MARCH / MARS 2017

(E)

DRAFT BUDGET AND EXPLANATORY NOTES
FOR FINANCIAL YEAR 1 JULY 2017 – 30 JUNE 2018 (FY LXIII)

VERSION OF 8 MARCH 2017

submitted by the Permanent Bureau

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PROJET DE BUDGET ET D'EXPOSÉ DES MOTIFS
POUR L'EXERCICE FINANCIER DU PREMIER JUILLET 2017 AU 30 JUIN 2018 (EF LXIII)

VERSION DU 8 MARS 2017

présenté par le Bureau Permanent

Document drawn up for the attention of the meeting of the Council of Diplomatic Representatives on 23 May 2017

Document établi en vue de la réunion du Conseil des Représentants diplomatiques du 23 mai 2017

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HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW

PART I BUDGETARY PLANNING

			Budget Financial Year LXII 1 July 2016-30 June 2017	Budget Financial Year LXIII 1 July 2017-30 June 2018
	I	**EXPENSES**		
	A	**OPERATION OF THE PERMANENT BUREAU**		
Art	1	Personnel costs		
	1a	Salaries and allowances	2.187.000,00	2.304.000,00
	1b	Social benefits and insurances	92.000,00	112.000,00
	1c	Home leaves	17.000,00	17.000,00
	1d	Other costs relating to Staff Rules	22.500,00	50.000,00
	1e	Fund relocation	9.000,00	10.000,00
	1f	OECD (International Service for Remunerations and Pensions)	6.400,00	6.500,00
	1g	Consultants	87.500,00	161.400,00
			2.421.400,00	2.660.900,00
Art	2	Costs relating to the office building		
	2a	Rent	159.031,00	162.220,00
	2b	Electricity, gas, water	14.700,00	-
	2c	Service costs	43.301,00	44.200,00
	2d	Insurance costs	10.000,00	10.200,00
	2e	Cleaning	34.415,00	35.100,00
	2f	Fund office maintenance / equipment	17.000,00	17.000,00
			278.447,00	268.720,00
Art	3	Office and financial Operation		
	3a	Office supplies, Postage, Telecommunications	20.860,00	20.860,00
	3b	Bank fees	3.600,00	3.600,00
	3c	Audit fees	38.000,00	45.500,00
			62.460,00	69.960,00
Art	4	IT expenses		
	4a	IT support and maintenance	46.000,00	46.000,00
	4b	Computer equipment	45.000,00	45.000,00
	4c	Internet / website(s)	19.000,00	19.000,00
	4d	Fund new equipment	10.000,00	10.000,00
			120.000,00	120.000,00
Art	5	Publications / printing		
	5a	External design, lay-out	16.225,00	9.950,00
	5b	Copying and in-house printing, publications	73.850,00	75.350,00
	5c	Fund Recueil	3.600,00	3.600,00
			93.675,00	88.900,00
Art	6	Travel expenses for missions of Permanent Bureau officials	78.000,00	78.000,00
Art	7	Library and research costs		
	7a	Subscriptions	16.000,00	16.000,00
	7b	Purchases	5.500,00	5.500,00
			21.500,00	21.500,00
Art	8	External translations	56.200,00	50.000,00
Art	9	Representation (incl. for international meetings)	16.000,00	17.000,00
Art	10	Unforeseen	3.611,00	3.610,00
		SUBTOTAL	**3.151.293,00**	**3.378.590,00**

			Budget Financial Year LXII 1 July 2016-30 June 2017	Budget Financial Year LXIII 1 July 2017-30 June 2018
	B	**INTERNATIONAL MEETINGS**		
Art	11	Off-site meetings (Hague Academy)		
		Council on GAP / Council of Diplomatic Representatives		
	11a	Rent (including interpretation equipment, booths, workspace for personnel, small meeting room)	15.000,00	21.900,00
	11b	Interpretation (English and French)	13.625,00	13.625,00
	11c	Additional personnel and moving costs	5.490,00	8.050,00
			34.115,00	43.575,00
		Special Commissions and other meetings		
	11d	Rent (including interpretation equipment, booths, workspace for personnel, small meeting room)	37.500,00	47.500,00
	11e	Interpretation (English and French)	50.320,00	42.950,00
	11f	Additional personnel and moving costs	22.500,00	25.500,00
			110.320,00	115.950,00
		subtotal	144.435,00	159.525,00
Art	12	On-site meetings (PB) - additional personnel costs	4.500,00	5.500,00
Art	13	Other costs relating to Hague Conference meetings		
	13a	Supplies, refreshments and facilitation costs	19.000,00	19.000,00
	13b	Travel costs consultants and external experts	15.150,00	10.150,00
			34.150,00	29.150,00
		SUBTOTAL	**183.085,00**	**194.175,00**
	C	**PRESENT AND FUTURE PENSION LIABILITIES**		
		Paid by all Member States		
Art	14	Retirement or survivor's pensions	437.070,00	446.700,00
Art	15	Pension Administration costs of the International Section for Remunerations and Pensions	8.000,00	8.200,00
		SUBTOTAL	**445.070,00**	**454.900,00**
		TOTAL EXPENSES	**3.779.448,00**	**4.027.665,00**
	II	**REVENUES**		
Art	16	Contribution of the Member States	3.963.492,00	4.198.260,00
Art	17	Contribution of a Member Organisation	35.000,00	35.000,00
Art	18	Income derived from sales of publications	5.500,00	6.000,00
Art	19	Interest on the Revolving Fund	7.500,00	-
Art	20	Revenues generated from access rights	-	-
		TOTAL REVENUES	**4.011.492,00**	**4.239.260,00**

III VOLUNTARY CONTRIBUTIONS (V.C.)

Art 21a	Voluntary Contributions from Members	*p.m.*	*p.m.*
Art 21b	Voluntary Contributions from non-Members	*p.m.*	*p.m.*
	TOTAL V.C.	-	**-**
	TOTAL BUDGET	**4.011.492,00**	**4.239.260,00**

IV ACCRUED UNFUNDED PENSION LIABILITIES

Art 22	Paid, in addition to their contribution to the Budget, by all States that were Member on or prior to 1 July 2010 and which have not yet paid off their full share in these liabilities	232.044,00	211.595,00

PART II - CONTRIBUTIONS TO BE PAID BY THE MEMBER STATES

The calculation for the contributions of the Member States is based on the number of units assigned to each Member State under the system of the Universal Postal Union (as amended at the 23rd meeting of the Council of Diplomatic Representatives on 1 November 1977).

The total contribution to be paid by the Member States amounts to € 4,198,260 (see Art. 16).

Annex I lists the total contributing share of each State that was a Member on or prior to 1 July 2010 and that has *not* yet paid off its full share in the accrued unfunded pension liabilities (Art. 22): € 2,606,809 to be divided by 372.5 units = € 6,998.15 per unit.

Annex II lists the total contributing share of each State that was a Member on or prior to 1 July 2010 and that *has* paid off its share in the accrued unfunded pension liabilities *or* that became a Member after 1 July 2010 (and thus does not have to pay for accrued unfunded pension liabilities at all): € 1,591,451 to be divided by 247.5 units = € 6,430.11 per unit.

The increase per unit is **2.95% or € 200.65 per unit** compared to the previous Financial Year 2016-2017 (FY LXII).

