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LRIT-RELATED MATTERS

Performance review and audit of the LRIT system

Submitted by IMSO

SUMMARY

Executive summary:	This document provides information as to how IMSO intends to undertake the performance review aspects of the role of LRIT Co-ordinator
Action to be taken:	Paragraph 37
Related documents:	SOLAS regulation V/19-1; resolution MSC.210(81) and MSC.211(81)

Background

1 Certain aspects of the performance of the LRIT system are required to undergo performance review and audit by the LRIT Co-ordinator, appointed by Committee to act on behalf of all SOLAS Contracting Governments. Specifically, Performance standards and functional requirements for the long-range identification and tracking of ships (the Performance standards) adopted by resolution MSC.210(81) states that:

“14.4 The LRIT Co-ordinator should undertake a review of the performance of the LRIT system taking into account the provisions of regulation V/19-1, the present Performance standard and any related decisions of the Committee and should report its findings to the Committee at least annually.”

2 MSC 82 appointed IMSO to be the LRIT Co-ordinator. Since MSC 82, COMSAR 11 has considered the implementation of the LRIT system further, and reached a number of decisions which have been taken into account by the *Ad hoc* Working Group on Engineering Aspects of LRIT (the Group). A number of policy issues that remain to be decided will be considered by the Intersessional MSC Working Group on Long-range identification and tracking in July 2007 and some final decisions will be left for the Committee at its eighty-third session.

3 As a result of these continuing uncertainties, it is not possible at this stage for IMSO to provide completely definitive answers to every question as to how it intends to undertake the role of LRIT Co-ordinator. This document therefore provides information on those preparations that have been possible in the light of the information that was available at the time this document was submitted.

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Consequential action by the IMSO Assembly

4 The first and most vital preparatory action has been the consideration, by the IMSO Assembly, at its nineteenth (Extraordinary) session which was held in London in March 2007, of the IMSO's appointment as LRIT Co-ordinator, and consequent decision:

“... that the Organization may assume the functions and duties of the LRIT Co-ordinator with effect from 7 March 2007, at no cost to Parties, in accordance with decisions of IMO, where Article 4 of the amended Convention will be applied on a provisional basis.”

The role of the LRIT Co-ordinator

5 The terms of reference for the LRIT Co-ordinator are given in section 14 of the Performance standards. Other key reference material is included in SOLAS regulation V/19-1 the Arrangements for the timely establishment of the Long-range identification and tracking system adopted by resolution MSC.211(81).

IMSO LRIT Implementation plan

6 MSC 82 has adopted a Road map for the implementation of LRIT (MSC 82/24/Add.2, annex 16) which provides information on some of the key actions and decisions that need to be taken before a smooth and complete introduction of the LRIT system can be achieved. Taking this in conjunction with the key implementation dates given in new SOLAS regulation V/19-1, IMSO has developed a draft Implementation plan showing more detailed key actions and dates for successful implementation. The IMSO Implementation plan is an organic document that will evolve as the project itself evolves and will guide IMSO in the planning and execution of its work in this regard.

7 The major milestones (dates) are summarized in the following table:

2008	31 December	LRIT System OPERATIONAL
	1 Jul-31 Dec	pre-operational testing phase
	1 Jan-30 Jun	system development phase
2007	November	IMSO/IMO sign contracts for IDE + IDC
	3-12 October	MSC 83 decides contractor for IDE + IDC
	July	IMSO evaluates IDE + IDC proposals
	April	IMSO sends out RFP for IDE + IDC
	?	IMSO receives first start-up funds
	7 March	IMSO Convention amendments implemented

Table 1: LRIT implementation – Key milestones

Establishing the IMSO budget for LRIT

Budgetary and accounting procedures

8 The procedures for development and approval of the budget of IMSO were approved by the IMSO Assembly at its sixteenth session. They provide, in general, for the Director of IMSO (the Director) to develop the budget and the IMSO Advisory Committee (the Advisory Committee) to agree it, on an annual basis. The annual budget is therefore subject to review by the Advisory Committee before it is implemented.

9 It has been a fundamental and continuing policy in the Director's development of these proposals, fully endorsed by the Advisory Committee, that all costs, capital and revenues relating to LRIT should be kept completely separate from those relating to GMDSS and other Legacy services provided by IMSO, which are funded on a different basis. The Director, with the assistance of the Accountant of IMSO, has established accounting systems and procedures that will allow complete financial separation of these two business streams on a daily basis within the IMSO's audited accounts.

