

Balancing the Commission's Budget: Discussion Groups Process and OutcomesJune 2021

1. Background and context

- 1.1. The International Whaling Commission is facing a budget crisis. Unless the Commission makes changes, it will overspend by at least £329,000 in the next biennium (2023-24) and will be at risk of becoming insolvent in just a few years.
- 1.2. Member contributions have not increased for nearly a decade, while the Commission's operational costs (everything from Secretariat staff to meeting venues) have continued to rise with inflation. The Commission's work programs have also expanded due to the adoption of new resolutions and priorities put forward by the Commission while financial contributions remained frozen.
- 1.3. The Budgetary Sub-Committee (BSC) is tasked through its terms of reference with developing budget proposals for the Commission to consider. Recognising the urgent need to address the financial situation, the Bureau recommended in October 2019 that only balanced budget proposals be put forward to IWC68. Due to COVID-19, the Commission has not met since 2018 to consider options.
- 1.4. To support this task, the BSC convened two informal discussion groups in October 2020 to advise on possible areas of savings within the Commission's three budget streams (Secretariat, meetings and research) and how those savings could best be managed so as to have the least possible impact on the Commission's functions and deliverables.
- 1.5. The two groups each met three times between December 2020 and April 2021.
- 1.6. **Group 1** discussed areas of potential savings in the Secretariat and meetings budget. The group comprised the Commission's elected leadership – the chairs and vice chairs of the IWC, BSC, Finance and Administration Committee, Scientific Committee and Conservation Committee, as well as the Executive Secretary and the Secretariat's Head of Finance and Administration.
- 1.7. **Group 2** discussed areas of potential savings in the Scientific Committee's research budget and the Scientific Committee's share of the meetings budget. Membership of Group 2 was open to all Commissioners. The group comprised Commissioners or their delegates representing Australia, Brazil, Denmark, Mexico, the Netherlands, Portugal, Switzerland, the UK and the US. The Secretariat's Head of Science, Conservation and Management and the Secretariat's Head of Finance and Administration, and the Scientific Committee Chair and Vice Chair participated in an advisory capacity.

IWC68 postponement

- 1.8. The postponement of IWC68 to 2022 means the balanced budget proposal developed by the BSC would not be implemented until the 2023-24 biennium if agreed by the Commission. This provides additional time to conduct outreach and seek feedback on the budget proposal from members and observers, consider implementation of potential savings, and evaluate support for increases to contributions.
- 1.9. The balanced budget proposal, if agreed at IWC68, will become the new 'status quo' budget model for future bienniums. While the Commission will be encouraged to regularly review the impact and effectiveness of any implemented savings, any savings adopted in the balanced budget will be implemented on an ongoing basis.
- 1.10. As a result of in-person meetings and travel being postponed in 2020 and 2021, some expenditures planned for the current budget cycle did not occur. These one-off underspends will be carried over to fund meetings in 2022. While this is expected to allow the Commission to achieve a balanced bridge budget for 2022 without implementing budget reductions, this underspend is a one-off and will not solve the ongoing, longer-term budget problems.

Red House Sale

- 1.11. On 18 March 2021, the Commission agreed via postal vote to list the Commission's headquarters – the Red House – for sale. This difficult decision was made based on the Secretariat's advice that ongoing maintenance costs would exceed the cost of renting a smaller, impermanent workspace. If the Red House is sold the revenue will be used to boost the Commission's cash-reserves and improve cash-flow. Those revenues will not be drawn on to address the deficit.

Budget Reform Strategy

- 1.12. The Budget Reform Strategy, developed by the Budgetary Sub-committee as part of the Working Group on Operational Effectiveness (WG-OE) package of governance reforms, proposes best-practice budget management principles for the Commission including setting only balanced budgets, adopting zero-based budgeting, and forecasting budgets over a four-year period.
- 1.13. If agreed at IWC68, the Budget Reform Strategy will ensure the Commission remains financially sustainable into the future and avoids any further reliance on deficit budgets.

