KPMG

SOPAC, SPREP and SPC

Assessment of Financial Implications On the Rationalisation of SOPAC's Core Work Programmes Into SPC and SPREP

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1 Introduction

1.1 Background

In the course of advancing the implementation of the Forum Leaders decision taken in October 2007 (Tonga) and August 2008 (Niue) on the Regional Institutional Framework (RIF), as well as directions from the governing bodies of Pacific Islands Applied Geoscience Commission (SOPAC), Pacific Regional Environment Programme (SPREP) and The Secretariat for the Pacific Community (SPC), the three CEOs have jointly commissioned a Consultancy in 2009 to assist them in analysing and recommending proposed, new institutional arrangements resulting from the rationalisation of SOPAC programmes into SPC and SPREP.

The consultants' recommended the following two options:

(i) **Option 1-** *An integration of the current work programmes of SPREP with the "core" work programme of SOPAC, resulting in the establishment of a reformed, re-branded regional organisation and governance arrangement, notionally called the* ***"Pacific Islands Environment and Resource Management Commission"****, including the retention of the SOPAC Suva Campus for strategic reasons including enhanced delivery of services to the region.*

(ii) **Option 2-** *The establishment of SOPAC's core work programme as a new Division of SPC.*

Two draft implementation plans have been developed for the two options noted above.

In order to assist the CEOs in formulating a joint recommendation to members, they have also agreed to commission two further independent consultancies to analyse the legal and financial implications of implementing both of these proposed, new institutional arrangements. This report provides analysis on the financial implications based on the two draft implementation plans.

The objectives of this financial assessment are:

- To provide an assessment of the cost of implementing the proposed changes and then the ongoing costs of doing business under the two options;
- To provide an evaluation of both the monetary and non-monetary costs of both the options along the parameters as defined in the Terms of Reference (TOR);
- To clearly articulate assumptions made in the assessment and an assessment of relevant risks;
- To differentiate between one off costs and potential additional on- going costs; and
- To identify any potential costs that are unable to be determined at this stage and identify any additional information that would be required to estimate such costs.

In accordance with the TOR, this report does not provide an analysis of sources of revenue for the implementation of the two options.

1.2 Scope of work

The scope of work entails an analysis of the financial implications of implementing both options along the following parameters:

(i) *Governance processes* - the need for additional meetings of governing bodies, additional staff meetings, resources for meeting preparations and Steering Committee;

(ii) *Staffing related costs* - contract management, insurance (medical and term life), superannuation, CROP remuneration application, performance management systems (increments/ bonuses), housing and other allowances in addition to any relocation costs;

(iii) Cost implications of the revised organisational structures;

(iv) Additional resources for change management and the strategic planning process;

(v) Impact on donor agreements and MoUs in particular potential cost implications of new management arrangements with donors;

(vi) Impact on systems (such as ICTs, Information management, finance management, Human Resource, Library, translation etc);

(vii) Impact to align finance, administration and reporting practices;

(viii) Assess and provide opinions on 'one- off costs' versus 'recurrent costs';

(ix) Transfer of assets and liabilities; and

(x) Possible relocation or retention of SOPAC Suva office.

1.3 Methodology

The financial analysis of the two proposed institutional arrangements was undertaken through the following:

- Discussions with CEO's of the three CROP agencies;
- Discussions with executive management and staff at SOPAC, SPREP and SPC;
- Discussions with the independent consultants engaged by the three CEOs and review of their report;
- Perusal of relevant financial and non-financial information obtained from SOPAC, SPREP and SPC; and

- Perusal of institutional assessment and corporate review reports on SOPAC, SPREP and SPC.

1.4 Disclaimer

This report has been prepared by KPMG for the purposes set out in 1.1 above. It is not intended that this report will be used for any other purpose.

KPMG has prepared this report on the basis of information available at the date of this report. We have no reason to doubt the accuracy of the information provided to us. However nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account of SOPAC, SPREP and SPC.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our enquiries have revealed all of the matters that an audit or extensive examination might disclose.

We understand that this report will be used exclusively by the three organisations (SOPAC, SPREP and SPC). KPMG consents to the issuing of this report confidentially to the SOPAC, SPREP and SPC. However KPMG accepts no liability to any party for this report, other than those arising at law to the SOPAC, SPREP and SPC.

Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement without the prior written consent of KPMG as to the form and context in which it appears.

2 Executive Summary

This report sets out the findings on the cost implications under the two options recommended by the consultants. Option 1 suggested a merger of SOPAC and SPREP as a re-branded organisation and option 2 SOPAC becoming a division of SPC.

The assessment of costing under both options has been performed on a macro level due to the limited information available at this stage on certain costing parameters. Specifically, the costing parameter categories where a more macro analysis was undertaken include:

- A detailed organisation structure under option one (SOPAC/SPREP); and
- How the harmonisation of systems, particularly under Option 1, will be implemented.

In the absence of the above information, numerous assumptions had to be made which are documented in the report.

We also note that this report needs to be read in conjunction with Section 6, which was requested very recently by the Acting Director of SPREP. Section 6 shows a revised cost implications of option 1 where the transition period has been reduced from twenty four months to twelve months.

We outline below a brief description of the arrangement and broader underlying assumptions for each of the costing parameters as per the terms of reference:

(i) Governance process

All three organisations currently have their own governing council meetings on an annual basis. During the transition period it is expected that joint Council meetings will be held under both options. From a cost efficiency perspective, the joint Council meetings will be held 'back-to-back' with the individual organisations' Council meeting at one location.

Following the full implementation of the proposed institutional restructure, we have assumed that under Option 1, there will be a new governing council for the re-branded organisation. Accordingly, there could be two scenerios, where the governing body is expanded to possibly two representatives from each member or SOPAC may need to retain a technical heads of ministry/department body to provide technical oversight of programme delivery. Under option 2, it is assumed that SOPAC's governing Council meeting will revert to a technical meeting by member countries.

(ii) Staffing related costs

SOPAC, SPC and SPREP have harmonised with the CROP remuneration policies to a large extent. As a result, similar employment benefits are offered by these organisations. The only area with disparity relates to the 2009 market salary adjustment, which SOPAC has fully implemented whereas SPC and SPREP have deferred the implementation.

Based on our discussions with the CEOs of the three organisations, the existing contracts of SOPAC staff will be honoured for their remaining duration. However, there is a need for harmonisation amongst all three organisations upon expiry of these contracts. Under Option 1, harmonisation of SOPAC and SPREP remuneration could be undertaken to align with either of the organisation's current remuneration. Based on our discussions, we understand that SPREP will request for the approval of the 2009 market salary adjustment from its governing Council in 2009. The governing Council's decision on this matter will determine how the current disparity in remuneration will be resolved. Under Option 2, it is assumed that SOPAC will align with SPC's current remuneration policy.

In respect of costing of staff remuneration under Option 1, we have provided two scenarios in our analysis. Scenario 1 shows the impact of alignment of SPREP's remuneration scale to SOPAC. Scenario 2 shows the impact of alignment of SOPAC's salary scale to SPREP (i.e. reduction in remuneration).

We have been informed by the Acting Director of SPREP that SOPAC's campus will remain in Suva in its entirety and no relocation of staff is expected to occur immediately, accordingly full relocation costs can not be quantified at this stage. Accordingly no relocation costs have been performed based on this information.

(iii) Revised organisational structure

The assumed organisation structure under Option 1 is that the current SOPAC Suva campus will be retained in its current form, with the head office of the rebranded organisation based in Apia, Samoa. The Director General of the merged organisation will be based in Samoa, with two Deputy Directors based in Apia and Suva. The Director of Corporate Services Division will also be based in Samoa, with a Deputy Corporate Services Manager based in Suva. Accordingly, the current Director position at SOPAC will be become redundant. Cost savings will be achieved from this and in change from the downgrading of the Corporate Services Manager position to Deputy Corporate Services Manager, who will be based in Suva.

Under Option 2, the Director position of SOPAC will become a Divisional Director at SPC with the three current Programme Managers becoming Deputy Directors of the SOPAC Division. The Corporate Services function will be centralised in SPC's Suva office. This will result in the current Deputy Director at SOPAC being redundant. The Corporate Services Manager position at SOPAC will be downgraded to a Senior Corporate Services Manager.

Based on our discussions, it is assumed that all the professional and support staff of SOPAC will be retained under both options, except for changes at the executive management level as noted above.

The harmonisation of common services, such as corporate services is expected to be undertaken after the transition under both options. The full implication of additional cost or cost savings from harmonisation of corporate services can not be quantified at this stage except for the savings from the Corporate Services Manager position.

(iv) Change management and strategic planning process

Additional resources will be required under both options with respect to the change management and strategic planning process. However, it is expected that more resources will be required under Option 1 due to higher level of complexity, risks and larger volume of work required in the establishment of a rebranded organisation. Based on the consultants' report, a CEO for the merged organisation will be appointed to lead the change management process. With respect to the strategic planning process, it is assumed that an external consultant will be contracted to develop the strategic plan for the merged organisation in conjunction with the Programme Managers and CEOs of both SOPAC and SPREP. The Programme Mangers together with the two CEOs will be required to travel to selected member countries in each of the three sub-regions (Polynesia, Micronesia and Melanesia).

With respect to Option 2, we note that SPC is currently undergoing numerous organisational changes to cater for the impending integration of certain programmes from other CROP agencies into SPC. These organisational changes are expected to be completed by the time SOPAC's core work programmes are integrated into SPC if the decision is made in favour of divisionalising SOPAC into SPC. As a result, SPC is expected to be equipped with the additional resources to manage the integration of SOPAC's core work programmes. This includes a full time Change Manager and a strengthened Strategic Engagement Facility. Due to the availability of these resources within SPC to manage the change and strategic planning process, it is assumed that external assistance will only be contracted if required.

(v) Impact on donor agreements

Both the options will require amendments to the existing donor agreements of the three organisations. European Union is the single largest donor of SOPAC contributing to 63% of its 2009 annual budget. In contrast, SPREP currently receives minimum funding from the European Union. We understand that SOPAC passed the EU institutional assessment in 2007 whereas SPREP recently underwent a similar assessment which has not been finalised at the date of this report. Accordingly, the outcome of the SPREP institutional assessment will determine the cost implications with respect to donor agreements.

If SPREP passes the EU institutional assessment, the cost implication on donor agreements is expected to be minimal. However, in if this is not the case, there could be significant cost and operational implications arising from the change of the existing Contribution Agreements to Service Agreements or the worst case scenario a possible withdrawal of funding from the EU.

There are significant cost efficiency, time savings and possibly staffing that can be achieved in implementing a programme under a Contribution agreement compared to a Service agreement. Under a Contribution Agreement from the EU, the implementing agency enjoys significant benefits such as applying their own rules and procedures and policies. However, under a Service Agreement arrangement, there are onerous rules which are implied by the EU. These include applying Rules of Origin, which covers areas such as procurement of European products and equipment and human resource recruitment. The impact to the rebranded organisation from operating under a Service agreement would be more costly and operationally onerous from a programme implementation perspective. There are approximately nine EU grants with SOPAC currently.

Under Option 2, the European Union has been one of the major donors of both SOPAC and SPC. In addition, both organisations are currently implementing Contribution Agreements with the EU following the institutional assessments in 2007. Accordingly, the financial implications with respect to amendments to the existing donor agreements are expected to be minimal.

(vi) Impact on systems

All three organisations are currently using different systems for most of the functions of Corporate Services. Harmonisation of the existing systems will be required under both options following a review to be undertaken during the transition period.

Under Option 1, assumptions have been made that new systems will be acquired to cater for the new structure and increased size of the rebranded organisation. These new systems will include a new Finance, IT system, telephone, video conferencing and satellite to name a few. Nonetheless, we have made certain assumptions in determining the cost implications on systems. Accordingly, it is envisaged that there will be additional costs to be incurred during the actual implementation.

For Option 2, it is assumed that SOPAC will migrate to SPC systems. There is more costing information available in terms of impact on systems as the proposed structure would be similar to other divisions of SPC.