Total contributing share of each State
that was a Member on or prior to 1 July 2010 and that has
not yet paid off its full share in the accrued unfunded pension liabilities

Financial Year LXIII (2017-2018)
Under the system of the Universal Postal Union (1)

MEMBERS	units	accrued unfunded pension liabilities	contribution to the operational Budget	**total contribution to be paid**
ALBANIA	1	568,04	6.430,11	6.998,15
ARGENTINA	3	1.704,12	19.290,32	20.994,44
AUSTRALIA	20	11.360,81	128.602,10	139.962,91
AUSTRIA	5	2.840,20	32.150,53	34.990,73
BELARUS	1	568,04	6.430,11	6.998,15
BOSNIA AND HERZEGOVINA	1	568,04	6.430,11	6.998,15
BRAZIL	20	11.360,81	128.602,10	139.962,91
BULGARIA	3	1.704,12	19.290,32	20.994,44
CHILE	3	1.704,12	19.290,32	20.994,44
CHINA	25	14.201,01	160.752,63	174.953,63
CYPRUS	1	568,04	6.430,11	6.998,15
CZECH REPUBLIC	5	2.840,20	32.150,53	34.990,73
ECUADOR	1	568,04	6.430,11	6.998,15
EGYPT	5	2.840,20	32.150,53	34.990,73
ESTONIA	1	568,04	6.430,11	6.998,15
FRANCE	33	18.745,33	212.193,47	230.938,79
FYR OF MACEDONIA	1	568,04	6.430,11	6.998,15
GEORGIA	0,5	284,02	3.215,05	3.499,07
GREECE	3	1.704,12	19.290,32	20.994,44
HUNGARY	5	2.840,20	32.150,53	34.990,73
INDIA	20	11.360,81	128.602,10	139.962,91
ISRAEL	3	1.704,12	19.290,32	20.994,44
JAPAN	33	18.745,33	212.193,47	230.938,79
JORDAN	1	568,04	6.430,11	6.998,15
LATVIA	1	568,04	6.430,11	6.998,15
LUXEMBOURG	3	1.704,12	19.290,32	20.994,44
MALAYSIA	3	1.704,12	19.290,32	20.994,44
MONTENEGRO	1	568,04	6.430,11	6.998,15
MOROCCO	5	2.840,20	32.150,53	34.990,73
NEW ZEALAND	5	2.840,20	32.150,53	34.990,73
NORWAY	10	5.680,40	64.301,05	69.981,45
PERU	1	568,04	6.430,11	6.998,15
POLAND	5	2.840,20	32.150,53	34.990,73
REPUBLIC OF KOREA	15	8.520,60	96.451,58	104.972,18
RUSSIAN FEDERATION	15	8.520,60	96.451,58	104.972,18
SERBIA	1	568,04	6.430,11	6.998,15
SLOVENIA	1	568,04	6.430,11	6.998,15
SOUTH AFRICA	10	5.680,40	64.301,05	69.981,45
SPAIN	25	14.201,01	160.752,63	174.953,63
SURINAME	1	568,04	6.430,11	6.998,15
SWEDEN	15	8.520,60	96.451,58	104.972,18
SWITZERLAND	15	8.520,60	96.451,58	104.972,18
TURKEY	5	2.840,20	32.150,53	34.990,73
UKRAINE	5	2.840,20	32.150,53	34.990,73
UNITED STATES OF AMERICA	33	18.745,33	212.193,47	230.938,79
URUGUAY	3	1.704,12	19.290,32	20.994,44
		211.595,00	2.395.214,11	2.606.809,11
rounding differences		-	*(0,11)*	*(0,11)*
Total taken into account for Financial Year LXIII	**372,5**	**211.595,00**	**2.395.214,00**	**2.606.809,00**

(1) As amended at the 23rd meeting of the Council of Diplomatic Representatives on 1 November 1977

Total contributing share of each State
that was a Member on or prior to 1 July 2010 and that *has*
paid off its full share in the accrued unfunded pension liabilities *or*
that became a Member after 1 July 2010

Financial Year LXIII (2017-2018)
Under the system of the Universal Postal Union (1)

MEMBERS	units	contribution to the operational Budget (= total contribution to be paid)
ANDORRA	1	6.430,11
ARMENIA	1	6.430,11
AZERBAJAN	1	6.430,11
BELGIUM	15	96.451,58
BURKINA FASO	0,5	3.215,05
CANADA	33	212.193,47
COSTA RICA	1	6.430,11
CROATIA	1	6.430,11
DENMARK	10	64.301,05
FINLAND	10	64.301,05
GERMANY	33	212.193,47
ICELAND	1	6.430,11
IRELAND	5	32.150,53
ITALY	25	160.752,63
LITHUANIA	1	6.430,11
MALTA	1	6.430,11
MAURITIUS	1	6.430,11
MEXICO	10	64.301,05
MOLDOVA	1	6.430,11
MONACO	1	6.430,11
NETHERLANDS	15	96.451,58
PANAMA	1	6.430,11
PARAGUAY	1	6.430,11
PHILIPPINES	1	6.430,11
PORTUGAL	5	32.150,53
ROMANIA	3	19.290,32
SAUDI ARABIA	20	128.602,10
SINGAPORE	1	6.430,11
SLOVAK REPUBLIC	3	19.290,32
SRI LANKA	3	19.290,32
TUNISIA	5	32.150,53
UNITED KINGDOM	33	212.193,47
VENEZUELA	1	6.430,11
VIET NAM	1	6.430,11
ZAMBIA	1	6.430,11
New Member	1	6.430,11
		1.591.450,99
rounding differences		*0,01*
Total taken into account for Financial Year LXIII	**247,5**	**1.591.451,00**

(1) As amended at the 23rd meeting of the Council of Diplomatic Representatives on 1 November 1977

Explanatory Notes

Draft Budget of 8 March 2017

Financial Year 2017-2018 (LXIII)

INTRODUCTION

Int-1 This draft Budget of 8 March 2017 has been adapted to reflect the outcome of discussions that took place during the meeting of the Standing Committee of the Council of Diplomatic Representatives on 9 February 2017. This version of the draft Budget thus replaces the first version submitted on 20 January 2016. Taking into account the feedback given by Member States during the Standing Committee meeting, the Secretary General suggested that a revised draft Budget be prepared prior to the meeting of the Council on General Affairs and Policy, taking place from 14 – 16 March 2017, in order to facilitate the discussion with Members. The Secretary General notes that according to Article 5 of the 2016 Regulations on Financial Matters and Budgetary Practices a revised version of the initial draft budget would only have been required *after* the Council of General Affairs and Policy meeting. It is not suggested to revise the 2016 Regulations and in future always to make a new draft Budget available ahead of the Council meeting, but in light of the clear outcome of the discussion during the Standing Committee meeting in February and calendar constraints of the Permanent Bureau, the presentation of a revised draft ahead of Council seemed the best way forward.

Int-2 The main changes to the first draft Budget submitted on 20 January 2017 are:

(i) As regards the human resource costs relating to the Asia Pacific Regional Office, only the stipend of the Representative has been included in this revised draft Budget; the fee of the Office Manager will only be included in the budget of Financial Year 2018-2019 (Art. 1g);[1]

(ii) a revision of salary costs to include some flexibility for possible re-organisation at the Diplomat Lawyer level to better align with Article 5 of the Statue of the Organisation, as well as to reflect adjustments to certain progression calculations (Art. 1a);

(iii) the inclusion of slightly lower costs for social benefits and insurances (Art. 1b);

(iv) the decrease of costs for electricity, gas, and water to € 0 (Art. 2b), as a result of the fully completed sale of the building at Scheveningseweg 6;[2]

(v) the inclusion of slightly lower costs for external translations (Art. 8);

(vi) the inclusion of slightly lower travel costs for consultants and external experts (Art. 13a);

(vii) the inclusion of additional costs for two Standing Committee meetings to be held externally (Art. 11a);

(viii) the inclusion of slightly higher costs for additional personnel for on-site meetings (Art. 12);

(ix) the inclusion of slightly lower costs for retirement or survivor's pensions (Art. 14);

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[1] In the version of the draft Budget submitted on 20 January 2017, the Secretary General proposed that the human resource costs of both Regional Offices be treated in an equal way, as both these offices fulfil comparable tasks and generate comparable benefits to the Organisation as a whole. See para. Int - 3 of the draft Budget of 20 January 2017, and the further references therein, for more background information.