2. Summary of Discussions*Agreement to 'quick win' savings*

- 2.1. Group 1 agreed to several 'quick win' savings options that could be considered in the 2022 bridge budget or the balanced budget proposal for the next biennium. These include:

Quick wins	Estimated savings and budget stream	Additional considerations
Reduce Commission meetings by one day	~£28k – Meetings Budget (biennial saving)	This is factored into the new meeting format being proposed by the WG-OE and

		will be considered by the Commission in that context.
No funded networking, convenor's lunch and corporate gift at Scientific Committee meetings	~£7k – Meetings Budget (annual saving)	These events could be self-funded by delegations or others.

- 2.2. Group 1 also agreed the Commission could consider moving to virtual Bureau meetings. This could save up to £18k annually.

Agreement to propose the option to increase to member contributions

- 2.3. Both groups agreed options for increases to member contributions should be an option considered by the Commission.
- 2.4. The model proposed will depend on the response to outreach and consultation, but may include:

Options	Implication if agreed
8-10% increase in 2023, establishing a new baseline, plus an inflationary increase of ~2% annually thereafter	Addresses the current deficit. No significant savings would need to be agreed at this stage.
8-10% increase in 2023, establishing a new baseline.	Temporary solution that addresses the current deficit. Does not address the issue of Commission costs rising with inflation, and it is likely expenditure will again rise above income – meaning savings will still need to be found at a later date.
Inflationary increases of ~2% annually	This would address the ongoing issue of rising Commission costs but would not fully address the current deficit. Significant savings would still need to be found for 2023-24 to establish as new expenditure baseline.

- 2.5. The groups considered whether it would be possible to spread contribution increases over a couple of years to reduce the burden on members. The BSC advised against this option because:
- The Commission's cash reserve is almost depleted, so it needs to agree a fully balanced budget in 2023 and every year thereafter to avoid insolvency. If contributions are not raised by the full 8-10% in 2023, the Commission would still need to find savings at IWC68 to balance the budget.
 - The Commission's expenditure is increasing each year due to inflation which means, if contribution increases were spread over 2-3 years, the increase would need to be as high as 7% each year to keep pace with inflation. For most capacity to pay Group 1 and 2 countries, the difference between a 7% and 8-10% increase would be minimal.
- 2.6. If contribution increases are agreed at IWC68, the first increase will be reflected in invoices due by 30 June 2023.
- 2.7. A proposal to increase contributions was presented at IWC67 in 2018 but was not supported by the Commission. COVID-19 will likely consolidate this position

further. Significant outreach will be required over the next 12 months to ensure members are ready to give reasonable consideration to contribution increases at IWC68.

- 2.8. The BSC will prepare a contingency balanced budget proposal that does not account for increased contributions, in case the Commission decides against that option.

Agreement that the budget situation necessitates adjustment to Scientific Committee operations

- 2.9. Group 2 discussed possible savings from Scientific Committee operations (meetings budget and research fund).
- 2.10. Although some members of the group expressed concerns about the implications of any further budget adjustments (the Research budget was decreased by ~30% at IWC67) that will affect the Scientific Committee, there was a broad understanding that the Scientific Committee will need to absorb a portion of funding cuts to make up the deficit, noting that:
- Each Scientific Committee meeting costs around £140,000. Over a biennium, two Scientific Committee meetings cost approximately the same amount as the biennial Commission meeting.
 - The Scientific Committee's advice and research is integral to the Commission fulfilling its mandate and although adjustments can be explored, the Scientific Committee's value is not in question.
 - For the Scientific Committee to continue its work and maintain its reputation as the global authority for cetacean science, it must retain its expertise while operating within and contributing to a financially viable Commission.
- 2.11. The main savings option discussed was changes to Scientific Committee meeting structure, including a possible move to biennial meetings, which would likely save almost half the projected overall deficit. While members expressed concern with the potential impacts such a move could have on the outputs of the Scientific Committee, the agreed way to mitigate such impacts was through some mix of in-person and/or virtual intersessional meetings.
- 2.12. The key consequence of less frequent Scientific Committees meetings is a reduced volume of advice available to the Commission (although intersessional workshops could mitigate this). The key opportunities include a targeted agenda and streamlined reporting process ensuring all work and recommendations align with Commission priorities.
- 2.13. The group noted that the Commission has endorsed a substantial amount of scientific work which exceeds the available funds. This situation needs to be managed. Any changes to Scientific Committee meetings or priorities must be complemented by the Commission adopting realistic expectations of what the Scientific Committee can deliver, including revisiting previous directives to ensure they are still necessary, relevant, implementable and affordable.
- 2.14. Changes to meeting operations, such as moving to biennial meetings, will create complementary savings from the Research Fund. For example, it is likely less travel funds will be needed for Invited Participant (which are now budgeted in the Research Fund). The group agreed that opportunities for other low-risk savings from the research fund could be explored, including possible changes to how the Invited Participants budget line is managed.