(vii) Impact on aligning of finance, administration and reporting practices

It is assumed that upon completion of harmonisation of the existing systems, the finance, administration and reporting practices should be aligned to a large extent. Under both Options, there will be a need to review the current policies and procedures of each of the organisations to ensure that best practice is followed.

(viii) "one-ff" versus "recurrent" costs

A summary of "one-off" and "recurrent" costs under each Option is outlined in later part of the executive summary. All costs incurred in the implementation phase are classified as "one-off" and costs incurred post implementation phase is classified as "recurrent".

(ix) Transfer of assets and liabilities

Both Options will require the transfer of assets and liabilities of SOPAC. As there is no relocation of the SOPAC Suva campus, the transfer will be in terms of ownership instead of physical relocation of the assets. As a result, the only cost to be incurred is the legal cost to facilitate the transfer of ownership, which is expected to be minimal.

We note that all three organisations have outstanding membership contributions and are not required to provide for doubtful debts in accordance with their provisioning policy.

(x) Possible relocation or retention of SOPAC Suva campus

The consultants' report recommended that the SOPAC Suva campus be retained under Option 1 (SOPAC/SPREP). Accordingly, this report is prepared based on the assumption that the current SOPAC Suva campus will be retained in its current form and size following the integration of both organisations. We were informed by the Acting Director of SPREP that no change will occur at SOPAC after the merger.

It is also expected that under Option 2, no significant changes will occur at SOPAC except for integration of the Corporate Services Division at SOPAC with SPC.

Summary of cost implications

The table below shows a summary of the total cost implications under the respective sections of the Terms of Reference for both the options.

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
"One-off" costs				
(i)	Governance	173,000	173,000	12,000
(ii)	Staffing related costs	-	-	-
(iii)	Revised organisation structures	17,000	17,000	6,000
(iv)	Change management and strategic planning	584,000	584,000	25,000
(v)	Impact on donor agreements	37,800 Refer to note 1 at the end of this table for further comments	37,800 Refer to note 1 at the end of this table	Expect this to be minimal as both organisations currently have contribution agreement
(vi)	Impact on systems	632,000	632,000	184,100
(vii)	Aligning finance, administration and reporting practices	33,600	33,600	12,600
(viii)	'one-off' cost versus	Not applicable Information is	Not applicable Information is	Not applicable Information is

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
	'recurrent costs'	provided in this table.	provided in this table.	provided in this table.
(ix)	Transfer of assets and liabilities	-	-	-
(x)	Possible relocation or retention of SOPAC Suva campus	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring
	Total – "one-off" costs	**1,477,400**	**1,477,400**	**239,700**
"Recurrent" cost/(savings)				
(i)	Governance	-	-	-
(ii)	Staffing related costs	279,000	(297,000)	(289,000)
(iii)	Revised organisation structures	(66,000)	(66,000)	(161,000)
(iv)	Change management and strategic planning	Costs covered during transition period	Costs covered during transition period	Costs covered during transition period
(v)	Impact on donor agreements	Refer to note 1 at the end of this table	Refer to note 1 at the end of this table	Expect this to be minimal as both organisations currently have contribution agreement
(vi)	Impact on systems	57,300	57,300	(11,300)
(vii)	Aligning finance, administration and reporting practices	Costs covered during transition period	Costs covered during transition period	Costs covered during transition period

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
(viii)	'one-off' cost versus 'recurrent costs'	Covered in this table	Covered in this table	Covered in this table
(ix)	Transfer of assets and liabilities	-	-	-
(x)	Possible relocation or retention of SOPAC Suva campus	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring
	Total – "recurrent costs" / (savings)	**270,300**	**(305,700)**	**(461,300)**

Note 1

We note that the above table does not include the following possible costs relating to the donor agreements under Option 1 (in the event that SPREP is not successful with the EU institutional assessment):

- The worst case scenario is the possibility of SOPAC losing its EU funding, which currently amounts to USD 26,300,000. This amount represents remaining funding from all the EU contracts for SOPAC. The quantum of future EU contributions can not be substantiated at this stage.

- Cost implications if the current Financing Agreements with SOPAC are changed to Service Agreements under the rebranded organisation. This will significantly increase the efficiency and cost of program implementation. This change will be more onerous amd will bring in different processes such as the 'rule of origin' which would affect areas such as human resource recruitment and procurement. The total financial implications can not be quantified at this stage.

3 Organisation overview

3.1 Organisational overview

SPC, SOPAC and SPREP are CROP agencies. Their objectives, responsibilities and functions vary from each other. The table below provides an analysis of the size of the three organisations in terms of their annual budgets, staffing and membership contribution.

	SPC	SOPAC	SPREP
Current Annual Budget (USD millions)	$78.09	$17.19	$7.65
Staff	368	110	65
Major Donors	Australia 35% Global Fund 20% New Zealand 10% EU 8% France 5% ADB 4% US 3% UNFPA 3% Various 12%	EU 63% Australia 14% GEF- UNDP 12% New Zealand 8% Various 3%	GEF (UNDP) 20% Australia 15% New Zealand 12% Japan 5% Various 48%
Member countries	26	21	25
Membership Contributions (USD millions)	$11.13	$0.761	$1.2
Office of Secretariat	Head office in New Caledonia with regional offices in Fiji, Federated States of Micronesia, Papua New Guinea and Solomon Islands	Suva, Fiji	Apia, Samoa

3.2 SOPAC

The Secretariat of the Pacific Islands Geoscience Commission (SOPAC) was established in 1972 under the Economic and Social Division of the UN as a project called the Committee for Coordination of Joint Prospecting for Mineral Resources in South Pacific Offshore Areas (CCOP/SOPAC) with the objective of promoting offshore mineral and petroleum prospecting. The secretariat became autonomous in 1984 and is now an intergovernmental, regional organisation with 20 member countries, including Australia, New Zealand and other 18 Pacific Island countries and territories.

Since its inception, the focus of SOPAC's work has been broadened from the initial focus of marine mapping and geosciences to include hazard assessment and risk management, environmental vulnerability, oceanography, energy, water and sanitation and information and communication technologies.

SOPAC's work is carried out through its Secretariat, based in Suva, Fiji. It employs approximately 110 people.

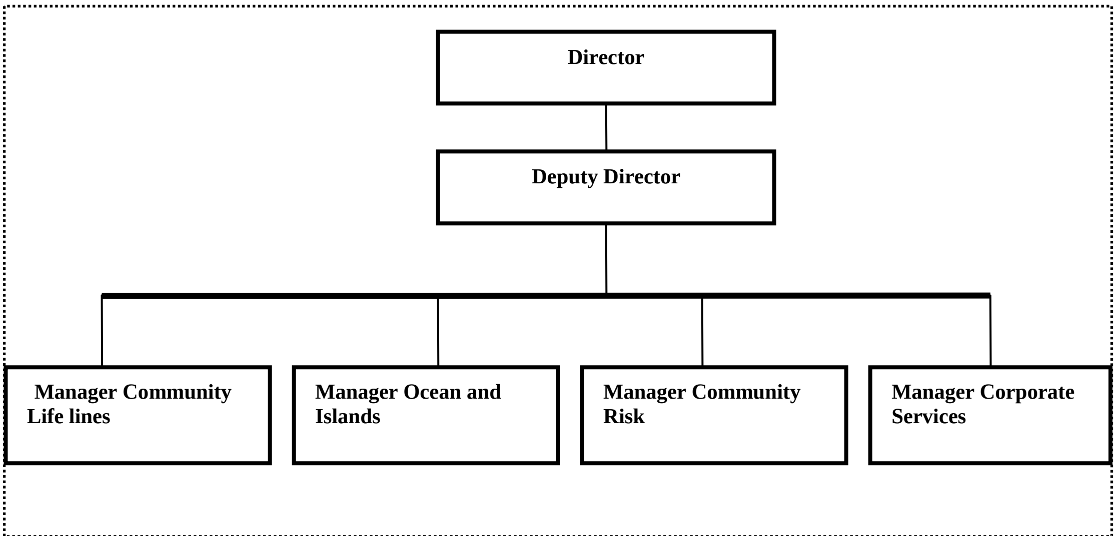
Principles and objectives

The mandate of SOPAC is "to contribute to sustainable development, reduce poverty and enhance resilience for the people of the Pacific by supporting the development of natural resources, in particular non-living resources, investigation of natural systems and the reduction of vulnerability, through applied environmental geosciences, appropriate technologies, knowledge management, technical and policy advice, human resource development and advocacy of Pacific issues". It achieves this mandate by allocating member country contributions and donor funds into various programmes and providing technical assistance and research to assist its member countries in making better and more informed decisions.

Organisation structure

SOPAC is headed by the Director who is responsible for all facets and functions of the organisation and is accountable to the Governing Council. The Director is assisted in her role by the Deputy Director. There are also four division heads for each of the three technical programme divisions and the Corporate Services Division.

Refer below to an overview of the organisation chart.



Source: SOPAC Organisation Chart

A detailed organisational structure is included as Appendix A.1.

3.3 SPC

The Secretariat of the Pacific Community ("SPC") was established in 1947 as the South Pacific Commission under the Canberra Agreement. It was the first regional organisation to be established in the Pacific and has a membership of 26 countries which includes all 22 Pacific Island countries and territories and four founding members (Australia, France, New Zealand and the United States of America). The establishment of this organisation by the founding members was in response to maintaining economic and social stability following the effects of the Second World War.

SPC is the largest regional organisation in the Pacific and has a staffing of around 368 people. The organisation's headquarters is based in Noumea, New Caledonia with a similar size office in Suva, Fiji and a smaller regional office in Pohnpei, Federated States of Micronesia. As part of its future development and recommendation from various reviews done of the organisation, SPC plans to further decentralize to other Pacific Island countries and territories.

The organisation has grown significantly since its inception 60 years ago and continues to contribute in its role as one of the key regional organisations in the Pacific region. SPC is the only regional organisation which covers all 22 Pacific Island countries and territories and is non-political in its operations.

Principles and objectives

SPC's main role is to build, supplement and provide additional support, skills and resources to its member countries in various key areas of concerns for the Pacific region such as agriculture, fisheries and marine and health. The organisation achieves this by allocating donor funds and member country contributions into various programmes and providing technical assistance, training and research to help these countries make better and more informed decisions.

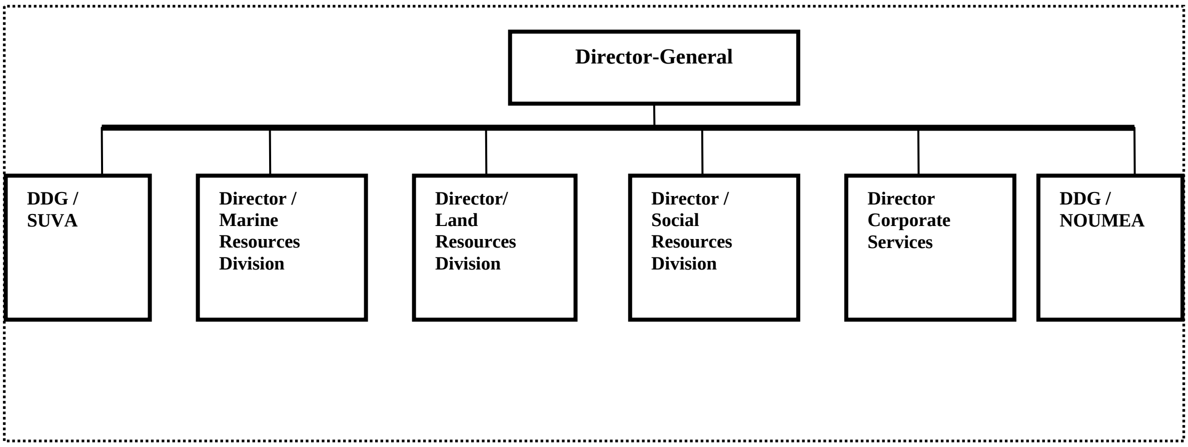
SPC's main character devolves in the manner in which it responds to the needs of its member countries and its strong commitment to serving the Pacific region. This is illustrated by its corporate strategic plan which articulates that member priorities will be of more concern to the organisation especially for small Pacific Island countries who do not have adequate level of technical or human resources as other more developed countries of the region.