[2] As a precautionary measure, an amount of € 5,000 was kept in the draft Budget of 20 January 2017 for any potential remaining payments for Scheveningseweg 6. However, following consultation with the Permanent Bureau's former real estate advisor, no additional expense are expected to arise for Scheveningseweg 6 and this amount has thus been removed from this version of the draft Budget.

(x) finally, this draft Budget takes into account one additional unit of assessed contributions as, at this stage, it is (very) likely that the HCCH will be welcoming a new Member State before the start of the Financial Year on 1 July 2017.

Int-3 There has not been any other significant change to the draft Budget. This revised draft still reflects the financial implications relating to the comprehensive reform of the Staff Rules for the Permanent Bureau and their future application,[3] the further implementation of the Staff Remuneration Audit of February 2015 (as previously approved by the Council of Diplomatic Representatives), and costs relating to the work programme of the Organisation, including the holding of a five-day Special Commission meeting on the Judgments Project in November 2017 (although these costs of course remain subject to the decisions of the Council on General Affairs and Policy at its March 2017 meeting). This draft Budget also still reflects further savings and efficiencies made by the Permanent Bureau.

Int-4 In light of the increase of the budget caused by the core reasons identified above, this draft Budget does *not* include other items or initiatives which the Secretary General also regards as crucial for the sound and effective development of the Organisation, including plans for improving the IT/information management infrastructure at the Permanent Bureau, or plans for developing a pension portal with the International Service for Remuneration and Pensions (ISRP).

Int-5 Most importantly, this draft budget does not include additional funding for the celebration of the 125th anniversary of the Hague Conference in 2018. However as additional funding will be necessary to organise related activities, the Permanent Bureau hopes to count on Members' voluntary contributions to adequately support this important milestone, which will also hopefully enable the development of the strategic direction of the Organisation. As described at the Standing Committee meeting on 9 February, the Secretary General hopes to offset some expenses of the 125th celebrations with a funding plan over Financial Years 2017-2018 and 2018-2019. In essence, the Secretary General proposes to hold two major events in September 2018 that would coincide with the 125th Anniversary of the first session of the Organisation: the 2018 Meeting of the Council of General Affairs and Policy, and a ceremonial reception and dinner to mark the 125th Anniversary. The September 2018 Meeting of the Council of General Affairs and Policy would replace the meeting of the Council of General Affairs and Policy in March 2018, allowing the funds that would otherwise be allocated to organising a meeting in March 2018 to be saved and used towards the activities for the Quasquicentennial Year. Should the Council on General Affairs and Policy agree, during its meeting in March 2017, to replace the March 2018 meeting with a special meeting in September 2018, the Organisation's (final) draft Budget for the FY 2017-2018 will then reflect this change with the funds included in the draft Budget for a Council meeting in March 2018 being ring-fenced for use in September 2018 (approx. € 45,000). As a result, the funds would not be used for anything else nor be regarded as contributing to a possible budget surplus at the end of the financial year. Additional information regarding the plans for the celebrations in 2018 are included in Preliminary Document No 14 for the attention of the meeting of the Council on General Affairs and Policy of March 2017.

Int-6 The main characteristics of this revised draft Budget for Financial Year 2017-2018 may thus be summarised as follows:

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[3] Following the acceptance of the Staff Rules by Member States on 31 January 2017, the Permanent Bureau is working to formalise its new Dispute Resolution mechanisms with the Administrative Tribunal of the Council of Europe in order for the new Rules to enter into force as soon as possible (most likely during the current Financial Year (2016-2017)). This draft Budget is therefore still based on the assumption that the new Staff Rules will be operational by the beginning of the 2017-2018 Financial Year. See also footnote 2 in the Budget for FY 2016-2017 (LXII) for more background information. Until the entry into force of the new Staff Rules, the Staff Rules of the OECD are still being used as the basis for organisational governance, with provisions and instructions being systematically reviewed and assessed against the "reality" (different from the OECD in terms of size, revenues and expenses) of the HCCH and its PB, including an ad hoc procedure for conflict resolution (which became applicable on 1 October 2016).

(i) Implementation of the new Staff Rules, including building a necessary reserve for costs associated with the application of certain human resources and governance provisions such as dispute resolution mechanisms and the indemnity for loss employment;

(ii) inclusion of the full stipend of the Representative of the Asia Pacific Regional Office; the inclusion of the fee of the Office Manager will be delayed until Financial Year 2018-2019;

(iii) continued implementation of the recommendations made by the ISRP in its Staff Audit as planned and approved in 2015;

(iv) a revision of salary costs to include some flexibility for possible re-organisation at the Diplomat Lawyer level and for adjustments to certain progression calculations;

(v) increased expenses related to meetings (compared to FY 2016-2017) at the Hague Academy for two Standing Committee meetings as well as, Council and Special Commission meetings;

(vi) an adjustment to the budgeted amount for social benefits and insurances to better reflect potential costs and obligations, although this increase has been lowered compared to the draft Budget submitted on 20 January 2017;

(vii) increased audit costs due to an added component for the audit;

(viii) further savings in relation to electricity, gas, and water costs (Art. 2b), to external design and lay-out costs (Art. 5a), external translations (Art 8), and travel costs consultants and external experts (Art 13a); and

(ix) the addition of 21 more units to the Budget as the Hague Conference was pleased to welcome the Kingdom of Saudi Arabia as a new Member on 19 October 2016 (Saudi Arabia counts for 20 units in the system of the Universal Postal Union), and is (very) likely to welcome one new Member State, counting for one unit, before the start of the next financial year on 1 July 2017.

Int-7 These adjustments result in an overall increase of **the Member States' contributions *per unit* of € 200.65 (or 2.95%)**. For the six biggest contributors to the budget (representing 33 units each), the increase represents approx. € 6,620; for a Member State with, for example, five units, the increase represents approx. € 1,000. The inflation in the Netherlands for 2017 is expected to be approximately 2% (as estimated by the Netherlands bank[4]) and the Permanent Bureau therefore proposes to continue to applying this rate, as in previous years, to avoid the risk of underfunding operational expenses and to avoid what could be more drastic escalations in the future. The Secretary General respectfully submits that this budgetary increase is required to continue to strengthen, albeit modestly, the Organisation's operation. However, it should be noted that the Member States' contributions per unit may change further in the final version of draft Budget following the decisions of the Council on General Affairs and Policy in March 2017. More details on the specific approaches taken for the various budget lines are provided below under Part I.

Other important initiatives on transparency and good governance

Int-8 It is important to also briefly reflect a few other significant initiatives that the Permanent Bureau has implemented or is planning to implement with a view to further increasing the transparency of budgetary processes and general good governance of the Organisation.