LRIT-related costs

10 In developing proposals for implementing the role of LRIT Co-ordinator within IMSO, the Director has recognized the need to enhance the staff of IMSO so as to be able to undertake its newly expanded role. In addition to the existing members of staff, the Director expects to establish a maximum of three new posts, principally to handle LRIT-related work, as shown in figure 1. IMSO has decided that the pay, allowances and benefits for all staff shall be aligned with the recommendations of the International Civil Service Commission.

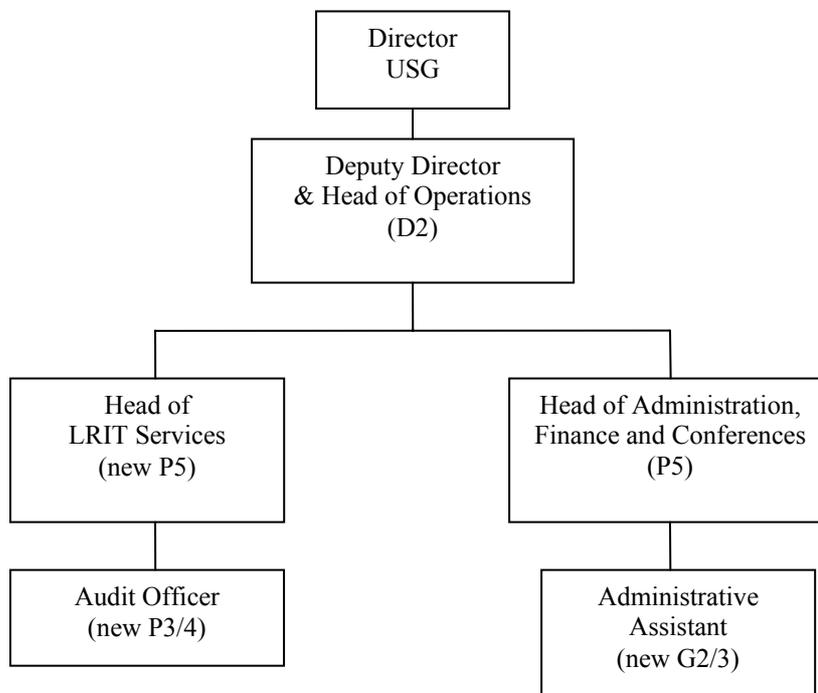


Figure 1: Proposed Directorate staff structure
Note: Posts are graded in accordance with the UN Common System

11 The Director anticipates that, subject to progress with the preparations for implementing the LRIT system and the availability of LRIT start-up funding, a Head of LRIT will start work during 4th quarter 2007, an Administrative Assistant in 1st quarter 2008 and an LRIT Audit Officer in mid 2008.

12 Some members of the IMSO Directorate (Directorate) staff will work on both LRIT and GMDSS/Legacy services; others will work exclusively on LRIT business. The effort, and therefore the costs, of each post will be apportioned accordingly between the business streams.

Office space and services

13 As the staff of the Directorate increases in number, so the office space occupied by the IMSO will need to increase. Arrangements have been made with IMSO's landlord to allow for this increase, within the timescales dictated by the need to hire new staff members. The budget also accommodates the possibility of the IMSO moving to other premises in due course.

14 A similar increase in budgetary provision has been allowed for in the cost of services paid for by IMSO (heat, light, electricity, telephones, computer network, etc.)

Tax

15 Under the terms of Article 7(1) of the Headquarters Agreement between IMSO and the Government of the United Kingdom, IMSO its property and income are "*exempt from all direct taxes*" levied by the Government of the United Kingdom. IMSO therefore will not charge UK Value Added Tax on LRIT transactions.

Legal basis for ongoing performance review and audit

16 IMSO will levy a range of charges for providing its services and will need to establish a formal basis for performance review, audit, charging, resolution of disputes etc. This will be carried out through a legally binding public/civil contract called the IMSO LRIT Public Service Contract.

17 The International LRIT Data Exchange, all LRIT Data Centres, and those Application Service Providers (ASPs) providing services to the International LRIT Data Centre will be required to sign an LRIT Public Service Contract with IMSO. The text of this standard contract is being developed from the Public Services Agreement (PSA) presently in use to establish the basis for oversight of GMDSS satellite operators.