SPC as an organisation also monitors international developments that may have potential impacts on the regional and national development of its member countries and territories. In this role the organisation also works closely with other regional organisation to ensure that optimal level of service can be provided to the region to help in their development.

Organisation structure

SPC is headed by the Director General ("DG") who is responsible for all facets and functions of the organisation and is accountable to the Governing Council. The DG is assisted in his role by two Deputy Director Generals, one based in Suva, Fiji and the other in Noumea, New Caledonia. There are also four division heads for each of the three technical programme divisions and the Corporate Services Division.

Refer below for an overview of the organisation chart.



Source: SPC Organisation Chart

SPC is undergoing numerous organizational changes following the integration of certain programmes of other CROP agencies into SPC. This organizational structure is expected to be completed by the time SOPAC's core work programmes are integrated into SPC if the decision is made in favor of this option. The new restructure is in line with the organisation's reassessment of its programme and funding.

A detailed orgainsational structure is included as Appendix A.2.

3.4 SPREP

SPREP is a regional organisation established by the governments and the administrations of the Pacific region to look after Pacific region to look after it's environment . SPREP is the Pacific's regional's major governmental organisation charged with protecting and managing the environment and natural resources. SPREP currently has 65 staff and operates two programmes, Island Ecosystems and Pacific Futures.

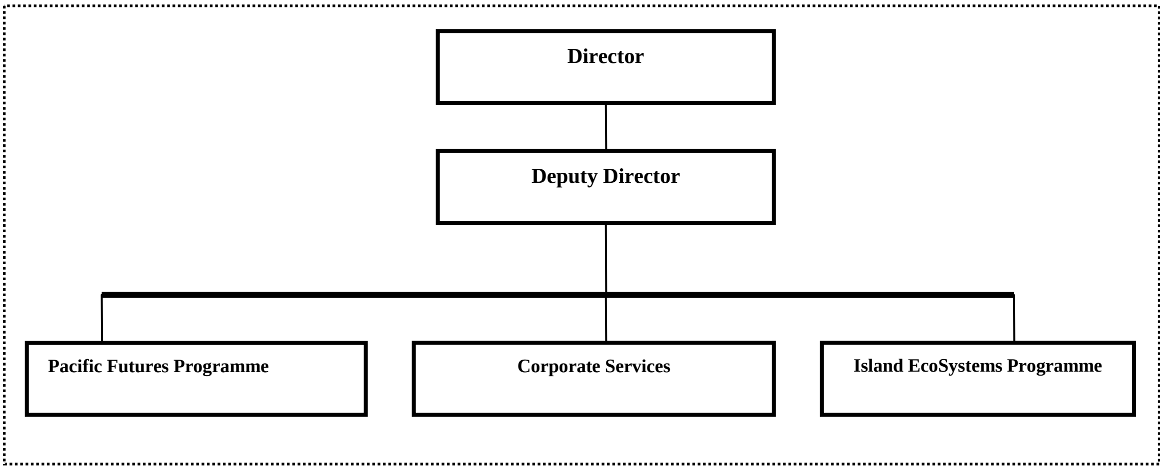
SPREP has 25 Pacific Island member countries.

Principles and objectives

The mandate of SPREP is "to promote cooperation in the Pacific Islands region and to provide assistance in order to protect and improve the environment the environment and to ensure sustainable development for present and future generations".

Organisation structure

SPREP is headed by a Director, who is responsible for all facets and functions of the organisation. The position is accountable to the Governing Council. The Director is assisted by the Deputy Director and the three division heads for each of the two programme divisions and the Corporate Services Division.



Source: SPREP Organisation Chart

A detailed orgainsational structure is included as Appendix A.3.

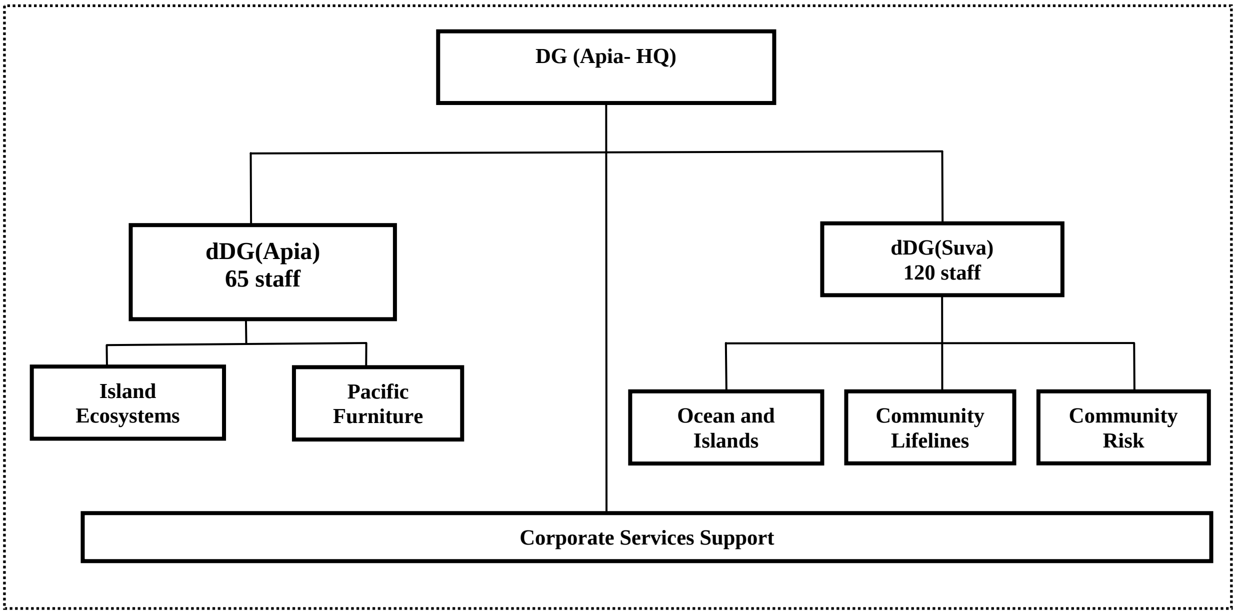
3.5 Proposed organisational structure

Option 1

Establishment of a re-branded regional organisation notionally called "Pacific Islands Environment and Resources Management Commission ("PERM")"

Under this institutional arrangement, SPREP and SOPAC will be merged to form a new organisation, PERM. PERM will be headed by a Director General (DG) which is expected to be based in Apia, Samoa. The DG will be assisted by two Deputy Director Generals (dDG), one based in Apia and the other based in Suva. It is expected that the Director of Corporate Services will be based in Apia.

Source: SPREP and SOPAC Proposed Organisational Chart

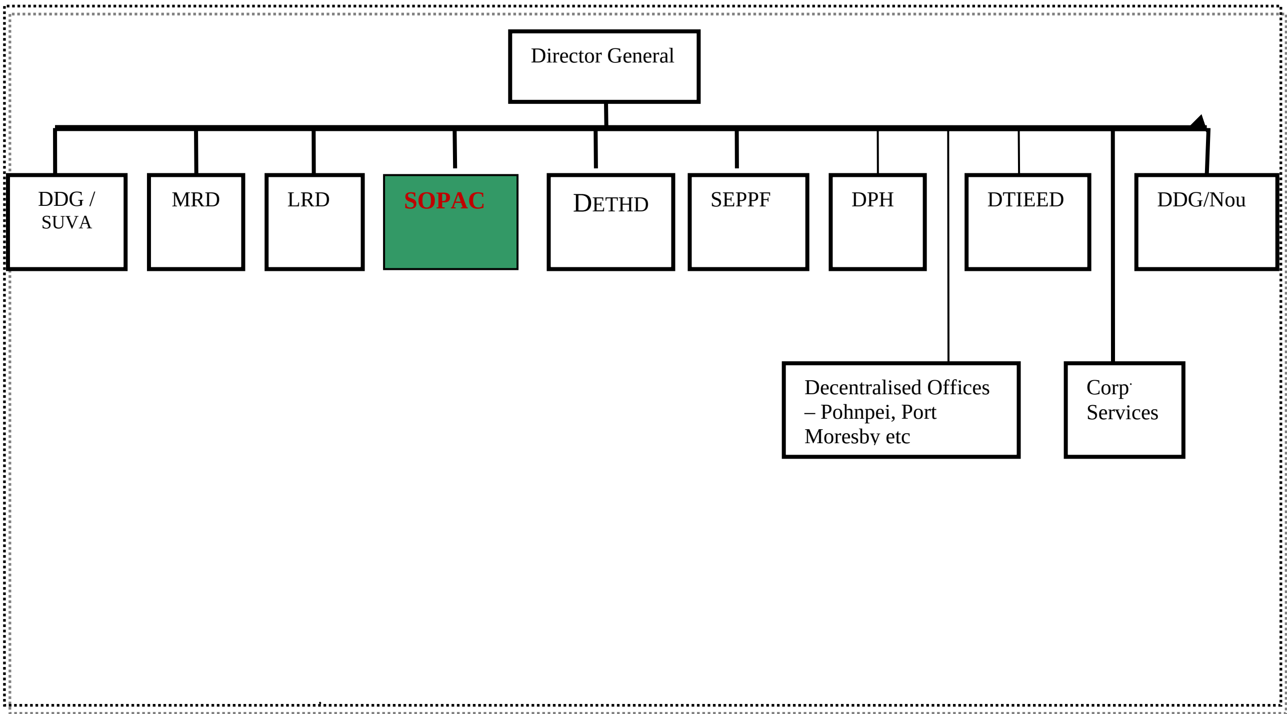


Option 2

Establishment of SOPAC's core work program as a new Division of SPC.

Under this option, SOPAC will become a separate division of SPC. The new organisational structure of SPC upon full implementation of the existing restructure and integration of SOPAC's core work program will be as follows:

Source: SPC Proposed Organisation Chart



- DDG/Suva- Deputy Director Suva
- MRD- Marine Resources Division
- LRD- Land Resources Division
- SOPAC-Director SOPAC
- DETHD- Directorate of Education, Training and Human Development
- SEPPF- Strategic Engagement, planning and policy Facility
- DPH-Directorate of Public Health
- DTIEED- Directorate of Transport, Infrastructure, Energy & Economic Development
- DDG/Nou- Deputy Director Noumea
- Corp Services-Director Corporate Services

