



**Finance and Administration Committee**

**FAC(19)07**

*Discussion paper on the lump sum payment to retiring full-time NASCO staff*



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#### **Introduction**

Discussions were held in the 2017 meeting of the Finance and Administration Committee (FAC) when it considered and advised the Council on a number of issues related to providing lump sum payments exceeding the level required under Staff Rule 8.2(b) to two retiring staff members. Staff Rule 8.2(b) specifies as follows:

*Prior to a Secretariat Member retiring from full-time employment with NASCO, a lump sum payment will be made into that Secretariat member's Staff Fund of not less than one-twelfth after tax of the final year's gross salary and allowances for each year of service with the Organization, fractions of a year to count pro-rata. A Secretariat member aged 55 years or over may request the Secretary to transfer to the Staff Fund up to 20% per annum of the estimated current value of his or her lump sum entitlement. Thereafter, the balance of the lump sum entitlement will be transferred on an annual basis.*

Last year, the FAC noted that the question of providing an extra lump sum had also arisen in 2012 upon the retirement of the first NASCO Secretary. The 2017 discussion related to the retirement of the second NASCO Secretary and the Personal Assistant (PA) to the Secretary. At neither time was there clear guidance on which to base a decision, and NASCO struggled to find a way forward. In the end, the two retiring NASCO Secretaries received a lump sum payment of about 1/8<sup>th</sup> (rather than 1/12<sup>th</sup>) of their final years' gross salary and allowances for each year of service with NASCO, and the PA to the Secretary received about 1/6<sup>th</sup>. Additionally, in 2012, there was not enough money available in the Contractual Obligation Fund to service the Secretary's lump sum payment and the Working Capital Fund together with a loan from the IASRB was needed to make ends meet. It took a few years to rebuild these funds completely and efforts were also made to improve the situation of the Contractual Obligation Fund to avoid such situations in the future. By 2017, NASCO was in a better financial position and was able to meet the additional lump sum disbursements for the retiring Secretary and PA to the Secretary using the Contractual Obligation Fund. These disbursements drew down that fund almost completely, and NASCO is in the process of rebuilding it to £250,000, the maximum level set by the Council.

Following the 2017 discussion of the lump sum issue, the FAC agreed to consider at its 2018 meeting whether or not clarification or amendment to NASCO's rules relating to financial and administrative matters might be needed. The Parties briefly discussed the pros and cons related to the discretion in the Staff Rules that allowed for an increase in the lump sum payment. Some Parties noted that, given the difficult decision-making regarding the discretionary lump sum payments in both 2012 and 2017, establishing a transparent, consistent and repeatable process would have value. In particular, it would bring predictability and certainty with regard to the lump sum issue that would allow for appropriate budgeting by NASCO and more effective retirement planning for Secretariat staff.

The members of the FAC noted that they were not prepared to recommend a way forward on this matter in 2018 but agreed that the issue should be considered further. In that regard, the Secretary was asked to prepare a discussion paper in time for the 2019 meeting of the Committee. In support of that effort, several potential alternative approaches that could be included in a discussion paper were identified, as follows: (1) changing Staff Rule 8.2(b) to increase the lump sum required for payment to a full-time Secretariat staff member upon

retirement, from 1/12<sup>th</sup> after tax of the final years' gross salary and allowances for each year of service with NASCO to some higher proportion and eliminate the possibility for an additional, discretionary lump sum payment above that amount; (2) changing Staff Rule 8.2(b) to a higher proportion but still allowing a discretionary additional lump sum payment based on strict criteria that would be implemented as a bonus system; (3) retaining the current lump sum proportion but developing clear criteria to guide decision-making on providing an additional lump sum payment above 1/12<sup>th</sup>; (4) considering the establishment of a pension programme for Secretariat staff as the lack of such a programme has contributed to the need to provide an additional lump sum payment to retiring full-time staff.