Int-9 Due to the risk of Permanent Bureau's daily operations being threatened by its low financial reserves, in particular in the months immediately before and after the start of each new financial year, in 1962 the Council of Diplomatic Representatives established a *Revolving Fund* in order to overcome these difficult periods of low liquidity.[5] In May 2016 the Council

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[4] See https://www.dnb.nl/en/interest-rates-and-inflation/#

[5] The Revolving Fund initially amounted to *Hfl* 100,000 (€ 45,378): equal to almost 44% of the Budget, *i.e.,* approx. six months of operations. In 1971, the Revolving Fund was increased to *Hfl* 200,000 (€ 90,756): *i.e.,* approx. four months of operations. In 1985, the Revolving Fund was increased to

of Diplomatic Representatives approved a proposal to transfer € 220,000 of surpluses from previous budgets to the Revolving Fund, raising its level to € 356,134. Article 12 of the 2016 Regulations on Financial Matters and Budgetary Practices indicates that the Revolving Fund shall amount to 12-16% of the Assessed Contributions in the budget of the previous Financial Year. This requires the Revolving Fund to be between € 475,619 and € 634,159 for Financial Year 2017-2018, resulting in the **underfunding of € 278,025** (using the 16% figure as the targeted amount) The Secretary General, once again, wishes to stress the importance of replenishing the Revolving Fund as quickly as possible to meet and maintain, on an ongoing basis, the obligation as set out in the 2016 Financial Regulations. This operation of replenishing the Revolving Fund will be repeated, if possible, at the end of each financial year to reach and maintain the regulatory level. However, as discussed at the Council meeting of May 2016, Budgets in future years may have to also have to include a new article relating to the increase of the Revolving Fund in order to reach the required level for the Fund.[6]

Int-10 The Permanent Bureau remains committed to modernising its accounting tools and practices in order to further improve reporting and transparency, and operate as efficiently as possible. The Permanent Bureau is now fully operating with a new online accounting system (Exact Online) which is efficient, transparent and modern. The system allows for clear monitoring of all budget lines, reconciliation of P&L expenses, review against financial targets, and reporting at any time. This reporting is also now clearly transposed for the annual audit and the preparation of the financial statements. An example of an interim report on the status of all budget lines that is now available through the system was submitted to Member States on 30 September 2016 (see L.c. A No 20(16)). The Permanent Bureau has also implemented a separate payroll module as part of the accounting system, which links into the overall accounting system. It continues to implement and adapt practices according to the 2016 Regulations on Financial Matters and Budgetary Practices. In this respect the Permanent Bureau, together with its auditors (PricewaterhouseCoopers – PWC), is working to reclassify articles previously defined as "Provisions" as "Funds". This reclassification and adjustment to the technical setup of these articles will facilitate clear monitoring of, and reporting on, these budget lines and allow for actual cash reserves to be built.

Int-11 During its meeting of 9 December 2016, the Standing Committee also discussed the *accounting principles* applicable to the Organisation. Currently, the general financial administration of the Organisation's accounts and the annual audit are carried out in accordance with Dutch accounting standards (RJ standards). On the other hand, the monitoring and management of the Pension Reserve Fund (PFR), liability assessments and projections are carried out by the ISRP in Paris in accordance to International Public Sector Accounting Standards (IPSAS). In order to have the full annual financial statements (operational budget and PRF) audited according to one single standard (*i.e.*, RJ standards applied by PWC), the accounting of the PRF (administered by the ISRP in accordance with IPSAS) currently has to be "converted" (in practice: re-done). While this approach allows for the complete financial statements to be audited using one set of accounting standards, it delays the production of the financial statements and, most importantly, increases costs. It also results in differences between actuarial assumptions, the target real return and projected lifecycle of the PRF as defined by the Strategic Asset Allocation (SAA), and the pension liability determined from accounting of the PRF. The Permanent Bureau has highlighted the importance of reviewing the accounting standards on several occasions in the past, but given recent developments during the ongoing audit (where the cost of producing a PRF accounting report for the audit resulted in approximately € 6,300 of additional and unplanned costs), the review of accounting standards has become urgent.

Hfl 300,000 (€ 136,134): equaling approx. two months of operations. It remained at this level till June 2016.

6 The Revolving Fund is kept as a separate account and is only to be used when the Permanent Bureau faces a lack of liquidity. The Fund would then be replenished when payments are received in order to bring it back to the prior level.

Following discussions with PWC and their acceptance of the approach, the Secretary General proposes to maintain RJ standards for the operational budget of the Organisation and define IPSAS as the accounting standard to be used for the PRF (eliminating the need for accounting of the PRF to be done in RJ standards). The Secretary General has been assured by the auditors that this two-standard approach is technically perfectly possible and fully compliant with regulatory obligations. This will be further discussed at the meeting of the Council of Diplomatic Representatives on 23 May 2017.

Int-12 In accordance with Article 15 of the 2016 Financial Regulations, the Secretary General, following discussions at the Standing Committee, will propose to the Council of Diplomatic Representatives an audit firm to appoint as Hague Conference auditor for a five-year term. Although this appointment was anticipated for May 2017, it appears that first a decision on accounting standards needs to be taken due to the potential impact the standards will have on the audit model, the candidates' ability to work with various accounting standards, and the offers they submit.

PART I BUDGETARY PLANNING

I. EXPENSES

A. OPERATION OF THE PERMANENT BUREAU

Article 1 Personnel Costs

1a-1 Article 1a, *Salaries and allowances*, increases by a total amount of € 117,000. This increase has various reasons, including the annual salary adjustments for staff progression, some flexibility for possible re-organisation at the Diplomat Lawyer level, and inflation. The salary projections in this draft Budget for 2018 are determined using the 2017 salary scales for The Netherlands (as determined by the ISRP and the Co-ordinating Committee on Remuneration, as well as an inflation rate of 2.2% (which is in-between the 2% rate generally aimed for and the 2.4% adjustment that was required in 2017). This forward projection is necessary to avoid underfunding for salaries in 2018.

1a-2 Secondly, Article 1a includes approx. € 47,600 to continue the process of implementing the recommendations made by the ISRP in its Staff Remuneration Audit of February 2015. The Permanent Bureau began the process of adjusting staff grades and salaries per these recommendations with the aim of ensuring that each staff function targeted by the recommendations is at least within the lower half of the Co-ordinated Organisations' span. This process will take up to five years (as opposed to the three-year plan suggested by the ISRP), depending on the staff function in question and the overall budgetary implications. Financial Year 2017-2018 is Year 3 of the implementation.

1a-3 As mentioned, with a view to limiting the overall increase of the Budget, the draft Budget does not include any funds for the hiring of an additional (Diplomat) Lawyer, as already envisaged in the Budget for Financial Year 2015-2016 and the draft Budgets for Financial Year 2016-2017). However, the Secretary General is considering re-organisation possibilities to better align positions at the Diplomat Lawyer level in accordance with Article 5 of the Statue of the Organisation.

1a-4 The draft Budget also does not include funds for a possible assessment of the Secretary General in 2018. The currently outgoing and incoming Chairs of the Council on General Affairs and Policy are developing a performance assessment process to be considered during the March 2017 meeting of the Council. Depending on the adopted process, and the willingness of States to fund the assessment through voluntary contributions, these costs may have to be factored (at least partially) into a future version of the draft Budget.

1a-5 The total personnel costs (incl. pension liabilities – see below para. 14-1) amount to 78.49% of the total draft Budget.

1b-1 Article 1b, *Social benefits and insurances*, increases by € 20,000. This is to better reflect potential costs and obligations of the Permanent Bureau. This budget line includes the costs for a group insurance policy to cover the risks of death and disability, as well as temporary or long-term leaves.[7, 8] This line also covers partial reimbursement to staff for certain expenses relating to health insurance.[9] The Article was previously unchanged for the last three financial years though costs have increased. The adjustment is thus necessary.

1c-1 Article 1c, *Home leave*, remains unchanged. This relates to reimbursement of travel expenses in respect to home leave (every second year) for eligible officials and their dependants. It covers related travel costs for a total of 30 persons, sometimes to far-distant countries. Where it involves flights, all home leave travel is in economy class (regardless of the duration of the flight).