4 Implementation plan and timeframe

Option 1

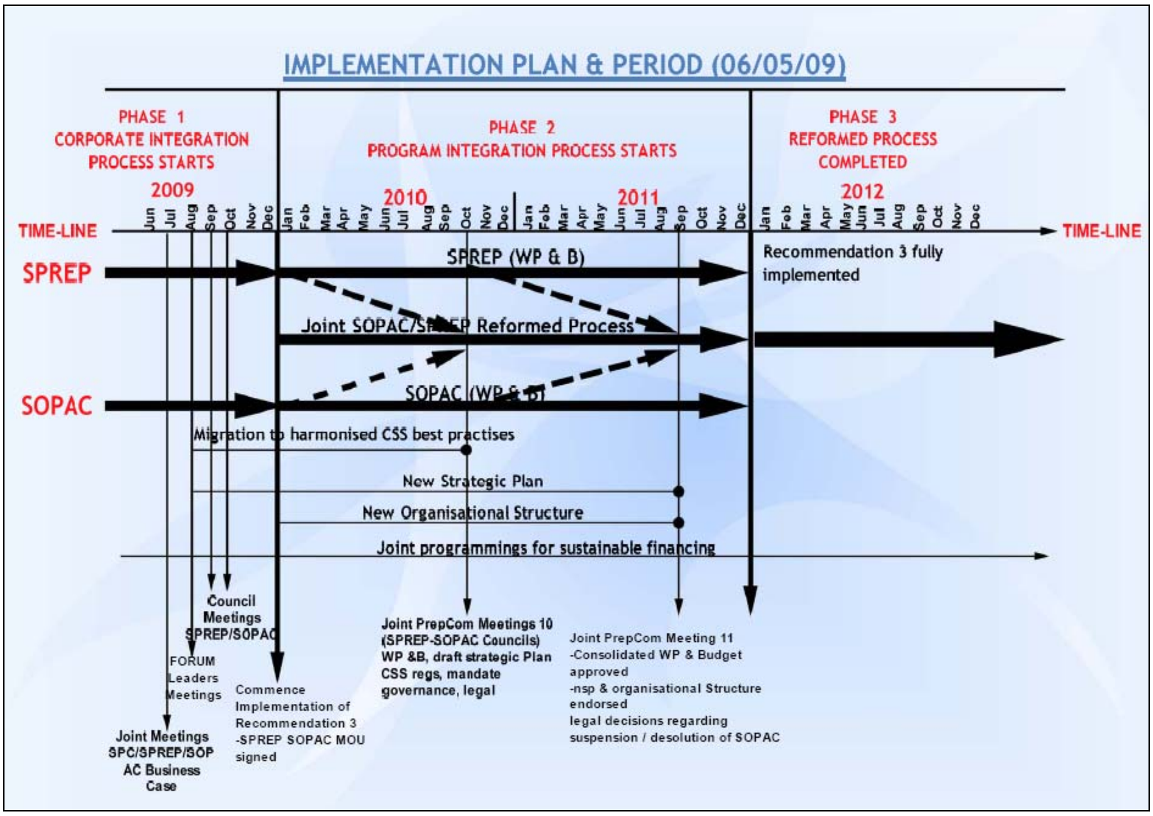
Establishment of a re-branded regional organisational *notionally called* ***"Pacific Islands Environment and Resources Management Commission ("PERM")"***

Under option 1 there are three phases in the implementation plan. Phase 1 is the *"Corporate integration process"* which covers the period 1 June 2009 to 30 December 2009. Integration at the corporate level will commence during this period.

From January 2010, the second phase or *"Program integration process"* will commence. Under this phase the programmes of SOPAC and SPREP will be harmonized, a new strategic plan developed and a new organisational structure will be implemented.

The final phase *"Reformed process"* commences from January 2012 when the re-branded organistaion notionally called ***"Pacific Islands Environment and Resource Management Commission"*** will commence operations.

The implementation plan and timeframe for option 1 is outlined below:



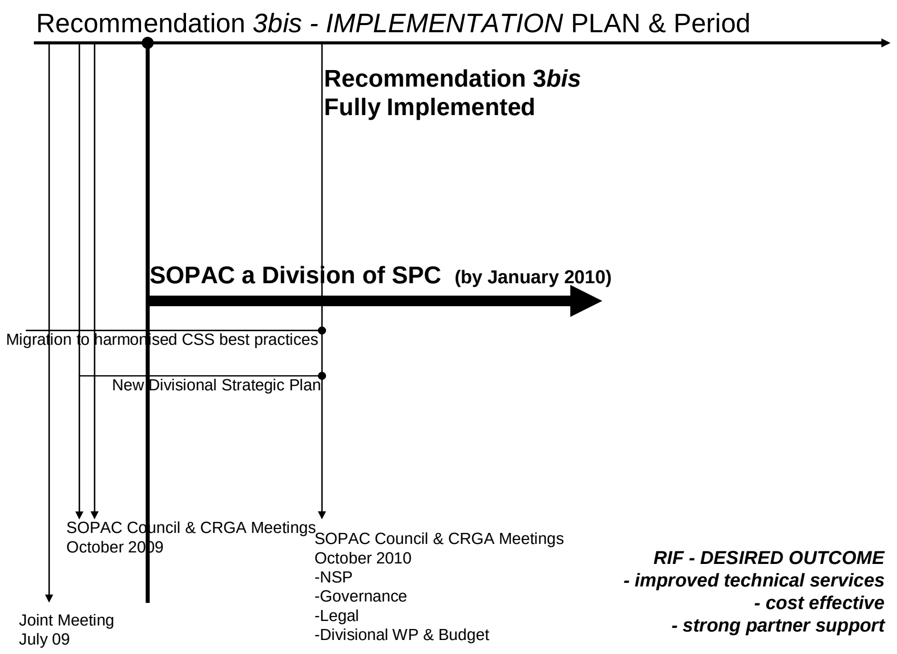
Option 2

Establishment of SOPAC's core work program as a new Division of SPC

Under option 2, rationalisation of SOPAC's core work program into SPC will commence soon after a decision is reached in July 2009. SOPAC will become a division within SPC effective from 1 January 2010 but will operate under its current policies, procedures and systems during 2010 while the systems and procedures of SPC and SOPAC harmonise to adopt best practice. Harmonisation is expected to be completed by December 2010.

Refer to the implementation plan below:

Source: SPC



5 Detailed findings

We outline below details of our analysis of the two institutional arrangements. This assessment addresses all the key objectives and parameters outlined in the terms of reference of this engagement.

5.1 Governance processes

5.1.1 SOPAC/SPREP

As part of the governing process of both SOPAC and SPREP, the Governing Council for each organisation meets on an annual basis. The Governing Council of SOPAC is made up of representatives for the twenty one member countries, while SPREP's Governing Council is made up of representatives for the twenty five member countries.

Under this option the proposed transition period is for two years from 2010 to 2011. During the transition period both the Governing Councils of SOPAC and SPREP is expected to meet to hold an annual joint Council meeting as part of their governing processes.

SOPAC Council meeting is planned to be held in Australia and Cook Islands for year 2010 and 2011 respectively. The Council meeting for SPREP is scheduled to be held in Papua New Guinea and Samoa in 2010 and 2011 respectively. The joint Council meeting will be held immediately after the individual organisation's Council meeting. This will require the Council meeting of SOPAC and SPREP to be held at the same location. Also the assumption here is that Australia (host country for 2010) will meet the difference in costs for holding the SOPAC Council meeting in Papua New Guinea, which is estimated to be USD 140,000 and that Cook Islands (host country for 2011) will not meet the difference in costs for holding the SOAPC Council meeting in Samoa, which is estimated to USD 84,000.

Based on discussions with the Director of SOPAC and Acting Director of SPREP the Joint Council meeting is expected to take one day and is to be held as follows:

- 2010 Joint Council meeting to be held in Papua New Guinea
- 2011 Joint Council meeting to be held in Samoa

Under this arrangement, we have assumed that there would be a new Governing Council for the rebranded organisation. Accordingly, there could be two scenerios, where the governing body is expanded to possibly two representatives from each member or SOPAC may need to retain a technical heads of ministry/department body to provide technical oversight of programme delivery. Under both scenarios there will no cost savings.

Based on the consultants' recommendation there is also a need to have a Steering Committee which should meet at least twice a year during the transition period. The Steering Committee will comprise of four member representative and two executive from each organization. The first Steering Committee meeting is assumed to be held as a back-to-back meeting with the joint Council meeting, hence no additional travel cost will be incurred. However, there will be additional per diem costs that will be incurred for the additional days.

The second meeting is expected to be held in Suva, Fiji as the majority of the member representatives are based in Suva, thus the only cost to be incurred would be for two executives of SPREP to travel to Suva. The assumption is that no committee members will be travelling to Suva as member representatives with permanent missions in Suva will attend the meeting.

5.1.1.1 Cost implications

The cost implications under this option for governance process are:

1. Additional cost to be incurred by SOPAC to have the joint Council meeting in 2010 of USD 14,000. The cost includes the additional cost of per diem and logistics cost, such as hiring of meeting venue cost, catering and stationery, for holding the Joint Council meeting for one day.

2. Additional cost to be incurred by SOPAC to have the joint Council meeting in 2011 of USD 92,000. The cost includes the additional cost of per diem and logistics cost for holding the Joint Council meeting for one day of USD 8,000 and difference in cost of holding the Governing Council meeting in Samoa instead of Cook Islands of USD 84,000.

3. Additional cost to be incurred by SPREP to have the joint Council meeting in 2010 of USD 22,000. The cost includes extra per diem cost of USD 6,000 and translation cost of USD 16,000.

4. Additional cost to be incurred by SPREP to have the Joint Council meeting in 2011 of USD 16,000. The cost includes extra per diem cost of USD 1,000 and translation cost of USD 15,000.

5. The additional per diem cost of attending the first Steering Committee meeting in PNG and Samoa for 2010 and 2011 respectively will be USD 25,000. This includes four member representatives and two executive from each organisation meeting for two days.

6. The cost of holding a Steering Committee meeting in Suva would be USD $4,000 for two meetings, one in 2010 and one in 2011. The cost includes travel and per diem cost of two executive staff of SPREP to travel to Suva for two days.

5.1.2 SPC/SOPAC

Similar to option one SPC's Governing Council also meets on an annual basis. The Governing Council of SOPAC is made up of representatives of the twenty one member countries, while SPC's Governing Council is made up of twenty six member countries.

Under this option the proposed transition period is for one year, which is year 2010. Therefore the Joint Council meeting needs to be held in year 2010 only as part of the governing process.

SOPAC Council meeting is planned to be held in Australia for year 2010 and for SPC the Council meeting will be in New Caledonia.

Based on discussions with the Director of SOPAC and Director General of SPC the Joint Council meeting is expected to take one day and is to be held in New Caledonia in October 2010. There is expected to be no additional cost incurred by SPC as the cost of per diems will be paid by its members as is the practice. Also the assumption here is that Australia (host country for 2010) will meet the difference in costs for holding the SOPAC Council meeting in New Caledonia, which is estimated to be USD 140,000.

We have assumed under this option that the council meeting for SOPAC will revert to technical meetings by member countries and accordingly, no cost savings will be incurred.

5.1.2.1 Cost implications

The cost implications under this option for governance process are:

1. Additional cost to be incurred by SOPAC to have its council meeting in 2010 of USD 12,000. The cost includes the additional cost of per diem for holding the Joint Council meeting for one day and logistics cost.

5.1.3 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Additional cost to be incurred by SOPAC for the joint Council meeting in 2010	14,000	12,000
Additional cost to be incurred by SOPAC for the joint council meeting in 2011	92,000	Nil

	Option 1 USD Additional cost / (savings)	Option 2 USD Additional cost / (savings)
Additional cost to be incurred by SPREP for the joint Council meeting in 2010 in (PNG)	22,000	Nil
Additional cost for SPREP for the joint Council meeting in 2011 in (Samoa)	16,000	Nil
First Steering Committee Meeting	25,000	Nil
Second Steering Committee Meeting	4,000	Nil
Total	**173,000**	**12,000**
Recurrent		
None identified	-	-

5.2 Staffing related costs

5.2.1 SOPAC/SPREP

Currently SOPAC has approximately of 110 staff compared to 65 staff at SPREP.

We were informed by the Director of SPREP that there is not expected to be any changes or relocation of SOPAC staff to SPREP and the status quo will remain.

We were informed that both organisations have harmonised with the CROP remunerations to a large extent. Accordingly based on this information all other benefits provided to staff such as insurance, superannuation, performance management system, housing and education are similar for both organisations, hence there are minimal cost implications.

The only difference is that the remuneration for SOPAC staff has been adjusted to reflect 2009 market rates at an average of 13 percent. SPREP has not adjusted their staff remuneration for the change in the average market rate.

Based on discussions with the Director of SPREP, it was noted that SPREP will be seeking approval to adjust staff remuneration package to align the salaries as per the market adjustments is approved. However, if this is approved the cost under this option will be an upward adjustment of SPREP's remuneration. However, if this is not approved under a merger, it is expected that a downward adjustment of SOPAC remuneration in line with SPREP will occur.

5.2.1.1 Cost implications

The cost implications under this option for staff related costs are:

Scenario 1

If SPREP adjusts its remuneration to reflect the 2009 market adjustements, this will result in additional cost of USD 279,000, which is calculated by applying the an average of 13 percent to the current remuneration of SPREP staff.

Scenario 2

If the SPREP Council does not approve the Secretariat's request for the salary increase, SOPAC's remuneration may need to be adjusted to align with SPREP on renewal of contracts. This will result in savings of USD 297,000, which represents the difference in SOPAC's salary between 2008 (pre-market adjustment) and 2009 (post-market adjustment).