- 2.15. It is also noted that the Scientific Committee developed options and recommendations, after reviewing the options formulated by the budget discussion groups, for possible future budget reductions related to meetings and the Research Fund at its recent meeting in April/May 2021.

Agreement to explore modest savings in Secretariat staff benefits

For legal reasons, this paper does not cover the specifics of savings to staff pay and benefits discussed

- 2.16. Group 1 discussed possible savings from the Secretariat's budget.
- 2.17. The Secretariat budget is primarily made up of staff pay and benefits (78%). Therefore, any significant savings to the secretariat budget will affect staffing and employment conditions. Significant savings to IT infrastructure and services have already been implemented.
- 2.18. The group agreed it is not acceptable for basic working conditions and benefits to be diminished to address the deficit. Rather, if the Commission decides to reduce the Secretariat's staffing budget, savings should only be found by reducing benefits that are above UK standards, or by reducing overall staffing levels (i.e. redundancies) and associated services to the Commission.
- 2.19. The working conditions offered to Secretariat staff include a modest package of benefits, some of which are slightly above UK standards. Although only generating minor savings, the group agreed that initiating consultations with staff around reducing/removing this category of benefits was acceptable. It was agreed that the other benefits should remain in place to ensure the Secretariat is able to attract and retain quality staff.
- 2.20. The group agreed it was not appropriate to reduce salaries to balance the budget. However, when new staff are recruited following natural turnover, salaries are aligned with market rates to ensure value for money for the Commission.
- 2.21. Although modest redundancies could be explored, the group acknowledged that there are significant risks associated with reducing the capacity of the Secretariat in terms of the level of service available to the Commission.
- 2.22. The group acknowledged the high caliber of the Secretariat staff and their flexibility, efficiency, professionalism, and work ethic.

Agreement that further savings in the meetings budget should be explored

- 2.23. Group 1 considered additional options for savings in the meetings budget in addition to the 'quick wins' and possible changes to Scientific Committee operations.
- 2.24. The Secretariat already works to reduce meeting costs, with the last two Commission meetings being more cost effective.
- 2.25. The group agreed to explore the possibility of virtual and reduced 'margins' meetings (prior to or following in-person Commission meetings) noting that the scope of these meetings has increased over time and their purpose and structure could be reviewed. The BSC will consult with the WG-OE to consider this in the context of the separate proposal for changes

to the Commission meeting structure (and development or review of Terms of Reference for each of the Commission's subsidiary bodies).

3. Next steps

- 3.1. The BSC will develop balanced budget options for 2023-24, in consultation with relevant Commission subsidiary bodies. A draft proposal will be considered by the Bureau ahead of being considered at IWC68. This proposal will be accompanied by a report capturing the potential impact and management of various savings options.
- 3.2. The balanced budget proposal will be shared with Commission members and observers for their views in the lead up to IWC68.
- 3.3. Although the informal budget discussion groups are now dissolved, participants are best placed to lead outreach in their regions on increases to member contributions and the importance of balancing the Commission's budget. The BSC can support this outreach with messaging, papers, presentations etc.
- 3.4. The BSC, Secretariat, and Scientific Committee leadership welcome questions and engagement from any members wishing to further their understanding of the budget work.