1d-1 Article 1d, *Other costs relating to Staff Rules*, increases by € 27,500. This budget line relates to the implementation of the new Staff Rules and building a reserve for costs associated with the application of certain human resources and governance provisions such as dispute resolution mechanisms and the indemnity for loss employment. In terms of the new dispute resolution mechanisms, costs are to cover Mediation, a Complaints Procedure, a Conciliation Procedure, and an Appeals Procedure to the Administrative Tribunal of the Council of Europe. Should these procedures be necessary in any given year, the Permanent Bureau will be required to engage the services of mediators, conciliators, and / or confidentiality counsellors. Additionally, the new Staff Rules envisage appeals to the Administrative Tribunal of the Council of Europe. Although there is no annual fee associated with the services of this Administrative Tribunal, their engagement in an appeal entails certain expenses (as detailed in Annex III of the new Staff Rules). The new Staff Rules also include the entitlement to an indemnity for loss of employment in specific circumstances. These include changes in the work programme of the Organisation, redefinition of the functions of the official, refusal to be assigned to another function, or cessation of Membership of the country of which the official is a national (see Art. 13 of the new Staff Rules). This indemnity is granted to officials of the Organisation as a replacement for the support on which they could rely under national government schemes, to which they are however not entitled as officials of an international organisation. The amount of this indemnity can vary widely depending on the function of the official in question as well as the number of years of service; it should be noted that should such a payment be required during the course of the financial year, it may be more significant than budgeted. Finally, this Article covers costs for any external counsel that may be necessary. Though the € 50,000 budgeted in this Article is based on certain cost assumptions, the Secretary General suggests that flexibility in determining the appropriate breakdown of costs in each of these areas will be important to cover costs that may arise.

1d-2 As a result of discussions during the last meeting of the Council of Diplomatic Representatives in May 2016, the Permanent Bureau and its auditors (PWC) are considering how to set up a reserve with budgeted funds (as opposed to provisions) for this Article to provide support should circumstances arise where these costs would have to be paid. In the

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7 The new Staff Rules also include provisions for paternity and adoption leave. However, contrary to last year's budget notes (see footnote 12 in the Budget for FY LXII), as adoption leave is rare, the Permanent Bureau has come to the conclusion that it is most cost efficient to cover expenses related to adoption leave in the event that they arise as opposed to paying continuous insurance fees for this coverage. The organisation will also cover the provision for two weeks of paternity leave without insurance coverage to minimise costs.

8 The payment scheme for these insurance costs during the period of employment require that 1.825% of these costs have be deducted from the salaries of all staff members of the Permanent Bureau. Since these costs may be regarded as *employer's* charges, the Permanent Bureau will assess the history and nature of this payment scheme in more detail and revert to the Member States in due course.

9 The Permanent Bureau does not provide health insurance to staff, but requires each employee to arrange for their own insurance and then reimburses 2/3 of the premiums with a cap of 4% of the employee's base salary per annum.

event that these funds are not fully exhausted in Financial Year 2017-2018, the balance would contribute to a possible budget surplus in this line, which in turn would be used to build these reserves (as opposed to allocate them to the Revolving Fund). This reallocation to the fund remains subject to a decision to this effect taken by the Council of Diplomatic Representatives. The funds that were “frozen” in the last Budget until the Staff Rules were in place have not been allocated in the current draft Budget. Now that the Staff Rules have been approved and are likely to enter into force in the course of the current Financial Year, these funds will no longer be ring-fenced and may be used for Staff Rules-related matters. The amount budgeted in Article 1d of the current draft Budget are new funds for related expenses during FY 2017-2018.

1e-1 Article 1e *Fund relocation*, increases by € 1,000 in order to cover possible relocation costs during Financial Year 2017-2018. This budget line includes travel costs of the (current or future) officials of the Permanent Bureau, as well as removal costs and the related relocation allowance. Any balance in this budget line will be added to the Fund for coming years.

1f-1 Article 1f, *OECD (International Service for Remunerations and Pensions)*, increases slightly by € 100. The expenses cover the costs for receiving the “red book” published annually by the ISRP, which contains the recommendations issued by the Co-ordinating Committee on Remuneration on the adjustments of salaries and pensions for Co-ordinated Organisations and the specific salary and pension charts applicable to the relevant countries.

1g-1 Article 1g, *Consultants*, increases by € 73,900. This is mainly due to the inclusion of the stipend for the Representative of the Asia Pacific Regional Office (see above para. Int-2(i) for more background).

1g-2 This budget line continues to include funding for hiring a part-time qualified accountant, which has proven to be invaluable for the smooth operation of the financial office of the Permanent Bureau. It is equally important to enable the Secretary General to fulfil his increased responsibilities as defined in the 2016 Financial Regulations. Funding for an external publications consultant to assist with the preparation of the Hague Conference Proceedings (*Actes et Documents*) is also incorporated as in previous years. This consultant is working to complete outstanding Tomes before the next Diplomatic Session.

Article 2 Costs relating to the office building

2a-1 Article 2a, *Rent*, increases by € 3,189 in keeping with the figures included in the *Net Present Value Analysis* (NPV) presented to the Members as part of the decision-making process for the relocation to Churchillplein 6b in 2014.[10] These figures are based on an estimated 2% inflation rate. Although the official inflation rate is slightly below 2%, the Permanent Bureau suggests maintaining the prudent approach as maintained by the Netherlands bank and as taken in the NPV document, which envisages a gradual increase so as to prevent much more significant, sudden increases in the coming years if the inflation rate were to rise more than in recent years. Any savings will contribute to a possible budgetary surplus.

2b-1 Article 2b, *Electricity, gas, water,* decreases to € 0 as a result of the sale of the building at Scheveningseweg 6 (see above para. Int-2(iv) for more background information).

2c-1 Article 2c, *Service costs*, increases slightly by € 899 based on an estimated 2% inflation rate. Again the Permanent Bureau suggests taking a prudent approach and following the projection made in the NPV document so as to prevent more significant increases in the coming years if the inflation rate were to rise more than in recent years.

2d-1 Article 2d, *Insurance costs,* increases slightly by € 200 based on an estimated 2% inflation rate. This budget line includes fire, theft, goods and equipment, liability and travel insurance for the organisation.

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[10] Available at http://www.hcch.net/upload/hidden/2014/dipl/20140124npv_en.pdf.

2e-1 Article 2e, *Cleaning*, increases slightly by € 685 to take into account adjustments for inflation at an estimated rate of 2%.

2f-1 Article 2f, *Fund for office maintenance / equipment*, remains unchanged. This Fund is to cover costs related to maintenance of the office space and general office equipment (*e.g.,* the annual carpet cleaning, treatment of the wooden floor in the kitchen, servicing of the air-conditioning in the conference room and the server room, etc.).

Article 3 Office and financial Operation

3a-1 Article 3a*, Office supplies, postage, telecommunications*, remains unchanged.

3b-1 Article 3b, *Bank fees*, remains unchanged.

3c-1 Article 3c, *Audit fees*, increases by € 7,500 due to an additional audit component related to the PRF. Each year, the Organisation's budget and the PRF are audited as part of a combined process resulting in one set of Financial Statements. In order to audit the PRF as part of this process, an accounting report on the PRF and pension liability is required. This accounting report first used to be done by PWC; because of changes in the regulatory framework, however, PWC had to stop producing these reports. For a few years now, these reports have thus been produced by the ISRP. However, as the ISRP works with IPSAS (and not RJ standards) the ISRP is no longer able to provide this work for the audit either (although it continues to handle the management and administration of the PRF). As a result, the services of another Dutch company experienced with working in RJ standards is necessary to produce this accounting report of the PRF for the audit. As mentioned above, following discussions with PWC and their acceptance of the approach, the Secretary General proposes to define accounting standards so that RJ standards are maintained for the operational budget of the Organisation and IPSAS is used for the PRF. This would then alleviate the need to "convert" PRF accounting for the audit.

