



## Finance Committee

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**Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred**

### **Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred**

#### **Report of the Secretary-General**

#### **I. Background**

1. At a meeting held during the twenty-fourth session, the Finance Committee decided to recommend an increase in the annual overhead charges for the administration and supervision of contracts for exploration from \$47,000 to \$60,000, compared with \$63,908 as originally recommended by the secretariat ([ISBA/24/A/6-ISBA/24/C/19](#), paras. 23 and 24). At the same time, the Committee requested the secretariat to establish a more accurate methodology for calculating such costs benefiting from the ongoing implementation of the International Public Sector Accounting Standards in the accounting of the secretariat and to report, by the twenty-sixth session, on the exact costs for the supervision and administration of the contracts for exploration for the Committee to take up that question accordingly. The Committee also recommended that the amount of the annual overhead charges be reviewed more regularly in the light of the revised methodology (*ibid.*, para. 25).

2. The annual overhead charges were initially introduced in 2013, after the Finance Committee decided to recommend that the Council require each contractor with the International Seabed Authority to pay a fixed annual fee to cover overhead costs for the administration of contracts for exploration in the Area. The fee was assessed by the secretariat at \$52,182 on the basis of the system developed by the United Nations Development Programme of applying standard costs to contract administration and supervision. Having considered the information provided by the secretariat, the Committee decided to recommend a standard cost of \$47,000 as from 1 January 2013. It was also agreed that the standard costs would be reviewed periodically to ensure that they were commensurate with actual costs.

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\* [ISBA/26/FC/L.1](#).



## II. Status of revenue from overhead charges

3. When the overhead charges were introduced in 2013, there were 11 contracts for exploration. This increased to 27 contracts in 2017 and 29 in 2019. The increased number of contracts entails increased dedicated staff and other resources for the supervision and management of the contracts. It also allows for more detailed and accurate cost estimation. Table 1 shows a comparison of the costs assessed by the secretariat in 2013, 2017 and 2019 for the management of the contracts against the overhead charges recommended by the Finance Committee, as well as the impact of the revenue from the overhead charges on the income of the Authority.

Table 1

**Comparison of contract management costs assessed by the secretariat against the overhead charges recommended by the Finance Committee**

	2013	2017	2019
Number of contracts	11	27	29
Cost per contract assessed by secretariat <sup>a</sup>	52 182	63 908	80 308
<b>Total actual cost assessed by secretariat<sup>a</sup></b>	<b>574 002</b>	<b>1 725 516</b>	<b>2 328 932</b>
Overhead charges (recommended by Finance Committee) <sup>a</sup>	47 000	60 000	60 000
<b>Total revenue<sup>a</sup></b>	<b>517 000</b>	<b>1 620 000</b>	<b>1 740 000</b>
Revenue from overhead charges (percentage share of budget)	7	18	18

<sup>a</sup> United States dollars.

## III. Revised methodology

4. The methodology used in 2017 to determine the increase in costs was based on a simple extrapolation from the data used in 2013 and relied excessively on statistics and percentage formulas. As requested by the Finance Committee, the secretariat has developed a new methodology that aims to achieve a fair representation and to reflect the true value of the costs actually and reasonably incurred by the secretariat in the administration and supervision of contracts for exploration. This methodology is focused on the timely recording of the actual incurred costs and applies an apportionment of costs after creating appropriate objects of expenditure (cost centres) to collect the expenses pertaining exclusively to the administration and supervision of the contracts.

5. During 2019, the secretariat carried out research and analysis to confirm and include all the cost drivers, such as staff costs, operational costs and other costs that were deemed relevant to the overhead charges. This was followed by extensive data collection, which was scrutinized in terms of financial data and expense records while applying International Public Sector Accounting Standards and cost accounting practices, using reporting templates that departments and units submitted to indicate costs and time spent on the activities of contractors. The new enterprise resource planning modules implemented as at the beginning of 2020 will provide further tools for the collection and reporting of cost data to keep the costs updated and available for review at any time. The following categories represent the major cost drivers under the new methodology.