Estimated budgetary requirements for 2007 to 2010

18 On the basis of the above plans and other assumptions, the Director has developed an agreed LRIT budget for 2007, and illustrative LRIT budgets for the years 2008 to 2010. Table 2 shows the headline figures for the LRIT-specific elements of these illustrative budgets.

Year	LRIT budget (£)	Notes
2007	£ 314,000	assumes LRIT work starting on 1 July 2007
2008	£ 671,000	allows for some staff hired during the year
2009	£ 724,000	reflects full staffing from beginning of year
2010	£ 796,000	
<i>Total</i>	£2,505,000	

Table 2: Illustrative budgets for 2007 to 2010

19 The total cost of IMSO's LRIT operations will therefore be approximately £2.5 million over the full 3.5 year start-up period. At the start of this period (in the latter half of 2007 and throughout 2008) the IMSO's costs will have to be paid entirely out of start-up capital. During the second half of the period, beginning in 2009, IMSO expects to receive revenue from LRIT performance review and audit fees and has also developed illustrative figures for this.

20 Comparing IMSO’s illustrative revenue calculations with the agreed illustrative budgets (paragraph 18) during the start-up period and beyond, Table 3 shows the deficit/surplus in each year and the amount of capital therefore required to offset the shortfall in the years 2007 to 2010:

Year	Total revenue (£)	LRIT budget (£)	Deficit = Capital required
2007	0	314,000	314,000
2008	0	671,000	671,000
2009	384,540	724,000	339,460
2010	767,340	796,000	28,660
typical (2011+)	876,960	835,800	surplus = 41,160

Table 3: Table Projected Capital Requirements – 2009 to 2011 and beyond

21 The start-up capital required by IMSO is therefore calculated as the sum of the deficits in years 2007 to 2010 = £1,353,120. However, there are many uncertainties in the assumptions upon which this figure is based, and it would be unwise in the extreme for an intergovernmental organization, which relies entirely on public funds and is unable to accept any risk that its [IMSO] Member States might be required to contribute to its budget, to fail to provide for those uncertainties. The Director has assessed the level of risk involved, and believes that an allowance of +25% should be made in the capital requirement for 2009 and 2010, in case there is a slower increase in the number of ships reporting during the start-up period. This results in a total capital requirement over the years 2007 to 2010 of £1,445,150, distributed over the period as shown in Table 4.

Year	Base requirement (£)	Margin for uncertainty (%)	Total capital required (£)
2007	314,000	0	314,000
2008	671,000	0	671,000
2009	339,460	25	424,325
2010	28,660	25	35,825
<i>Total</i>			1,445,150

Table 4: Total illustrative capital requirements 2007 to 2010

22 The Director is therefore seeking contributions from SOLAS Contracting Governments, IMSO Member States, interested international organizations and others, to a level of £1.5 million, to enable IMSO to begin actively co-ordinating the start-up of the International LRIT System.

IMSO charging policies

23 The Committee has accepted that the LRIT Co-ordinator should be able to recover its costs for the LRIT services it provides (see paragraph 14.7 of the Performance standards). In this context, the IMSO Member States have required the Director to ensure that all such costs are in fact recovered. The Director has therefore decided to adopt the following general charging policies:

- .1 As a general principle, IMSO will charge participating LRIT Data Centres (DCs) and the International LRIT Data Exchange (IDE), on an annual basis, in advance, for the performance review and audit services they require for continuing participation in the LRIT system, in accordance with the Performance standards and the requirements of the IMSO LRIT Service Contract;
- .2 Additionally, IMSO will charge ASPs providing services to the International LRIT Data Centre an administration charge, on an annual basis, in advance, for the costs incurred in providing certification and annual review, at the beginning of each year, in accordance with the Performance standards and the requirements of the IMSO LRIT Service Contract.

24 In addition to the charges for performance review and audit described above, IMSO will be required to undertake a number of “one-off” functions relating to the evaluation and testing of new and modified elements in the LRIT system. IMSO intends to charge fixed fees for these services.

25 IMSO, as an intergovernmental organization, is not authorised by its Member States to incur any level of debt and, because of the way it is funded entirely from contributions paid by those it oversees, does not have any reserves of money. IMSO must therefore adopt terms of business that do not allow any credit on the part of those who are liable to pay IMSO for services within the LRIT system. IMSO will therefore insist that all fees and other payments for which LRIT system elements become liable are paid in full before any service is provided.

