,329	125,700
12	Scientific Committee - Research Budget	226,400	226,400	230,900
13	TOTAL EXPENDITURE	1,658,200	1,544,984	1,964,700
14	TOTAL (SURPLUS) / DEFICIT	(6,300)	(121,532)	301,100
	Less funds set aside in 2019 for Commission Meeting:			(129,950)
	Less funds set aside in 2020 for Commission Meeting:			(121,455)
	Less funds set aside in 2021 for Commission Meeting:			(28,800)
	Less part of underspends from 2020 SC Meeting			(20,895)
	Balanced Budget for 2022			0

5. Interim Budget for the 2022 Financial Year

Budget

1.1. Due to the postponement of the in-person IWC 68 meeting to October 2022, it is necessary to set a one-year 'bridge' budget to take the Commission through this interim period until it is able to meet in person and set a biennial budget in the usual way.

1.2. The 2022 budget has been prepared on the following basis:

- The Commission will continue 'business as usual'.
- Costs are estimated using zero-based budgeting – so the actual expected costs of delivering the Commission's business are indicated.
- Headline contributions will be frozen at 2021 levels for 2022.

- 1.3. Normally, the budget would first be considered by the BSC and then Finance and Administration Committee before being adopted in the plenary session of the Commission meeting. This year, the draft bridge budget was reviewed at the July 2021 Bureau meeting before being submitted to the Virtual Special Meeting scheduled for September 2021.

SC Budget

- 1.4. At its virtual meeting in May 2021, the Scientific Committee (SC) agreed a budget request for 2022 at the same level as 2021, after adjusting for inflation on its costs. This is presented in Annex B.
- 1.5. The SC reviewed project proposals using the criteria laid out in the SC Handbook and scored and prioritised projects based on scientific merit and alignment with SC priorities.
- 1.6. Due to COVID-19, the SC had one-off underspends on its 2021 budget as some projects could not proceed. Where projects have been fully cancelled, it is proposed that the unspent funds are reallocated to:
- Support the cost of IPs at the 2022 in-person meeting of the SC
 - Support the IWC-POWER cruise
 - Support the costs of transforming the SC's working practices should the Commission agree changes as a result of the ongoing work of the Working Group on Operational Effectiveness.

Small Cetaceans Research & Conservation Fund¹

- 1.7. The Small Cetaceans Research & Conservation Fund undertook a successful call for proposals in 2021.
- 1.8. Using the process outlined in the Financial Regulations, a total of £67k was allocated from the fund. Approved projects can be found in Annex C and the Commission is requested to endorse these allocations.

6. Arrears of Contributions

- 6.1. Arrears of contributions are becoming an increasingly serious issue for the Commission.
- 6.2. Non-payment or late payment of contributions means that the Commission spends more cash than it receives.
- 6.3. This is unsustainable. The Commission has finite cash reserves and if cash is depleted, the organisation will be unable to pay its staff, its facilities costs and its scientific researchers and will not survive. **All Commissioners are urged to clear arrears of contributions immediately to prevent substantial cashflow risks to the IWC.**

¹ The Small Cetaceans Research Fund is a Commission Voluntary Fund which receives no core funds.

7. Summary of Decisions Required

7.1. The Commission is requested to:

- Adopt the audited accounts for the 2018, 2019 and 2020 Financial Years
- Note the financial forecast for the 2021 Financial Year
- Adopt the 2022 budget as laid out in Annex A, including:
 - The Budget request from the Scientific Committee
 - The allocations made from the Small Cetacean Research & Conservation Fund
- Note the serious impact of non-payment/late payment of contributions.

Note: the COVID-19 pandemic has caused increased uncertainty in relation to the Commission's income and expenditure. It may be necessary to issue a revised version of this paper if there are material changes between the time of writing this document (7/7/2021) and the Virtual Special Meeting. The Secretariat will continue to monitor the situation and will keep Commissioners updated as needed.

Annexes

Annex A – 2022 Proposed Budget

All amounts are in GBP.

		2021 Agreed Budget	Forecast to end 2021	2022 Bridge Budget
	<i>Inflation expectation</i>	2%		
INCOME				
All Income				
1	Financial Contributions	(1,656,600)	(1,656,619)	(1,656,600)
2	Interest on Overdue Financial Contributions	(4,900)	(7,897)	(6,000)
3	Interest Receivable on Cash Balances	(3,000)	(2,000)	(1,000)
	TOTAL INCOME	(1,664,500)	(1,666,516)	(1,663,600)
EXPENDITURE				
4	Staffing Costs	961,700	958,065	988,700
5	Staff Benefits	51,800	70,033	72,500
6	Travel for Representation & Bureau Meeting	41,500	11,398	36,000
7	Professional/Consultancy Fees	16,800	15,375	17,300
8	Secretariat Running Costs	61,800	35,054	51,500
9	Information Technology	73,300	55,785	71,500
10	Meetings	129,200	24,546	370,600
11	Bank Charges, Depreciation & Provisions	95,700	148,329	125,700
12	Scientific Committee - Research Budget	226,400	226,400	230,900
13	TOTAL EXPENDITURE	1,658,200	1,544,984	1,964,700
14	TOTAL (SURPLUS) / DEFICIT	(6,300)	(121,532)	301,100
	Less funds set aside in 2019 for Commission Meeting:			(129,950)
	Less funds set aside in 2020 for Commission Meeting:			(121,455)
	Less funds set aside in 2021 for Commission Meeting:			(28,800)
	Less part of underspends from 2020 SC Meeting			(20,895)
	Balanced Budget for 2022			0