3c-2 As mentioned, the Secretary General will present the Council of Diplomatic Representatives with a candidate to appoint as auditor for a five-year term as soon as possible. Although this was anticipated for May 2017, a decision on accounting standards is important first due to the potential impact this would have on the audit model, the candidates' ability work with various accounting standards, and the offers they submit.

Article 4 IT expenses

4a-1 Article 4a, *IT support and maintenance,* remains unchanged. The Secretary General wishes to point out, however, that he Permanent Bureau recently commissioned an IT / information management study in order to determine how best to improve its IT infrastructure for robustness, security and efficiency. Based on findings of the study, which strongly suggest a move to "the Cloud", the Permanent Bureau is determining how best to upgrade its tools and practices, bearing in mind the cost implications. It is envisaged that a move to the Cloud would require a one-time expense of about € 50,000. The Permanent Bureau will explore the possibility of paying for these expenses through voluntary contributions, which is why the expense has not been included in the current draft Budget

4b-1 Article 4b, *Computer equipment*, remains unchanged. See analysis in 4a-1 related to the IT / information management study.

4c-1 Article 4c, *Internet / website(s)*, remains unchanged. See analysis in 4a-1 related to the IT / information management study.

4d-1 Article 4d, *Fund new equipment*, remains unchanged.

Article 5 Publications / printing

5a-1 Article 5a, *External design, lay-out*, decreases by € 6,275. This significant saving is due to the Permanent Bureau producing as much of this work as possible internally. As the Permanent Bureau plans events to commemorate the 125th anniversary of the Organisation, additional design work may be necessary, but as it is hoped that this may be covered by voluntary contributions the expense is not included in the draft Budget.

5b-1 Article 5b, *Copying, in-house printing, publications*, increases slightly by € 1,500 to take into account adjustments for inflation at an estimated rate of 2%.

5c-1 Article 5c, *Fund Recueil*, remains unchanged. This Fund serves to prepare the publication of the next edition of the collection of Hague Conventions foreseen in 2018.

Article 6 Travel expenses for missions of Permanent Bureau officials

6-1 Article 6, *Travel expenses for missions of Permanent Bureau officials*, remains unchanged. This budget line is used to pay for travel expenses (flights, train), *per diem* allowances and the *approche* (to cover the costs of going to and returning from the airport). The Permanent Bureau continues to apply a very rigorous travel policy. All missions need to be approved by the Secretary General before they are confirmed. Organisers of seminars, workshops, or any other meeting to which the Permanent Bureau is invited are regularly asked to contribute to the mission costs (travel, hotel, or both) of Permanent Bureau representative(s) if possible. Such contributions are received on various occasions, though they sometimes only cover partial costs.

6-2 With a view to making further savings, the Permanent Bureau also regularly assesses the possibility of participating in events by videoconference.

6-3 During Financial Year 2017-2018, it is expected that approximately 15 members of the Permanent Bureau will travel using this budget line (incl. administrative staff who attend pension and human resources related meetings); the average travel envelope *per person* (incl. the Secretary General) thus amounts to € 5,200 *for the entire year*.

Article 7 Library and Research

7a-1 Article 7a, *Subscriptions*, remains unchanged.

7b-1 Article 7b, *Purchases*, remains unchanged.

Article 8 External translations

8-1 Article 8, *External translations*, decreases by € 6,200. While the Permanent Bureau continues to make significant efforts to do as much translation as possible in-house (relying on one full-time internal translator / reviser)[11], there is a need to also rely on external translators, in particular in times of intense document production (especially prior to the Council and Special Commission meetings). As in the past and given the cut to this budget line, the Permanent Bureau expects that there will at times be limits to the possibility of producing and releasing all documents simultaneously in both official languages.

Article 9 Representation (incl. for international meetings)

9-1 Article 9, *Representation (incl. for international meetings)*, increases by € 1,000. Half of this increase is to take into account adjustments for inflation and higher costs. This line is used to cover the costs of the yearly reception offered by the Secretary General to the local legal / diplomatic community (for cost efficiency reasons, this reception is combined with the Permanent Bureau's reception offered during the meeting of the Council on General Affairs and Policy), lunch or dinner invitations, working lunches, small gifts for experts who chair

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[11] This is shown in the Report on the *unaudited* accounts for Financial Year 2015-2016 (LXI) available at https://assets.hcch.net/docs/8e6bb90f-02aa-49cd-afcc-aa44e90b8c67.pdf. The official Financial Statements for Financial Year LXI will be submitted to Member States following the completion of the audit process.

meetings, flowers, etc. The additional € 500 increase relates to costs for organising a promotional day for the work of the Organisation as part of The Hague International Open Day, during which many Hague-based international organisations are represented.[12] These representational activities are an important element of international diplomacy and outreach.

Article 10 Unforeseen

10-1 Article 10, *Unforeseen*, has been adjusted by € 1.

B. INTERNATIONAL MEETINGS

Article 11 Off-site meetings (Hague Academy)

11a-1 Article 11a, *Rent (incl. interpretation equipment, booths, workspaces for staff, and small meeting rooms)*, increases by € 6,900 for rent for two additional Standing Committee meeting days at the Hague Academy building and the need for informal meeting spaces for delegations during Council meetings. This budget line covers expenses relating to the rent of the Hague Academy building (large conference room, the interpretation equipment and booths, workspaces for personnel, and two meeting rooms) for the meetings of both the Council on General Affairs and Policy and the Council of Diplomatic Representatives. The total rental costs are € 2,500 per day for the large conference room, the interpretation equipment and booths, and workspaces for staff (the same as in Financial Year 2016-2017), € 450 per half day for the Historic Reading Room and € 350 per half a day for the Seminar Room. The Hague Conference was previously not charged for use of the Seminar Room or the Historic Reading Room during meetings for many years. However due to changes in Peace Palace policies in recent years, these cost are now incurred. Despite efforts to do without these informal meeting spaces their use has been necessary to enable smaller working groups to meet and prepare focused discussions in the plenary; they do, however, result in extra costs and overspending of this budget line (as in the FY LXI). These rental costs are therefore now anticipated in this draft Budget. Additionally, based on experience from the Standing Committee meeting in February 2017 where the meeting was moved to the Hague Academy building to accommodate the large number of participants at the meeting, this version of the draft Budget now includes rental costs for two meeting days of the Standing Committee at the Peace Palace.[13] All prices remain very competitive for The Hague.

11a-2 While the Council on General Affairs and Policy is envisaged to last three days, two extra days are needed for the installation of the Secretariat in the Academy Building and its transfer back the Permanent Bureau, respectively. For the Council of Diplomatic Representatives an additional half a day is required for this purpose. The actual costs are thus for a total of six days. The costs for additional meeting spaces are only projected for the three days of the Council on General Affairs and Policy.

11a-3 In an effort to control costs during Council meetings, all attempts are made to avoid the rental of rooms and meeting spaces other than those listed in paragraph 11a-2. Use of the Seminar Room or the Historic Reading Room is assessed on a strict case-by-case basis and approved only when absolutely necessary.

11b-1 Article 11b, *Interpretation (English and French)*, remains unchanged. This budget line covers interpretation costs for three meeting days of the Council on General Affairs and Policy and an afternoon meeting of the Council of Diplomatic Representatives.

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12 Information about the event in September 2016 is available at http://www.justpeacethehague.com/en/event/international-open-doors-day/.