26 In order to assure the IMSO Member States, and other commercial entities who will participate in the LRIT system, that levels of debt can be completely controlled, IMSO proposes to establish a procedure whereby any entity that has not paid a legitimate invoice will be denied access to the international elements of the LRIT system. This system, universally adopted by the global communications industry and others, is known as “barring”. Barring may also be used as the ultimate control mechanism for any LRIT entity that consistently fails to meet the operational or technical requirements established by the Committee, as expressed in the Performance standards or other core documentation.

27 IMSO intends to establish rules under which such barring can be imposed, and be lifted, in an equitable and transparent manner that is acceptable to the Committee, IMSO Member States and commercial entities participating in the LRIT system. It is most likely that such barring will be effected through action at the IDE. IMSO expects to require the chosen operator of the IDE to provide a facility capable of imposing or lifting a bar, at the request only of the LRIT Co-ordinator, within 1 hour of such a request being made. It is unlikely that any commercial entity will risk participating in the LRIT system unless such a procedure is in place.

28 Details of the IMSO charges will be published when they have been finalized by the IMSO and will be made available to the Committee at its next session.

Procedures for review and audit

29 The Performance Standard states that:

“14.4 The LRIT Co-ordinator should undertake a review of the performance of the LRIT system taking into account the provisions of regulation V/19-1, the present Performance standard and any related decisions of the Committee and should report its findings to the Committee at least annually. In this respect, the LRIT Co-ordinator should:

- .1 *review the performance of Application Service Providers (or Communication Service Providers when they act as Application Services Providers) providing services to the International LRIT Data Centre;*
- .2 *audit the performance of all LRIT Data Centres based on archived information and their fee structures;*
- .3 *audit the performance of the International LRIT Data Exchange and its fee structure, if any; and*
- .4 *verify that Contracting Governments and Search and rescue services receive the LRIT information they have requested and are entitled to receive.”*

30 IMSO is in touch with various potential ASPs and data centre providers in industry and among SOLAS Contracting Governments, and has begun to develop procedures for undertaking the above tasks. As noted above, IMSO anticipates hiring specialist staff to complete the formulation of these procedures and undertake the performance review and audit role, in due course. It is, however, too early to provide specific detail as to the procedures to be employed at this time, given the fact that no specifics yet exist for the design and implementation of the LRIT elements concerned.

31 The Performance standards also state that:

“14.5 The LRIT Co-ordinator should, for the purpose of reviewing the performance of the LRIT system:

- .1 *be given the required level of access, by the LRIT Data Centres and the International LRIT Data Exchange, to management, charging, technical and operational data;*
- .2 *collect and analyse samples of LRIT information provided to LRIT Data Users; and*
- .3 *collect and analyse statistics compiled by LRIT Data Centres and the International LRIT Data Exchange.”*

32 IMSO is already working with potential providers of this information to ensure that they are aware of the requirement and are making preparations to fulfil it. IMSO will, in due course, develop guidance on what is expected and how such data should be made available for audit. In the meantime, IMSO anticipates hiring an expert statistician to develop and operate the IMSO’s audit procedures.

Recommendations for improvements

33 The Performance standards further state that:

“14.3 The LRIT Co-ordinator should perform the following administrative functions:

- .3 *participation in the testing of new or modified procedures or arrangements for communications between the International LRIT Data Exchange and the LRIT Data Centres and providing relevant information to the Committee.”*

and

“14.6 In addition to reporting to the Committee on the performance of the LRIT system including any identified non-conformities, the LRIT Co-ordinator may make recommendations to the Committee, based on an analysis of its findings, with a view to improving the efficiency, effectiveness and security of the LRIT system.”

34 The Group has considered the procedures that might be employed in this regard, and expects to codify those procedures in the draft Protocols for the testing and integration of new LRIT Data Centres into the LRIT system. IMSO has participated in the development of those recommendations, and will operate in accordance with them once they have been adopted by the Committee.

Liaison with and reporting to the Committee

35 Once the LRIT system is in operation, IMSO anticipates reporting to the Committee on an annual basis, as is currently the practice for GMDSS services. However, during the start-up period until 2010, it is expected that reports will be made more frequently: to each session of the Committee.

36 During the start-up period specifically, and as required once the LRIT system is mature, the Directorate intends to maintain a close liaison with the Secretariat, to ensure that the expectations of Committee continue to be met in this regard.

Action requested of the Committee

37 The Committee is invited to note the information provided in this document.