5.2.2 SPC/SOPAC

Currently SOPAC has an estimate of 110 staff compared to 368 staff at SPC.

We were informed that no changes to staff numbers, except for certain executive positions, and location of operation is expected. The savings for executive positions is covered in section 5.3.

We were also informed that both organisations have harmonised with the CROP remunerations to a large extent. Therefore there are only certain variances in the benefits provided to employees for both organisations which would have cost implications. However, benefits such as Insurance (medical and term life), education and superannuation will have no or minimal cost implications.

The major difference between the remunerations for the two organisations is that SOPAC has adjusted their staff remunerations to reflect the 2009 market rates at an average of 13 percent.

SPC has deferred this implementation. Based on discussions with SPC Director General, if SOPAC is integrated with SPC, all existing contracts of SOPAC will be honoured for their duration and all new contracts for the division will follow the SPC agreed terms and conditions in terms of remuneration. This will result in cost savings only if SPC does not implement the 2008 approved market increase.

For performance management system, SOPAC follows CROP requirements and provides annual increments which are based on performance whereas SPC pays a percentage bonus to staff. The financial implications of the difference in performance management system is envisaged not to be significant as both organizations have harmonized with the CROP remuneration to a large extent.

5.2.2.1 Cost implications

The cost implications under this option for staff related costs are:

1. There will be cost savings in salaries for professional staff of USD 297,000, which represents the difference in SOPAC salaries in 2008 (pre-market adjustment) and 2009 (post-market adjustment).

2. The housing allowance policy for both SOPAC and SPC is that the organisations pay 75 percent of the housing allowance. However, SPC has a minimum threshold of $1,170 whereas SOPAC pays based on actual amounts incurred by staff. The maximum limits applied by both organisations are the same. Due to SPC's minimum rate being higher than SOPAC rates there will be additional housing allowance to be paid by SPC of USD 8,000 per annum. This is due to new contracts is expected to be issued under SPC terms and conditions. The additional cost was arrived at by comparing the rental allowance of all SOPAC professional staff calculated using the two polices

5.2.3 Summary

	Option 1 USD Additional cost / (savings) per annum	**Option 2 USD Additional cost / (savings) per annum**
One-off		
None identified	-	-
Recurrent		
Harmonisation of staff remuneration: *Scenario 1* Increase in remuneration (SPREP to align with SOPAC) *Scenario 2* Decrease in remuneration (SOPAC to align with SPREP)	279,000 (297,000)	- (297,000)
Housing allowance	Nil	8,000
Total cost/(saving)	**279,000 or (297,000)**	**(289,000)**

5.3 Revised organisational structure cost

5.3.1 SOPAC/SPREP

Refer to section 3.2 for the revised organisation structure under this option.

Based on the consultant's report and our discussions with the Acting Director of SPREP, the SOPAC Suva campus will be retained and that there would be no immediate movements and redundancies of staff. At this stage assumptions can only be made in relation to executive management positions and the location of their office for the purpose of this report, as the new organisation structure is yet to be developed. Currently, both organisations have a Director, Deputy Director and Director Corporate Services.

It is expected that the rebranded organisation will have only one Corporate Services Manager and have a deputy Corporate Services Manager based in Suva. Hence there will be savings from downgrading the Corporate Services Manager.

There will be possible harmonisation of common services, such as Corporate Services when the new organisation structure has been developed. Currently the structure for Corporate Services Division at both organisations varies and needs to be reviewed during the transition period so that best practice prevails, and there is no duplication of effort and cost efficiencies is achieved. With respect to Corporate Services Division, SPREP has a IT Manager, Information Resource Centre Manager, Human Resources Personnel and Finance Manager, whereas there are no manager positions within the Corporate Service Division at SOPAC.

Based on discussions with the Director of SOPAC, there will be a Memorandum of Understanding (MOU) that needs to be signed between SOPAC and SPREP, to facilitate the integration of the programs of the two organisations.

5.3.1.1 Cost implications

The cost implications under this option for implementing the revised organisational structure are as follows:

1. There will be only one Director position under the new organisation structure once the transition period is completed. This will result in cost savings of approximately USD 174,000, which is the budgeted remuneration package of the current SOPAC Director.

2. The Director of SPREP and SOPAC will need to travel between campuses during the transition period. The total cost of travelling would be USD 11,000 per annum, assuming the each Director will travel three times a year for a period of 5 days.

3. The Director of the re-branded organisation will also need to travel between the two campuses. The total cost of traveling would be USD 7,000 per annum, assuming the travel will be once every quarter for a period of 5 days on a ongoing basis.

4. Cost savings from Deputy Corporate Services Manager position of 11,000, which was calculated as follows:

Current Corporate Services Manager remuneration package at SOPAC	**Deputy Corporate Services Manager remuneration package**	**Savings**
USD 123,000	USD 112,000	USD 11,000

5. The Director Corporate Services will remain and accordingly, there will be no cost savings from this option.

6. Due to new systems acquired under this option there will be a need for a IT Manager which would cost USD 112,000.

7. The cost of drafting of the MoU is estimated to be USD 6,000.

5.3.2 SPC/SOPAC

Refer to section 3.2 for the revised organisation structure under this option.

The current executive management structure for SOPAC has a Director, Deputy Director and the programmes are headed by three Programme Managers. On the other hand SPC has a Director General, Divional Directors, and Deputy Director General based in Suva and Noumea.

Based on our discussions with the Director General of SPC the current SOPAC premises will remain in Suva, all professional and support staff of SOPAC will be retained by SPC except for the following changes:

1 The Director position of SOPAC will become a Divisional Director

2 The current Deputy Director of SOPAC will no longer be required.

3 The current Programme Managers of the three programmes of SOPAC will become Deputy Division Director's. However, their salary scales will remain the same.

4 The current Corporate Services Manager position will become a Senior Corporate Services Manager.

Based on discussions with the Director of SOPAC, there will be a Memorandum of Understanding (MoU) that needs to be drafted and signed between SOPAC and SPC.

5.3.2.1 Cost implications

The cost implications under this option for revised organisational structure are as follows:

1. The current position of the Director of SOPAC will become the Divisional Director of SPC. This will result in cost savings of USD 27,000, which was calculated as follows:

Current Directors remuneration package at SOPAC	Current Divisional Directors remuneration package of Program Division based in Suva	Savings
USD 174,000	USD 147,000	USD 27,000

2. The current Deputy Director position at SOPAC will become redundant resulting in cost savings of USD 129,000.

3. The cost savings from having a Senior Corporate Services Manager position rather than the position of Corporate Services Manager will be USD 5,000, which was arrived as follows:

Current Corporate Services Manager remuneration package at SOPAC	Senior Corporate Services Manager remuneration package at SPC	Savings
USD 123,000	USD 118,000	USD 5,000

4. The cost of drafting of the MoU is estimated to be USD 6,000.

5.3.3 Summary

	Option 1 USD Additional cost / (savings) per annum (000s)	**Option 2 USD Additional cost / (savings) per annum (000s)**
One-off		
Cost of both SOPAC and SPREP Director to travel during transition period	11,000	-
Drafting of MoU	6,000	6,000
Total cost/(saving)	**17,000**	**6,000**
Recurrent		
Cost saving from SOPAC Director position	(174,000)	(27,000)
Traveling cost of Director between Apia and Fiji campuses	7,000	Nil
Savings from Deputy Director position at SOPAC	Nil	(129,000)
Cost savings for Corporate Services Manager position at SOPAC	(11,000)	(5,000)
Cost of IT Manager	112,000	-
Total cost/(saving)	**(66,000)**	**(161,000)**

5.4 Change management and the strategic planning process

5.4.1 SOPAC/SPREP

The Consultants report recommended that a new CEO be appointed while the current Directors position at SOPAC and SPREP are retained during the transition period. The new CEO will be required to have strong leadership and change management skills.

With respect to strategic planning process, our undertstanding based on our discussions with the Acting Director SPREP is that a consultant who will facilitate the development of the strategic plan will be recruited during the transition period. During the development of the strategic plan for the new organisation, member countries will be consulted to ensure that their needs are adequately addressed by the re-branded organisation. This will require the programme managers of each organisation to travel to the three sub-regions with in the Pacific region, which are Polynesia, Micronesia and Melanesia. It is expected that the strategic planner will draw on the findings of the programme mangers in the preparation of certain components of the strategic plan.

5.4.1.1 Cost implications

1. Total remuneration package of the CEO for the re-branded organisation during the transition period will be USD 392,000 (USD 196,000 per annum), assuming the CEO will be on grade M9.

2. The total cost of the strategic planner to develop the strategic plan will be USD 67,000 for a period of twelve to eighteen months at a daily rate of USD 1,400 including travel of USD 11,000, assuming that the consultant will only spend an estimate of forty days during the twelve to eighteen month period. The strategic planner will work closely with the program managers.

3. The cost of five programme managers, two from SPREP and three from SOPAC, and both CEOs to travel to three countries from each sub-region for a period of three months would be USD 125,000. This cost includes airfares of USD 113,000 and per diem of USD 12,000 per diem rates used for the per diem are UNDP rates.

5.4.2 SPC/SOPAC

A Change Manager is also required under this option who will manage the successful integration of SOPAC as a division of SPC. Based on our discussions with the Director General of SPC, it was noted that currently SPC is in the process of recruiting a Change Manager on a full-time basis, due to the growth of the organisation in terms of size and budget. The Change Manager is anticipated to join SPC by October 2009 and will be responsible for the successful integration of

SOPAC as a division in SPC. Hence based on this there is no additional cost in hiring a Change Manager.

A new strategic plan for the SOPAC division will also need to be developed as the current corporate strategic plan ends in 2009. The strategic plan for each division of SPC is generally developed using inhouse resources. That is, the Divisional Director is responsible for developing the strategic plan together with the programme staff and assistance from the strategic engagement facility within SPC. However, consultants are hired for external inputs as required.

5.4.2.1 Cost implications

1. The cost of developing a divisional strategic plan for SOPAC would be USD 25,000. This was arrived at by using the cost of the strategic plan of SOPAC strategic plan developed in 2005, cost of developing strategic plan of Land Resources division of SPC in 2008 and also taking into account inflation. The cost includes cost of workshop, publication and consultancy cost.

5.4.2.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Change manager/new CEO	392,000	Nil
Strategic planner	67,000	-
Development of strategic plan	125,000	25,000
Total	**584,000**	**25,000**
Recurrent		
None identified	-	-

5.5 Impact on Donor agreements

5.5.1 SOPAC/SPREP

Australia and New Zealand are one of the major donors for both SOPAC and SPREP. Apart from them, European Union contributes 63% towards the total annual budget for SOPAC, while the Global Environment Facility- of UNDP contributes 20% towards the SPREP's annual budget. The organisational overview for the list of the donors for both organisations is included in Section 3 of this report.

With respect to the funding received from the European Union, SOPAC passed the the institutional assessment conducted by the EU in 2007. We understand the SPREP recently underwent a similar assessment. However, the report has not been finalized at the date of this report. The outcome of the SPREP institutional assessment will determine the cost implications under this option.

5.5.1.1 Cost implications

Should SPREP passes the EU institutional assessment, the cost implications relating to donor agreements under the SOPAC/SPREP institutional arrangement is expected to be minimal.

However, in the event that SPREP is not successful with the institutional assessment, there will be significant cost implications as the European Union (EU) could change its agreements from Contribution Agreements to Service Agreements which will significantly increase the cost of program implementation. This change will bring in different rules such as the 'rule of origin' which would affect areas such as human resource recruitment and procurement. For instance, the existing employments contracts with personnel from non-ACP and EU countries could be terminated with redundancy payments and new personnel from ACP countries will need to recruited. The total financial implications can not be quantified at this stage.

There is also a possibility that the finances available under the current agreements with the EU could be withdrawn.

Overall, the possible costs relating to the donor agreements under this option are:

- The possibility of SOPAC losing its EU funding, which currently amounts to USD 26,300,000. This amount represents remaining funding from all the EU contracts for SOPAC. The quantum of future EU contributions can not be substantiated at this stage.