13 The Permanent Bureau will continue to consider alternative venues for large Standing Committee meetings (above 40 participants) when possible. Rental of the meeting space at the Hague Academy is currently the most suitable and cost efficient venue for large meetings of the Standing Committee.

11c-1 Article 11c, *Additional personnel and moving costs*, increases by € 2,560. This budget line covers moving costs and costs for additional personnel hired for catering and other assistance, technical support staff as well as security personnel of the Peace Palace during both Council meetings. It also covers overtime expenses of some administrative staff members of the Permanent Bureau during Council meetings.

11d-1 Article 11d, *Rent (incl. interpretation equipment, booths, workspace for personnel, and small meeting rooms)*, increases by € 10,000 compared to the previous Financial Year 2016-2017. This budget line projects the costs of renting the Hague Academy building (see above para. 11a-1) for a seven-day Special Commission meeting on the 1980 Child Abduction and 1996 Child Protection Conventions in October 2017 and a five-day Special Commission meeting on the Judgments Project in November 2017. The projected expenses are thus for twelve meeting days, allowing for the space to be set the day before the meeting and packed the day after the meeting (total of sixteen rental days). The costs for additional meeting spaces are only counted for the actual meeting days in both cases.

11e-1 Article 11e, *Interpretation (English and French)*, decreases by € 7,370 due to the number of meeting days. This budget line covers interpretation costs for the envisaged Special Commission meeting on the 1980 and 1996 Conventions, which will include a weekend fee, as well as a third meeting of the Special Commission on Judgments, (see above para. 11d-1).

11f-1 Article 11f, *Additional personnel and moving costs*, increases by € 3,000. This budget line covers moving costs and costs for additional personnel hired for catering and other assistance, technical support staff as well as security personnel of the Peace Palace during the Special Commission meeting on the 1980 and 1996 Conventions and the Special Commission meeting on the Judgment Project (see above para. 11d-1). It also reflects overtime expenses of some administrative staff members of the Permanent Bureau during these Special Commission meetings.

Article 12 On-site meetings – Permanent Bureau

12-1 Article 12, *Additional personnel costs - On-site meetings*, increases by € 1,000. This budget lines covers overtime expenses of some administrative staff members of the Permanent Bureau during meetings of Working / Experts' Groups and Committees. This budget line is based on a total of 23 meeting days at the Permanent Bureau. However, this may be amended in the next version of the draft Budget depending on decisions taken by the Council on General Affairs and Policy in March 2017. This includes envisaged (or otherwise possible) meetings of the Standing Committee of the Council of Diplomatic Representatives, and Groups established for the Special Commission on Judgments for intersessional work, the Experts' Group on Voluntary Agreements, and the Experts' Group on the Parentage and International Surrogacy Agreements Project.

Article 13 Other costs relating to Hague Conference meetings

13a-1 Article 13a, *Supplies, refreshments and facilitation costs*, remains unchanged. This budget line is used to cover all costs for the supplies and materials (incl. folders, badges, newspapers, hire of additional glassware, memory (USB) sticks, etc.) used and distributed at any of the Hague Conference meetings (incl. seminars). Furthermore, during meetings and other events, refreshments are served during breaks, and sometimes light working lunches and small preparatory working dinners are offered to the participating experts and delegates.

13b-1 Article 13b, *Travel costs consultants and external experts*, decreases by € 5,000. This budget line is used to offset travel costs for those who contribute to the work of the Permanent Bureau such as experts chairing Working / Experts' Group meetings. This budget line can be used both for off-site and on-site meetings, but will be tighter as a result of the cut in this version of the draft Budget. As in previous years, the Permanent Bureau no longer uses the Budget (assessed contributions) to cover (if only partially) travel and / or hotel costs of delegates who otherwise could not afford to attend Hague Conference meetings; such contributions remain very exceptional and are now financed through voluntary contributions if possible or necessary.

C. PRESENT AND FUTURE PENSION LIABILITIES

Article 14 Retirement or survivor's pensions

14-1 Article 14, *Retirement or survivor's pensions*, increases by € 9,630 to take into account adjustments for inflation.

14-2 The Permanent Bureau currently has eight pensioners. As the Organisations pension obligations are expected to be higher than this budgeted amount, the Permanent Bureau is exploring whether this Article will need to be more significantly increased in the future. It is recalled that *all* Member States have to cover the costs relating to present and future pension liabilities, independently of when they became a Member of the Organisation and whether or not they had or still have to pay their full share of the accrued unfunded liabilities.[14]

Article 15 Pension Administration costs of the International Section for Remuneration and Pensions

15-1 Article 15, *Pension Administration costs of the International Section for Remunerations and Pensions*, increases slightly by € 200 to take into account adjustments for inflation. These costs relate to the verification of pension calculations for all officials and present retirees of the Conference by the ISRP.

II. REVENUES

Article 16 Contribution of the Member States

16-1 Article 16, *Contribution of the Member States*, reflects the total contribution of all Member States to cover the operating budget of the Hague Conference (*i.e.*, to cover costs relating to A. The Operation of the Permanent Bureau, B. International Meetings, and C. Present and Future Pension Liabilities). The total contribution of Member States increases by € 234,768 or 5.92%. The amount (financial value) of one budgetary unit and the full amounts to be paid by each Member State are briefly explained in Part II of the draft Budget (see below paras PII-1 *et seq.*), and then listed in Annex I and Annex II respectively. The increase *per unit* amounts to 2.95%.

Article 17 Contribution of a Member Organisation

17-1 Article 17, *Contribution of a Member Organisation*, remains unchanged. This budget line relates to the membership of the European Union. According to Article 9(2) of the Statute of the Conference, a Member Organisation is not required to contribute in addition to its Member States to the annual Budget of the Conference, but pays a sum to be determined by the Conference, in consultation with the Member Organisation, to cover additional administrative expenses arising out of its membership. As confirmed by the European Union on 14 April 2016, the annual amount of € 35,000 for the EU contribution to the Budget is expected to be applied to the next two Financial Years (2017-2018; and 2018-2019) but will be re-confirmed yearly with the EU. Subsequently, a new contribution will be discussed with the EU.

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[14] A new actuarial study is currently being conducted by the ISRP in order to determine the appropriate targets for the new SAA. When the recommendations for a new SAA are available they will be shared with Members. The aim would be to have the new SAA approved by CDR at its meeting in May 2017. It is suggested that until then, the current SAA remain in force.

Article 18 Income derived from sales of publications

18-1 Article 18, *Income derived from sales of publications of the Conference*, increases slightly by € 500. Following the very successful launch and publication of the Practical Handbooks on the Operation of the Service and Evidence Conventions in January 2016, the Permanent Bureau significantly exceeded the total revenues budgeted under this Article for Financial Year 2016-2017. However, the Permanent Bureau anticipates that the surge in sales following these major publications may only have a short-term impact. The Permanent Bureau has therefore taken a cautious approach for income derived from the sale of publications. The Permanent Bureau carefully monitors the exact revenue generated by the sales of these publications, which remain an important source of revenue for the Organisation and which could not easily be compensated.

Article 19 Interest on the Revolving Fund

19-1 Article 19, *Interest on the Revolving Fund*, decreases to € 0. As previously stated by the Secretary General, also in the Budget for Financial Year 2016-2017, and agreed by the Council of Diplomatic Representatives in May 2016, any interest derived from the Revolving Fund will be credited to the Fund itself (rather than to the Budget) as of Financial Year 2017-2018 until the Fund has reached the targeted level (see above para. Int-9). This approach will create a buffer as soon as possible to prevent an interruption in the Organisation's operations and allow flexibility to pay outstanding financial obligations despite delays with expected payments.