* Note – when biennial budgets are set, the cost of the Commission meeting is spread across the 2 years of the biennium. As this is a single year budget which is funded from the carried over underspends of previous years, for transparency, the cost of the Commission meeting has been shown in full for 2022, so that the underspends applied can also be shown in full. Therefore the deficit shown appears to be higher than it otherwise would be had a biennial budget been set, and this is offset with multi-year underspends

** After the application of funds to balance the 2022 budget position, there are c.£120k of underspends from cancelled meetings in 2020/21. These could be used to contribute to the 2023 budget, but even if this remains available the scale of the challenge to balance the position for the 2023/24 biennium will be substantial.

Annex B – Scientific Committee Budget Request for 2022 (as endorsed at IWC 68c)

All amounts are in GBP.

Sub Comm.	Project Title	Brought Forward From Previous Years	Reallocated From Other Projects*	2022 Core Budget Request	Total	In-Kind Support
General						
ALL	Invited Participants 2022	100,000	-	-	100,000	-
ALL	Amount to support Commission Recommendations	-	-	15,000	15,000	-
ALL	Seed Funding - Communications Small Group	-	-	15,000	15,000	-
ALL	Responding to Commission Developments	-	94,093	14,591	108,684	-
ALL	Contingency Fund	44,848	-	-	44,848	-
Meetings / Workshops						
NH	NA Humpback workshop	-	-	16,960	16,960	Venue
CMP	Chile-Peru SRW CMP Workshop	-	-	8,750	8,750	Venue
Modelling / Computing						
IST	Essential computing support	-	-	13,500	13,500	-
Research						
IST, IA	IWC-POWER cruise	15,714	-	15,106	30,820	990,230
SH	SH Blue Whale Catalogue	-	-	11,500	11,500	-
SH	Madagascar blue whale photographs	-	-	400	400	-
IA	HW Tag Data Analysis	-	-	9,860	9,860	-
SH	SRW Australia Aerial Survey	-	-	17,008	17,008	-
NH	MEGARA 2022	-	-	6,000	6,000	2,500
SH	Antarctic BW Stock and Movement	-	-	16,076	16,076	126,050
CMP	Chile-Peru SRW Acoustics	-	-	19,400	19,400	8,000
CMP	Blue whale acoustics Oman	-	-	16,904	16,904	25,627
CMP	ASHW conservation	-	-	14,845	14,845	34,674
Databases						
HIM	Ship strikes database coordinator	-	-	10,000	10,000	30,000
GDR	Secretariat database support	-	-	6,000	6,000	-
Reports						
E	SOCER	-	-	4,000	4,000	-
TOTALS		160,562	94,093	230,900	485,555	1,217,081

*The £100,000 set aside for invited participants at the 2021 meeting is proposed to be rolled forward to cover the costs of invited participants at the 2022 in-person meeting instead.

**Underspends of c.£210k we noted in 2021 due largely to time-critical research and workshops that could not proceed due to COVID-19. Noting the Commission's budget situation, and that changes would likely be required to SC meetings and/or Research budgets, £94k of these funds have been set aside to assist the SC in implementing any changes to current working practices as directed by the Commission over the medium term. The remaining £15k were underspends on the IWC-POWER Cruise, which have been allocated to support future cruises.

Annex C – Projects endorsed for funding from the Small Cetaceans & Research Voluntary Fund

All amounts are in GBP.

Title	Principal Investigator	Cost
Rapid assessment of the occurrence and conservation status of Guiana dolphins at the northern periphery of their range in Central America	Laura J May-Collado	19,564
More knowledge, less mortality: education for the conservation of Guiana dolphins (<i>Sotalia guianensis</i>), Lake Maracaibo, Venezuela	Yurasi Briceño	5,820
Population assessment and dynamics of Lahile's bottlenose dolphins in Argentina	Mariano Alberto Coscarella	17,020
Understanding the effects of trans-boundary barrage operations on the Nepal-India border for Ganges river dolphin habitat and population dynamics	Gopal Khanal	4,994
Assessing the conservation status of Burmeister's porpoises in Peru— trialling tools for estimating abundance and bycatch of this cryptic and poorly known species	Joanna Alfaro Shigueto	20,000
	Total	67,398