- If the existing donor agreements with the EU are to be amended to Service Agreements, a consultant will be required to convert the Contribution Agreements to a Service Agreement, which would cost USD 37,800. This is based on the assumption the consultant will spend 3 days per agreement. There are nine EU grants with SOPAC currently.

The Acting Director of SPREP has indicated that SPREP will work in close collaboration with the EU and SOPAC to minimise any potential impact of EU rules and procedures.

5.5.2 SPC/SOPAC

Both SOPAC and SPC have similar donors, with EU being one of the major donors for each organisation. Currently EU is the major donor for SOPAC contributing 63% towards the total annual budget, and has been a major donor of SPC in prior years. SPC's major donor currently is Australia which contributes 35% towards the annual budget. The organisational overview for the list of the donors for both organisations is included in section 3 of this report.

5.5.2.1 Cost implications

Given the similarity in the donors of each organisation, in particular, it is unlikely that the existing financing agreements will be amended as both organisations have passed the Institutional Assessment in 2007. The cost of amending existing donor agreements is expected to be minimal.

5.5.2.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Consultancy cost of converting contribution agreements to service agreements	37,800	Minimal
Total	**37,800**	**Minimal**
Recurrent		
None identified	-	-

We note that the above costs do not include the possible loss of the EU funding available under its current agreements with SOPAC in the amount of US$26,300,000 or impact on implementing service agreements instead of contribution agreements which can not be quantified at this stage.

5.6 Impact on systems

5.6.1 SOPAC/SPREP

The assumption under this option is that there will be no immediate harmonisation of systems and that operations of both organisations will continue as usual during the transition period.

During the transition period, there is a need to undertake a review of the existing systems used by both organisations. This review will aim to determine the capacity of the existing systems to cater for the new organisation structure and increased activities following the integration of the two organisations. It is assumed that new systems will need to be acquired and implemented to cater for such needs. These systems will include Finance, telephone, video conferencing, satellite and increased bandwidth to name a few.

Currently SOPAC uses the Sun Accounting System and HRV for Finance and HR functions respectively, whereas, SPREP uses ACCPAC for the finance function and the HR system is manual. Both organisations have IT support staff, with SOPAC having 7 staff compared to 4 staff at SPREP. It is assumed that upon organization integration, the merged organization will use SOPAC's existing HR system.

Under this institutional arrangement translation cost will increase due to SOPAC adopting SPREP's bilingual policies. Currently, SPREP has a contract with Australian translators who provide translation services for meetings and publication of annual reports only. There are no translation costs incurred from publications at programme level.

In addition, due to the two campuses operating in Suva and Apia there will be increased communication costs. The consultants highlighted the need to have a satellite based facility in order to reduce communication costs. Also a video conferencing facility needs to be setup at SOPAC as SPREP already has a video conferencing facility in place.

It is assumed that SOPAC and SPREP use a new telephone system. There is also a need for one new website for the new organisation, however, based on our discussions the is no cost implications of integrating the two websites.

5.6.1.1 Cost implications

1. Review of current systems of USD 126,000, assuming a consultant is hired for 90 days (three months) to review both SOPAC and SPREP existing systems at a daily rate of USD 1,400. This involves the consultants time to review the existing systems at both organisations and to make recommendations to use either of the current systems or to acquire a new system.

2. Implementation of new Finance system assuming the merged organisation will implement the same finance system as SPC and Pacific Islands Forum Secretariat, Navision. There will be need a for a multi currency general ledger. This would cost USD 280,000 which includes the following costs:

    - Cost of Navision of USD 185,000.

    - Development and customization of software, staff training and license fee of USD 55,000

    - Cost of testing the new system, migrate data on trial, trial run the system, undertake corrective measures, build in safety provisions and write different protocols to enable data migration and data management of USD 40,000.

3. Cost of maintenance of Navision of USD 19,600 per annum.

4. Estimated cost savings from maintenance of the current finance systems of both organisations amounts to USD 22,300.

5. Cost of migrating the manual HR system of SPREP to SOPAC's HR system is estimated to be USD 15,000 including implementation, training and additional licenses. There will also certain amount of non-monetary cost in terms of entering the manual data into the system.

6. Cost of acquiring a new telephone system for SPREP and SOPAC would be USD 130,000.

7. Establishment of a satellite based facility between Suva SOPAC campus and SPREP campus at Apia would be USD 30,000. The cost includes estimated cost of equipments that was provided by Pacific Teleports, the provider of SPC (Noumea – Suva) satellite link.

8. Additional cost to remotely access the database by both Apia and Suva campuses would cost USD 41,000. This is based on the costing under SPC/SOPAC option.

9. Translation cost of USD 60,000, assuming the current arrangements of SPREP with the Australian translators is used. The actual translation cost for 2008 SPREP meeting for Programmes was used as guidance.

10. The cost of SOPAC to setup a video conferencing facility will be USD 10,000.

5.6.2 SPC/SOPAC

Under this option when SOPAC becomes a division of SPC, it is assumed SOPAC will adopt SPC's system so that there are no disparities between any of the divisions of SPC. The assumption here is that the review and integration of systems will be done in house over a period of 12 months.

A comparison of the systems used by both organisations are as follows:

	SOPAC	SPC
Finance	Sun System	Navision
HR	HRV	Link Business Solution
Library	Koha	Koha
Telephone	Asterisk	Alcatel PABX

From the above table it can be seen that both organisations have different systems for the respective functions, except for library. Therefore, there are no cost implications of harmonising the library systems.

There will be additional cost of translation due to the need for SOPAC to adopt SPC's bilingual policies. The translation costs will result from interpretation/translation at key meetings and also from publications. However, this cost is expected to be minimal as inhouse Translation services are available at SPC.

Following the harmonisation of information systems of both organisations, SOPAC will require remote access of SPC's database to perform general ledger postings and other activities. This will require additional hardware, software and infrastructure cost.

Currently both organisations have ICT services under the Corporate Services Division, which provide general IT support services.

It is assumed there will be no video conferencing facility costs under this option as SPC already has two video conference units in Suva that SOPAC can have access to.

5.6.2.1 *Cost implications*

Cost implications of system harmonisation assuming SOPAC will use SPC system are as follows:

1. Total cost of SOPAC to migrate to Navision would be USD 41,200, which is made up of the following:

   - Products – including license for eight users at USD 26,800.

   - Annual maintenance cost of USD 600.

   - Service – including consultancy for one week, data migration of financial history and training cost of 2 weeks of USD 8,200.

- Other necessary software – based on SPC Noumea discounted prices for 2009 of USD 5,600.

2. Currently SOPAC pays annual maintenance fee of USD 12,300 for Sun System, which will be a saving after migration to Navision.

3. In respect of the telephone system, SPC IT staff has evaluated Asterisk system used by SOPAC and found it to be not suitable for SPC's needs. Therefore SOPAC will need to migrate to an Alcatel system used by SPC. The cost of migrating of telephone system to Alcatel would cost USD 101,000. This is the cost of acquiring Alcatel solution software and phone licenses for 110 staff.

4. The HR function of SPC is centralised at the Corporate Services Division and operated by a reduced number of specialised staff. The assumptions made here are:

   - SOPAC staff will sign an SPC contract before being intergrated to SPC and hence there will be no differences in salary conditions and benefits, thus requiring less changes in the SPC software package.

   - SOPAC staff might also need additional reporting to the HR system.

   Considering the above assumptions, the total cost integration of the HR system would be USD 15,700. This is made up of the following:

   - *Training:* Total cost USD 13,300 for the two SOPAC HR personnel to attend training in Noumea. This is made up of the following:

Airfare to Noumea and return	USD 1,000
Per diem for 3 weeks	USD 4,500
	USD 5,500

   - *License*: Total cost of USD 2,000 for two additional users.

   - *Maintenance*: Total cost of USD 400.

5. Additional cost for SOPAC to remotely access SPC's database would cost USD 27,200, which is made up of the following:

   - License cost of US 1,000 for 10 users

   - Server cost of USD 5,000

   - 2 Routers cost of US 2,000

   - Leased line 2 Mbit of USD 19,200, which is USD 1,600 per month.

5.6.2.2 Summary

	Option 1 USD Additional cost / (savings)	Option 2 USD Additional cost / (savings)
One-off		
Review of current systems	126,000	-
Harmonisation of finance system	280,000	40,600
Harmonisation of telephone system	130,000	101,000
Harmonisation of HR system	15,000	15,300
Remote access to database	41,000	27,200
Video conferencing facility	10,000	-
Establishment of satellite facility	30,000	-
Total cost/(saving)	**632,000**	**184,100**

Recurrent		
Translation cost	60,000	Minimal
Finance system – maintenance	19,600	600
HR system – maintenance	-	400
Cost saving from annual maintenance fee	(22,300)	(12,300)
Total cost/(saving)	**57,300**	**(11,300)**

5.7 Impact on alignment of finance, administration and reporting process

5.7.1 SOPAC/SPREP

Upon integration of the system of SOPAC and SPREP (as discussed in Section 5.6), it is expected that the finance, administration and reporting process will be aligned to a large extent. Following this, a review of the current policies and procedures of SPREP and SOPAC will be undertaken to ensure 'best' practices are adopted, which should enhance service delivery.

The review would be carried out during the transition period and will require external services.

5.7.1.1 Cost implications

1. The cost of contracting a consultant to review the current policies and procedures and to develop a new policies manual would be USD 33,600. Assuming the consultant is hired for forty days at a daily rate of USD 840.

5.7.2 SPC/SOPAC

Under this option, there is also a need to review the current policies and practices once the systems of SOPAC and SPC have been harmonised. Currently SPC is going through a major organisational restructure. Due to the growth of SPC in terms of size and budget, SPC requires a review of its current policies and procedures.

5.7.2.1 Cost implications

1. The cost of contracting a consultant to review SOPAC's policies and procedures would be USD 12,600. Assuming the consultant spends 15 days at a daily rate of USD 840.

5.7.2.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Consultancy cost of reviewing policies and procedures	33,600	12,600
Total cost/(saving)	**33,600**	**12,600**
Recurrent		
Non identified	-	-

5.8 Assess and provide opinions on "one-off costs": versus "recurrent costs"

This has been reflected in the respective sections of this report. All costs incurred in the implementation phase is classified as "one-off" and costs incurred post implementation phase is classified as "recurrent".

5.9 Transfer of assets and liabilities

5.9.1 SOPAC/SPREP

Transfer of assets

SOPAC and SPREP have a significant amount of assets apart from office equipment used in the running of the Secretariat.

SPREP's assets include building, computer equipment, furniture and vehicles, while SOPAC's asset include database, computer and cartographic equipment, field surveying equipment and sophisticated electronics and general workshops.

5.9.1.1 Cost implications

Based on the consultant's report the SOPAC Suva campus office will be retained, hence the only cost expected to be incurred in the transfer of assets will be the legal cost. Legal costs will be incurred in drafting the transfer of ownership of the assets to the re-branded organisation, which should be absorbed in the cost of drafting a MOU between SOPAC and SPREP.

Transfer of liabilities

Transfer of liabilities refers to the transfer of outstanding member contributions. As at 3 June 2009 SOPAC had outstanding membership contributions amounting to USD $452,331.

5.9.1.2 Cost implications

We note that both organisations at present do not have a policy on providing for the outstanding debts, hence there are no cost implications on transfer of liabilities as no provision for doubtful debts will be raised following the integration.

5.9.2 SPC/SOPAC

Transfer of assets

As noted above under option 1, SOPAC's assets include database, computer and cartographic equipment, field surveying equipment and sophisticated electronics and general workshops. SPC's assets include land and building, database, computer equipment, computer software, furniture and fitting and vehicles.

5.9.2.1 Cost implications

Similar to option one above, the only cost that will be incurred in the transfer of assets will be the legal cost in the transfer of ownership of the assets to SPC, which should be absorbed in the cost of drafting a MOU between SOPAC and SPC.