## A. Staff costs

6. An analysis of staff costs was carried out by recording on standardized time sheets the time spent on various tasks relating to contract management and supervision, which, excluding those of the Contract Management Unit, are as follows:

(a) Between 1 April and 30 June of each year, staff of the Office of Legal Affairs and the Office of Environmental Management and Mineral Resources are engaged in reviewing the annual reports submitted by contractors. The purpose of this work is to review the reports for technical completeness, analyse the data submitted and produce summaries for consideration by the Legal and Technical Commission. With 30 contractors, this means that a considerable number of person-hours are dedicated to this essential task. The process continues after the reports have been considered by the Commission, as feedback from the Commission is compiled and communicated to the respective contractors;

(b) Technical officers in the secretariat also review the five-year reports submitted by contractors, which contain descriptions of activities and achievements over the past five years and a proposal for the activities planned for the subsequent five years. These reports are reviewed in detail and require the secretariat's expertise in data management, geology, exploration, engineering, marine environment and biology, law and training. The secretariat also coordinates with the Commission, which provides its input remotely. The number of periodic reports varies from year to year;

(c) The secretariat also attends to many emerging matters with contractors. In the past year, these have included holding internal meetings on outstanding refund of fees to contractors and dealing with issues of data submission to the DeepData database. Although these matters may be ad hoc, they can consume considerable person-hours;

(d) The time spent on finance, budget and other related services within the Office for Administrative Services is required to record the financial and budget aspects of the contractor contributions and generate financial transactions, reports and notes, including on engagement with auditors.

7. The Contract Management Unit comprises two full-time staff (one Chief and one Training Coordinator). Substantively, all the work performed by the Unit is related to managing the activities of contractors. The Training Coordinator works daily on coordinating with contractors on training offers, advertising (with the support of the Communications Unit), evaluating applications and liaising with the Commission both in session and between sessions on the selection of candidates. Routine work also includes updating and maintaining the training databases and collecting training reports from contractors and trainees. At times, legal opinion is required to ascertain whether some training offers comply with regulations.

8. The Contract Management Unit is also responsible for managing the internal workflow for the analysis of annual reports, as well as the organization and preparation of documentation for the annual consultative meeting between the Secretary-General and the contractors.

9. It is calculated that 90 per cent of the work of the Contract Management Unit can be attributed to costs incurred in servicing contracts and, as such, is included in the overhead calculations.

## B. Legal and Technical Commission

10. Costs relating to the Legal and Technical Commission include those of meeting services, documentation, translations and rentals. A significant amount of time is allocated on the agenda of each session of the Commission to the current and future activities of exploration contractors. This entails taking into consideration a cost portion of the interpretations, translations, meeting services, venue rentals, travels and miscellaneous costs and activities that all relate to contractors during the annual sessions.

## C. Programme 2.3 costs (management of contracts)

11. In addition to direct staff costs, it is estimated that 50 per cent of the programme costs should be included in the overhead calculation. This includes costs for activities such as travel, workshops, the annual contractors' meeting and printing.

## D. Indirect costs

12. In line with standard policy, a 13 per cent overhead is applied representing the recovery of indirect costs incurred in supporting activities and deliverables, including information technology support, consumables and utility costs.

## IV. Conclusion and recommendation

13. Based on the revised methodology, it is estimated that the total cost for the administration and supervision of contracts amounts to \$2,328,930, which, on the basis of 29 contracts, equates to an overhead charge of \$80,308 per contract (see table 2).

Table 2

### Costs for the administration and supervision of contracts based on a 2019 survey and data collection

(United States dollars)

<b>Salaries, post adjustment and common staff costs</b>	
Office of Environmental Management and Mineral Resources, Office of Legal Affairs and Executive Office of the Secretary-General	1 145 000
Office for Administrative Services	135 000
Contract Management Unit	300 000
<b>Legal and Technical Commission, direct costs related to contractors</b>	425 000
<b>Programme 2.3 costs</b>	56 000
<b>Subtotal</b>	<b>2 061 000</b>
<b>Indirect costs (13 per cent)</b>	267 930
<b>Total</b>	<b>2 328 930</b>
Cost per contract	80 308

14. On the basis of the above, the Finance Committee is requested to consider recommending an adjustment of the contractor overhead charges to \$80,000, effective 1 January 2021.