## **Analysis**

After discussion with the Chair of the FAC, it was determined that an appropriate first step to support the FAC discussion of this important issue in 2019 would be to present information on the possible financial impact of changing the lump sum percentage set out in Staff Rule 8.2(b) to a higher proportion. A number of calculations have, therefore, been performed that look at building the Contractual Obligation Fund to various levels under differing scenarios (initially the level of annual pay rise accorded to staff and the fractions of the lump sum payment to be made into the Secretariat members' Staff Funds). The salary increases used are 3% (based on the current median % increase for 2019 earnings forecast by HM Treasury in the June 2018 figures 'Forecasts for the UK economy') and 5%. The different fractions of lump sum evaluated are: 1/12<sup>th</sup>, 1/10<sup>th</sup>, 1/8<sup>th</sup> and 1/6<sup>th</sup>, which encompass the known range of lump sums paid out to retiring Secretariat staff thus far as well as the fraction provided for in Staff Rule 8.2(b).

The calculations presented below are illustrative and not definitive. They incorporate salaries from 1 October 2017, the start date for the current NASCO Secretary, and run until the latest date the current NASCO Secretary could be employed by the organization under current rules and after which separation would occur. All other staff salaries are then calculated in relation to 1 October 2017 with their salaries running from that date until 30 September each year, i.e. the anniversary date of the current NASCO Secretary's employment, and pro-rated according to that date rather than their own respective anniversary dates. The actual calculations used for retiring staff in recent years were calculated to the end of December of the retiring year and pro-rated. A flat rate of 5.1% is used to calculate allowances for each staff member, the same figure used by the previous Secretary in calculating the additional lump sum pay-out options to present to Council for himself and the retiring PA to the Secretary in 2017. To determine the maximum draw on the Contractual Obligation Fund in one year, the calculations assume that the lump sum pay outs would occur to all Secretariat staff at the same time in line with latest possible retirement timeframe of the current NASCO Secretary – specifically, at the end of September 2025. It is unlikely, however, that all other full-time Secretariat staff would also be retiring from NASCO at that time.

The calculations assume that no full-time Secretariat staff will leave NASCO's employment before the current Secretary's maximum potential employment timeframe expires. If any of the staff were to leave before then, the maximum sums required in the Contractual Obligation Fund would be lower than those in the illustration provided.

The calculations have been developed in conjunction with accountants at Saffery Champness in Edinburgh, the firm used currently to audit NASCO's accounts and deliver payroll for the one part-time NASCO staff member.

Taking into account the foregoing, the maximum sums required in the Contractual Obligation Fund under the different percentage options are as follows:

<b>Proportion (After Tax) of the Final Year's Gross Salary and Allowances</b>	<b>Annual Salary increase</b>	<b>Total Amount Required in Contractual Obligation Fund to Service Lump Sum Payments</b>
1/12 <sup>th</sup>	3%	<b>£212,839</b>
	5%	<b>£238,871</b>
1/10 <sup>th</sup>	3%	<b>£255,406</b>
	5%	<b>£286,645</b>
1/8 <sup>th</sup>	3%	<b>£319,258</b>
	5%	<b>£358,306</b>
1/6 <sup>th</sup>	3%	<b>£425,677</b>
	5%	<b>£477,742</b>

Detailed calculations for each staff member are available if required. They will not be circulated widely given that they contain confidential information for each of the NASCO full-time staff members.

### **Further considerations and analysis**

As the information in this document shows, there are important financial and other considerations related to changing NASCO's rules related to staff remuneration and, in this case, to the question of revising Staff Rule 8.2(b). Some scenarios presented above would, if adopted, require a substantial increase in the standing level of the Contractual Obligation Fund, the maximum of which is currently set at £250,000. In addition, if it is decided that no change in Staff Rule 8.2(b) is necessary or that a change is necessary but discretion to provide an additional lump sum is also retained, there is still a question regarding the need to develop clear criteria to guide decision-making on providing any additional lump sum.

In light of the outcome of discussions by the FAC, and as needed, the Council, on these important matters at the 2019 Annual Meeting, further analyses of relevant NASCO rules on staff remuneration, including a comparison of approaches taken by other RFMOs, can be undertaken by the Secretariat to facilitate future discussions, as needed and as appropriate.

Chair of the FAC and Secretary  
Edinburgh  
May 27 2019