Transfer of liabilities

We note that both organisations at present do not have a policy on providing for the outstanding debts, hence there are no cost implications on transfer of liabilities as no provision for doubtful debts will be raised following the integration.

5.9.2.2 Cost implications

If SPC was to provide for doubtful debts to be in line with its current practice, the cost would be USD 104,000, which is the member contribution outstanding from prior years up to year 2006.

5.9.2.3 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
None identified	-	-
Recurrent		
None identified	-	-

5.10 Possible relocation or retention of SOPAC Suva Campus.

Option 1

Based on discussions with the Acting Director of SPREP and the recommendation by the consultants, the SOPAC Suva campus is to be retained should the re-branded organisation is established. Accordingly, our report has been prepared based on the assumption and costing for possible relocations have not been performed.

Option 2

SOPAC Suva campus will be retained under this option as well.

6 Assessment under modified option 1

6.1 Introduction

Based on discussions with the Acting Director of SPREP, the three CEOs have agreed to show an additonal assessment of cost implications which is the preferred SPREP option under option one (Re-branded organisation) where the transition period is to be for fifteen months instead of twenty four months. The proposed transition period is to be from January 2010 to March 2011 after which the substantially reformed SPREP will be fully operational.

6.2 Executive Summary

We outline below a brief description of the arrangement and broader underlying assumptions for each of the costing parameters as per the terms of reference under the modified option 1.

(i) Governance process

During the transition period it is expected that joint Council meetings will be held under both options. From a cost efficiency perspective, the joint Council meetings will be held 'back-to-back' with the individual organisations' Council meeting at one location.

Following the full implementation of the proposed institutional restructure, we have assumed that under Option 1, there will be a new governing council for the re-branded organisation. Accordingly, there could be two scenarios, where the governing body is expanded to possibly two representatives from each member or SOPAC may need to retain a technical heads of ministry/department body to provide technical oversight of programme delivery.

(ii) Staffing related costs

The only area with disparity relates to the 2009 market salary adjustment, which SOPAC has fully implemented whereas SPREP have deferred the implementation.

Based on our discussions with the CEOs of the three organisations, the existing contracts of SOPAC staff will be honoured for their remaining duration. However, there is a need for harmonisation amongst all three organisations upon expiry of these contracts. Under Option 1, harmonisation of SOPAC and SPREP remuneration could be undertaken to align with either of the organisation's current remuneration. Based on our discussions, we understand that SPREP will request for the approval in principle of the 2008 market salary adjustment from its governing Council in 2009. The governing Council's decision on this matter will determine how the current disparity in remuneration will be resolved.

In respect of costing of staff remuneration under Option 1, we have provided two scenarios in our analysis. Scenario 1 shows the impact of alignment of SPREP's remuneration scale to SOPAC. Scenario 2 shows the impact of alignment of SOPAC's salary scale to SPREP (i.e. reduction in remuneration).

We have been informed by the Acting Director of SPREP that SOPAC's campus will remain in Suva in its entirety and no relocation of staff is expected to occur immediately, accordingly full relocation costs can not be quantified at this stage. Accordingly no relocation costs have been performed based on this information.

(iii) Revised organisational structure

The assumed organisation structure under Option 1 is that the current SOPAC Suva campus will be retained in its current form, with the head office of the rebranded organisation based in Apia, Samoa. The Director General of the merged organisation will be based in Samoa, with two Deputy Directors based in Apia and Suva. The Director of Corporate Services Division will also be based in Samoa, with a Deputy Corporate Services Manager based in Suva.

The Acting Director of SPREP, stated that during the fifteen month transition period there will only be one Director position at SPREP. There will be a Deputy Director position in Apia and the other Deputy Director at the SOPAC campus in Suva. Accordingly, the current Director position at SOPAC will be become redundant.

It is assumed that all the professional and support staff of SOPAC will be retained, except for changes at the executive management level as noted above.

The harmonisation of common services, such as corporate services is expected to be undertaken after the transition. The full implication of additional cost or cost savings from harmonisation of corporate services can not be quantified at this stage except for savings from the Corporate Services Manager position.

(iv) Change management and strategic planning process

It is expected that more resources will be required under Option 1 due to higher level of complexity, risks and larger volume of work required in the establishment of a rebranded organisation. Based on our discussions with the Acting Director of SPREP, there will be no need for a CEO to be appointed during the transition period for the re-branded organisation; however a change manager will be hired to assist the Director during the transition period. With respect to the strategic planning process, it is assumed that an external consultant will be contracted to assist in developing the strategic plan for the merged organisation in conjunction with the Programme Managers of both SOPAC and SPREP. The Programme Mangers will be required to travel to selected member countries in each of the three sub-regions (Polynesia, Micronesia and Melanesia). It is expected that the Director of SPREP and Deputy Director of SOPAC will travel with the Programme Managers.

(v) Impact on donor agreements

Both the options will require amendments to the existing donor agreements of the three organisations. European Union is the single largest donor of SOPAC contributing to 63% of its 2009 annual budget. In contrast, SPREP currently receives minimum funding from the European Union. We understand that SOPAC passed the EU institutional assessment in 2007 whereas SPREP recently underwent a similar assessment which has not been finalised at the date of this report. Accordingly, the outcome of the SPREP institutional assessment will determine the cost implications with respect to donor agreements.

If SPREP passes the EU institutional assessment, the cost implication on donor agreements is expected to be minimal. However, in if this is not the case, there could be significant cost and operational implications arising from the change of the existing Contribution Agreements to Service Agreements or the worst case scenario a possible withdrawal of funding from the EU.

There are significant cost efficiency, time savings and possibly staffing that can be achieved in implementing a programme under a Contribution agreement compared to a Service agreement. Under a Contribution Agreement from the EU, the implementing agency enjoys significant benefits such as applying their own rules and procedures and policies. However, under a Service Agreement arrangement, there are onerous rules which are implied by the EU. These include applying Rules of Origin, which covers areas such as procurement of European products and equipment and human resource recruitment. The impact to the rebranded organisation from operating under a Service agreement would be more costly and operationally onerous from a programme implementation perspective. There are approximately nine EU grants with SOPAC currently.

(vi) Impact on systems

Both SOPAC and SPREP are currently using different systems for most of the functions carried out by Corporate Services. Harmonisation of the existing systems will be required following a review to be undertaken during the transition period.

Under Option 1, assumptions have been made that new systems will be acquired to cater for the new structure and increased size of the rebranded organisation. However, without having detailed information on the new systems, it is difficult to quantify the full cost implications. Nonetheless, we have made certain assumptions in determining the cost implications on systems. Accordingly, it is envisaged that there will be additional costs to be incurred during the actual implementation.

(vii) Impact on aligning of finance, administration and reporting practices

It is assumed that upon completion of harmonisation of the existing systems, the finance, administration and reporting practices should be aligned to a large extent. There will be a need to review the current policies and procedures of each of the organisations to ensure that best practice is followed.

(viii) "one-ff" versus "recurrent" costs

A summary of "one-off" and "recurrent" costs under each Option is outlined in later part of the executive summary. All costs incurred in the implementation phase are classified as "one-off" and costs incurred post implementation phase is classified as "recurrent".

(ix) Transfer of assets and liabilities

As there is no relocation of the SOPAC Suva campus, the transfer will be in terms of ownership instead of physical relocation of the assets. As a result, the only cost to be incurred is the legal cost to facilitate the transfer of ownership, which is expected to be minimal.

We note that both organisations have outstanding membership contributions and are not required to provide for doubtful debts in accordance with their provisioning policy.

(x) Possible relocation or retention of SOPAC Suva campus

The consultants' report recommended that the SOPAC Suva campus be retained under Option 1 (SOPAC/SPREP). Accordingly, this report is prepared based on the assumption that the current SOPAC Suva campus will be retained in its current form and size following the integration of both organisations. We were informed by the Acting Director of SPREP that no change will occur at SOPAC after the merger.

Summary of cost implications

The table below shows a summary of the total cost implications under the respective sections of the Terms of Reference for both the options.

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
"One-off" costs				
(i)	Governance	150,500	150,500	12,000
(ii)	Staffing related costs	-	-	-
(iii)	Revised organisation structures	11,500	11,500	6,000
(iv)	Change management and strategic planning	360,000	360,000	25,000
(v)	Impact on donor agreements	37,800 Refer to note 1 at the end of this table for further comments	37,800 Refer to note 1 at the end of this table for further comments	Expect this to be minimal as both organisations currently have contribution agreement

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
(vi)	Impact on systems	632,000	632,000	184,100
(vii)	Aligning finance, administration and reporting practices	33,600	33,600	12,600
(viii)	'one-off' cost versus 'recurrent costs'	Not applicable Information is provided in this table.	Not applicable Information is provided in this table.	Not applicable Information is provided in this table.
(ix)	Transfer of assets and liabilities	-	-	-
(x)	Possible relocation or retention of SOPAC Suva campus	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring
	Total – "one-off" costs	**1,225,400**	**1,225,400**	**239,700**
"Recurrent" cost/(savings)				
(i)	Governance	-	-	-
(ii)	Staffing related costs	279,000	(297,000)	(289,000)
(iii)	Revised organisation structures	(85,000)	(85,000)	(161,000)
(iv)	Change management and strategic planning	Costs covered during transition period	Costs covered during transition period	Costs covered during transition period
(v)	Impact on donor agreements	Refer to note 1 at the end of this table	Refer to note 1 at the end of this table	Expect this to be minimal as both organisations currently have

TOR	Category	Option 1		Option 2
		Scenario 1 **SPREP to align with SOPAC remuneration)** **USD**	**Scenario 2** **SOPAC to align with SPREP remuneration** **USD**	**USD**
				contribution agreement
(vi)	Impact on systems	57,300	57,300	(11,300)
(vii)	Aligning finance, administration and reporting practices	Costs covered during transition period	Costs covered during transition period	Costs covered during transition period
(viii)	'one-off' cost versus 'recurrent costs'	Covered in this table	Covered in this table	Covered in this table
(ix)	Transfer of assets and liabilities	-	-	-
(x)	Possible relocation or retention of SOPAC Suva campus	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring	No relocation of SOPAC is occurring
	Total – "recurrent costs" / (savings)	**251,300**	**(324,700)**	**(461,300)**

Note 1

We note that the above table does not include the following possible costs relating to the donor agreements under Option 1 (in the event that SPREP is not successful with the EU institutional assessment):

- The worst case scenario is the possibility of SOPAC losing its EU funding, which currently amounts to USD 26,300,000. This amount represents remaining funding from all the EU contracts for SOPAC. The quantum of future EU contributions can not be substantiated at this stage.

- Cost implications if the current Financing Agreements with SOPAC are changed to Service Agreements under the rebranded organisation. This will significantly increase the efficiency and cost of program implementation. This change will be more onerous amd will bring in different processes such as the 'rule of origin' which would affect areas such as human resource recruitment and procurement. The total financial implications can not be quantified at this stage.

6.3 Detailed findings

We outline below details of our analysis of the change in costings due to the revised transition period under the preferred SPRE option of fifteen months compared to twenty four months before.

6.3.1 Governance process

The following assumptions have changed under the governance process:

- There will be only one joint Council meeting, which will be held in 2010.
- There will be a special SPREP Council meeting in March 2011 to approve the new organisational structure and the new strategic plan for the reformed SPREP.
- There will only two Steering Committee meetings and hence savings from the 2011 meetings under the previous transition period of twenty four months.

6.3.1.1 Cost implications

The cost implications under this option for governance process are:

1. Additional cost to be incurred by SOPAC to have the joint Council meeting in 2010 of USD 14,000. The cost includes the additional cost of per diem and logistics cost for holding the Joint Council meeting for one day in PNG.
2. Cost of holding a special SPREP Council meeting in March 2011 of USD 100,000 assuming the meeting will be for two days.
3. Additional cost to be incurred by SPREP to have the joint Council meeting in 2010 of USD 22,000 in PNG. The cost includes extra per diem cost of USD 6,000 and translation cost of USD 16,000.
4. The additional per diem cost of attending the first Steering Committee meeting in PNG for 2010 will be USD 12,500. This includes four member representatives and two executive from each organisation meeting for two days.
5. The cost of holding a Steering Committee meeting in Suva in 2010 would be USD $2,000. The cost includes travel and per diem cost of two executive staff of SPREP to travel to Suva for two days.