Article 20 Revenues generated from access rights

20-1 Article 20, *Revenues generated from access rights*, remain at € 0, due to the sale of the building at Scheveningseweg 6 during Financial Year 2016-2017. This Article has been kept in this draft Budget only to allow for a harmonised presentation of this budget line with the previous financial year, where some income was received before the sale of the building at Scheveningseweg 6, in the Financial Statements. This article will be deleted in the draft Budget for Financial Year 2018-2019.

III. VOLUNTARY CONTRIBUTIONS

21-1 This Article has been introduced following the entry into force of the 2016 Financial Regulations. Under Article 5(2)(iii) "any other income, including monetary voluntary contributions communicated to the Permanent Bureau in writing, donations and revenues of a regular nature" shall be listed in the Budget. Similarly, under Article 17 of the 2016 Financial Regulations, any voluntary contribution by a non-Member, which has been accepted, is also part of the financial statements of the Hague Conference.[15] The inclusion of all voluntary contributions in the financial statements of the Hague Conference is designed to present a more accurate and comprehensive picture of the total financial resources at the disposal of the Organisation.

21-2 In the Financial Year 2017-2018, the HCCH may use a percentage of the voluntary contributions it receives to off-set some of its (administrative) costs associated with carrying out the work that is the result of receiving a voluntary contribution. These costs include, for example, fees that are due for the maintenance of bank accounts and licensing fees for the accounting software. These overheads are charged to the contributor, and are paid to the Budget of the Organisation. Because these payments, both in terms of amount as well as in terms of when they mature, are quite uncertain, the Permanent Bureau has taken a prudent approach and has not included these overheads as part of the foreseen Revenues for the

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[15] Under Art. 17(3) of the 2016 Financial Regulations all such monetary voluntary contributions "shall be allocated to projects and will be reported upon to Member States through Voluntary Contributions Account Statements (VCAS), which are to be submitted as part of the financial statements to the auditor."

Financial Year 2017-2018. However, should overhead payments mature in time, they would be credited to the Budget and most likely contribute to a possible budget surplus, which in turn will be used to replenish the Revolving Fund.

21a-1 Article 21a includes voluntary contributions from Members of the Organisation towards the administration of the Conference or the operation of the Permanent Bureau. For Financial Year 2017-2018, this amounts to € 145,890 based on funds that have been received, or which have been pledged under contract. This amount includes € 116,543 allocated to current projects in progress (including Brazil's contribution to the HCCH's Tourism Project, and contributions of Spain and Andorra towards providing Spanish interpretation).[16] € 29,437 of general project funds, of which, first, € 8,177 have been reallocated in line with the Organisation's priorities and with any funding requirements originally imposed by the contributors. This approach has been taken following the recommendation of the final Audit of the Supplementary Budget 2014-2015. Secondly, a further € 8,720 are still pending Ireland's decision whether the reallocate or reimburse this amount. These voluntary contributions have no impact on the calculation of the assessed contributions of Member States. The Permanent Bureau will continue to report on *all* voluntary contributions it receives.

21a-2 The Regional Offices' annual operation is based on the receipt of voluntary contributions. The Government of the People's Republic of China has agreed to provide significant funding for the operation of the Regional Office for Asia and the Pacific in Hong Kong (HK$ 3,300,000). The Government of Argentina similarly provides funds for the operation of the Regional Office for Latin America in Buenos Aires (ARS 519,759).[17] At the time of preparing this draft Budget, neither Regional Office reported further monetary voluntary contributions for the period of the Financial Year 2017-2018.

21b-1 Article 21b includes voluntary contributions from non-Members. This amount consists of € 12,541 of funds that were received from non-Members in the past and are now classified as general project funds, to be reallocated following the recommendation of the Audit of the final Supplementary Budget 2014-2015. As of 19 January 2017, no other contributions from non-Members have been received for the period of the Financial Year 2017-2018.

IV. ACCRUED UNFUNDED PENSION LIABILITIES

22-1 Article 22, *Accrued unfunded pension liabilities,* decreases by € 20,449 as Germany and Romania paid off their full share in accrued unfunded pension liabilities during Financial Year 2016-2017. Contrary to the present and future pension liabilities, which are to be paid by *all* Member States, the accrued unfunded pension liabilities are to be paid *only* by States that were Members on or prior to 1 July 2010 and which have *not* yet paid off their full share in these liabilities (see decision of the Council of Diplomatic Representatives of 6 July 2010); payments for accrued unfunded pension liabilities are of course to be made *in addition* to assessed contributions. The remaining *annual* amount of the accrued unfunded liabilities to

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[16] The Permanent Bureau has been awarded a second action grant by the European Union in relation to the iSupport 2.0 project. The European Union is contributing € 605,705, while 14 Member States have contributed a total of € 163,062. As of 1 July 2017, the first grant awarded by the European Commission will be entirely disbursed. It is expected that € 444,983 of the contributions received from the EU Grant Associate Partner States and the European Union, as well as € 61,775.41 from non-EU contributions (Hong Kong Government and Lipman Karas) will remain for the first round of funding from the project. An additional € 104,385.62 has been pledged by EU Grant Associate Partner States, but these funds have not yet been received. Upon completion of the iSupport 2.0 project, the European Commission will transfer the remaining 35% of the grant, approx. € 212,000. As only a small part of the funding will be used to cover costs relating to the administration of the Permanent Bureau (salary and overhead), these funds are not included in the voluntary contribution amount mentioned in Article 21.

[17] Funding for the Regional Offices has been pledged / received in the local currency of the government making the voluntary contribution. The exchange rate applied is as of 18 January 2017. Hong Kong SAR contributes with a total of HKD 9,900,000 over the period of three years (2016-2018). The average income per year is HKD 3,300,000 (€ 398,204.40). The Government of Argentina contributes with an amount of ARS 519,759 annually (€ 30,600).

be paid, € 211,595, will be divided among the Member States that continue to pay their share in these costs annually (372.5 units, *i.e.*, € 568.04 per unit).

22-2 Albeit mentioned after Section II Revenues, the accrued unfunded pension liabilities are an additional *expense*; they are merely mentioned at the end of the draft Budget because they do not have to be paid by *all* Member States. The amount of Article 22 (€ 211,595) added to the total expenses identified at the end of Section I Expenses (€ 4,027,665), equals the total revenues mentioned at the end of Section II Revenues (€ 4,239,260).

PART II CONTRIBUTIONS TO BE PAID BY THE MEMBER STATES: ANNEX I AND ANNEX II

PII-1 Part II of the draft Budget explains in general terms how the individual contributions of Member States are calculated. The actual results are then presented in two separate Annexes:

PII-2 **Annex I** lists the total contributing share of each State that was a Member on or prior to 1 July 2010 and that has not yet paid off its full share in the accrued unfunded pension liabilities. In other words, apart from their annual contribution to the operating Budget (incl. the present and future pension liabilities), they also pay their annual share in the accrued unfunded pension liabilities, which totals € 2,606,809 and is to be divided by 372.5 units = € 6,998.15 per unit.

PII-3 **Annex II** lists the total contributing share of each State that was a Member on or prior to 1 July 2010 and that has paid off its full share in the accrued unfunded pension liabilities, or that became a Member after 1 July 2010 (and thus does not have to pay for accrued unfunded pension liabilities at all). These Members only contribute to the operating Budget (incl. the present and future pension liabilities). The total, € 1,591,451 is to be divided by 247.5 units = € 6,430.11 per unit.

PII-4 Each Member State thus is listed in one Annex only (either in Annex I or in Annex II); Member States are invited to refer to the Annex that applies to their respective situation.