6.3.2 Summary

	Option 1 USD Additional cost / (savings)	Option 2 USD Additional cost / (savings)
One-off		
Additional cost to be incurred by SOPAC for the first joint Council meeting in 2010 (PNG)	14,000	12,000
Cost of holding a Special SPREP Council meeting in March 2011	100,000	Nil
Additional cost to be incurred by SPREP for the first joint Council meeting in 2010 in (PNG)	22,000	Nil
First Steering Committee Meeting	12,500	Nil
Second Steering Committee Meeting	2,000	Nil
Total	**150,500**	**12,000**
Recurrent		
None identified	-	-

6.3.3 Staffing related costs

There will be no changes to staff related costs as all the assumptions used previously under Section 5.2 of this report remains unchanged.

6.3.3.1 Cost implications

The cost implications under this option for staff related costs are:

Scenario 1

If SPREP adjusts its remuneration to reflect the 2009 market adjustements, this will result in additional cost of USD 279,000, which is calculated by applying the an average of 13 percent to the current remuneration of SPREP staff.

Scenario 2

If the SPREP Council does not approve the Secretariat's request for the salary increase, SOPAC's remuneration may need to be adjusted to align with SPREP on renewal of contracts. This will result in savings of USD 297,000, which represents the difference in SOPAC's salary between 2008 (pre-market adjustment) and 2009 (post-market adjustment).

6.3.3.2 Summary

	Option 1 USD Additional cost / (savings) per annum	**Option 2 USD Additional cost / (savings) per annum**
One-off		
None identified	-	-
Recurrent		
Harmonisation of staff remuneration: *Scenario 1* Increase in remuneration (SPREP to align with SOPAC) *Scenario 2* Decrease in remuneration (SOPAC to align	279,000	-

	Option 1 USD Additional cost / (savings) per annum	**Option 2 USD Additional cost / (savings) per annum**
with SPREP)	(297,000)	(297,000)
Housing allowance	Nil	8,000
Total cost/(saving)	**279,000 or (297,000)**	**(289,000)**

6.3.4 Revised organisational structure

There are two significant changes in assumptions in respect of the revised organizational structure under the preferred SPREP approach for the re-branded option. The current Director position of SOPAC will become redundant from the transition period instead of from post implementation period as advised by the Acting Director of SPREP. In addition there will be no need for a CEO position for the re-branded organization during the transition period. As alluded to earlier, the SPREP Director will be assisted by a change manager and a strategic planner. The cost savings from the current Director position of SOPAC was previously shown under option 1 in section 5.3 as a recurrent cost and hence will not change. All other assumptions under section 5.3 remain unchanged.

6.3.4.1 Cost implications

The cost implications under this option for implementing the revised organisational structure are as follows:

1. There will be only one Director position. It is assumed that the Director of SOPAC will become redundant from the transition period. This will result in cost savings of approximately USD 174,000, which is the budgeted remuneration package of the current SOPAC Director.

2. The Director of SPREP (who is the current Acting Director) will need to travel between campuses during the transition period. The total cost of travelling would be USD 5,500 per annum, assuming the Director will travel three times a year for a period of 5 days.

3. The Director of the re-branded organisation will also need to travel between the two campuses. The total cost of traveling would be USD 7,000 per annum, assuming the travel will be once every quarter for a period of 5 days.

4. Cost savings from Deputy Corporate Services Manager position at SOPAC of 11,000, which was calculated as follows:

Current Corporate Services Manager remuneration package at SOPAC	Deputy Corporate Services Manager remuneration package	Savings
USD 123,000	USD 112,000	USD 11,000

5. The Director Corporate Services in SPREP will remain and accordingly, there will be no cost savings from this option.

6. Due to new systems acquired under this option there will be a need for a Deputy IT Manager who will be based in Suva, which would cost USD 93,000. There is already a IT Manager based in Samoa.

7. The cost of drafting of the MoU is USD 6,000.

6.3.4.2 Summary

	Option 1 USD Additional cost / (savings) per annum (000s)	**Option 2 USD Additional cost / (savings) per annum (000s)**
One-off		
Cost of SPREP Director to travel during transition period	5,500	-
Drafting of MoU	6,000	6,000
Total cost/(saving)	**11,500**	**6,000**
Recurrent		
Cost saving from SOPAC Director position	(174,000)	(27,000)
Traveling cost of Director between Apia and Fiji campuses	7,000	Nil
Savings from Deputy Director position at SOPAC	Nil	(129,000)
Cost savings for Corporate Services Manager position at SOPAC	(11,000)	(5,000)
Cost of IT Manager	93,000	-
Total cost/(saving)	**(85,000)**	**(161,000)**

6.3.5 Change management and the strategic planning process

Due to the change in transition period the following assumption was changed:

- Instead of a new CEO, who was also the Change Manager, being appointed there will be a Change Manager appointed to assist the Director during the transition period. In this case the Acting Director is assumed to be the Director during the transition period. Under the original arrangement the Change Manager was also the CEO. However, under this modified option the Change Manager will assist the Acting Director of SPREP. Accordingly this reduces the cost of having a Change Manager.

- Since the current Director position at SOPAC will become redundant from the transition period, it is assumed that the CEO of SPREP and the Deputy Director of SOPAC will travel with the five programme managers to three countries from each sub-region.

All other assumptions stated under section 5.4 remained unchanged.

6.3.5.1 Cost implications

1. Total cost of a Change Manager during the transition period will be USD 168,000 for a period of twelve months at a daily rate of USD 1,400, assuming that the consultant will only spend an estimate of hundred twenty days during the fifteen month period. The Change Manager will work closely with the Director.

2. The total cost of the strategic planner to develop the strategic plan will be USD 67,000 for a period of twelve months at a daily rate of USD 1,400 including travel of USD 11,000, assuming that the consultant will only spend an estimate of forty days during the twelve month period. The strategic planner will work closely with the program managers.

3. The cost of five programme managers, two from SPREP and three from SOPAC, and the CEO of SPREP and Deputy Director of SOPAC, to travel to three countries from each sub-region for a period of three months would be USD 125,000. This cost includes airfares of USD 113,000 and per diem of USD 12,000 per diem rates used for the per diem are UNDP rates.

6.3.5.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Change manager	168,000	-
Strategic planner	67,000	-
Development of strategic plan	125,000	25,000
Total	**360,000**	**25,000**
Recurrent		
None identified	-	-

6.3.6 Impact on Donor agreements

There are no changes to impact on donor agreements as a result of change in transition period. All assumptions stated under section 5.5 remained unchanged.

6.3.6.1 Cost implications

Should SPREP passes the EU institutional assessment, the cost implications relating to donor agreements under the SOPAC/SPREP institutional arrangement is expected to be minimal.

However, in the event that SPREP is not successful with the institutional assessment, there will be significant cost implications as the European Union (EU) could change its agreements from Contribution Agreements to Service Agreements which will significantly increase the cost of program implementation. This change will bring in different rules such as the 'rule of origin' which would affect areas such as human resource recruitment and procurement. For instance, the existing employments contracts with personnel from non-ACP and EU countries could be terminated with redundancy payments and new personnel from ACP countries will need to recruited. The total financial implications can not be quantified at this stage.

There is also a possibility that the finances available under the current agreements with the EU could be withdrawn.

Overall, the possible costs relating to the donor agreements under this option are:

- The possibility of SOPAC losing its EU funding, which currently amounts to USD 26,300,000. This amount represents remaining funding from all the EU contracts for SOPAC. The quantum of future EU contributions can not be substantiated at this stage.

- If the existing donor agreements with the EU are to be amended to Service Agreements, a consultant will be required to convert the Contribution Agreements to a Service Agreement, which would cost USD 37,800. This is based on the assumption the consultant will spend 3 days per agreement. There are nine EU grants with SOPAC currently.

The Acting Director of SPREP has indicated that SPREP will work in close collaboration with the EU and SOPAC to minimise any potential impact of EU rules and procedures.

6.3.6.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Consultancy cost of converting contribution agreements to service agreements	37,800	Minimal
Total	**37,800**	Minima
Recurrent		
None identified	-	-

We note that the above costs do not include the possible loss of the EU funding available under its current agreements with SOPAC in the amount of US$26,300,000 or impact on implementing service agreements instead of contribution agreements which can not be quantified at this stage.

6.3.7 Impact on systems

There are no changes to impact on systems as a result of change in transition period. All assumptions stated under section 5.6 remained unchanged.

6.3.7.1 Cost implications

1. Review of current systems of USD 126,000, assuming a consultant is hired for 90 days (three months) to review both SOPAC and SPREP existing systems at a daily rate of USD 1,400. This involves the consultant's time to review the existing systems at both organisations and to make recommendations to use either of the current systems or to acquire a new system.

2. Implementation of new Finance system assuming the merged organisation will implement the same finance system as SPC and Pacific Islands Forum Secretariat, Navision. There will be need a for a multi currency general ledger. This would cost USD 280,000 which includes the following costs:

   - Cost of Navision of USD 185,000.

   - Development and customization of software, staff training and license fee of USD 55,000

   - Cost of testing the new system, migrate data on trial, trial run the system, undertake corrective measures, build in safety provisions and write different protocols to enable data migration and data management of USD 40,000.

3. Cost of maintenance of Navision of USD 19,600 per annum.

4. Estimated cost savings from maintenance of the current finance systems of both organisations amounts to USD 22,300.

5. Cost of migrating the manual HR system of SPREP to SOPAC's HR system is estimated to be USD 15,000 including implementation, training and additional licenses. There will also certain amount of non-monetary cost in terms of entering the manual data into the system.

6. Cost of using a new telephone system would be USD 130,000.

7. Establishment of a satellite based facility between Suva SOPAC campus and SPREP campus at Apia would be USD 30,000. The cost includes estimated cost of equipments that was provided by Pacific Teleports, the provider of SPC (Noumea – Suva) satellite link.

8. Additional cost to remotely access the database by both Apia and Suva campuses would cost USD 41,000. This is based on the costing under SPC/SOPAC option.

9. Translation cost of USD 60,000, assuming the current arrangements of SPREP with the Australian translators is used. The actual translation cost for 2008 SPREP meeting for Programmes was used as guidance.

10. The cost of SOPAC to setup a video conferencing facility will be USD 10,000.

6.3.7.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Review of current systems	126,000	-
Harmonisation of finance system	280,000	40,600
Harmonisation of telephone system	130,000	101,000
Harmonisation of HR system	15,000	15,300
Remote access to database	41,000	27,200
Video conferencing facility	10,000	-
Establishment of satellite facility	30,000	-
Total cost/(saving)	**632,000**	**184,100**

Recurrent		
Translation cost	60,000	Minimal
Finance system - maintenance	19,600	600
HR system - maintenance	-	400
Cost saving from annual maintenance fee	(22,300)	(12,300)
Total cost/(saving)	**57,300**	**(11,300)**

6.3.8 Impact on alignment of finance, administration and reporting process

There are no changes to impact on alignment of finance, administration and reporting process as a result of change in transition period. All assumptions stated under section 5.7 remained unchanged.

6.3.8.1 Cost implications

1. The cost of contracting a consultant to review the current policies and procedures and to develop a new policies manual would be USD 33,600. Assuming the consultant is hired for forty days at a daily rate of USD 840.

6.3.8.2 Summary

	Option 1 USD Additional cost / (savings)	**Option 2 USD Additional cost / (savings)**
One-off		
Consultancy cost of reviewing policies and procedures	33,600	12,600
Total cost/(saving)	**33,600**	**12,600**
Recurrent		
Non identified	-	-

6.3.9 Assess and provide opinions on "one-off costs": versus "recurrent costs"

This has been reflected in the respective sections of this report. . All costs incurred in the implementation phase is classified as "one-off" and costs incurred post implementation phase is classified as "recurrent".

6.3.10 Transfer of assets and liabilities

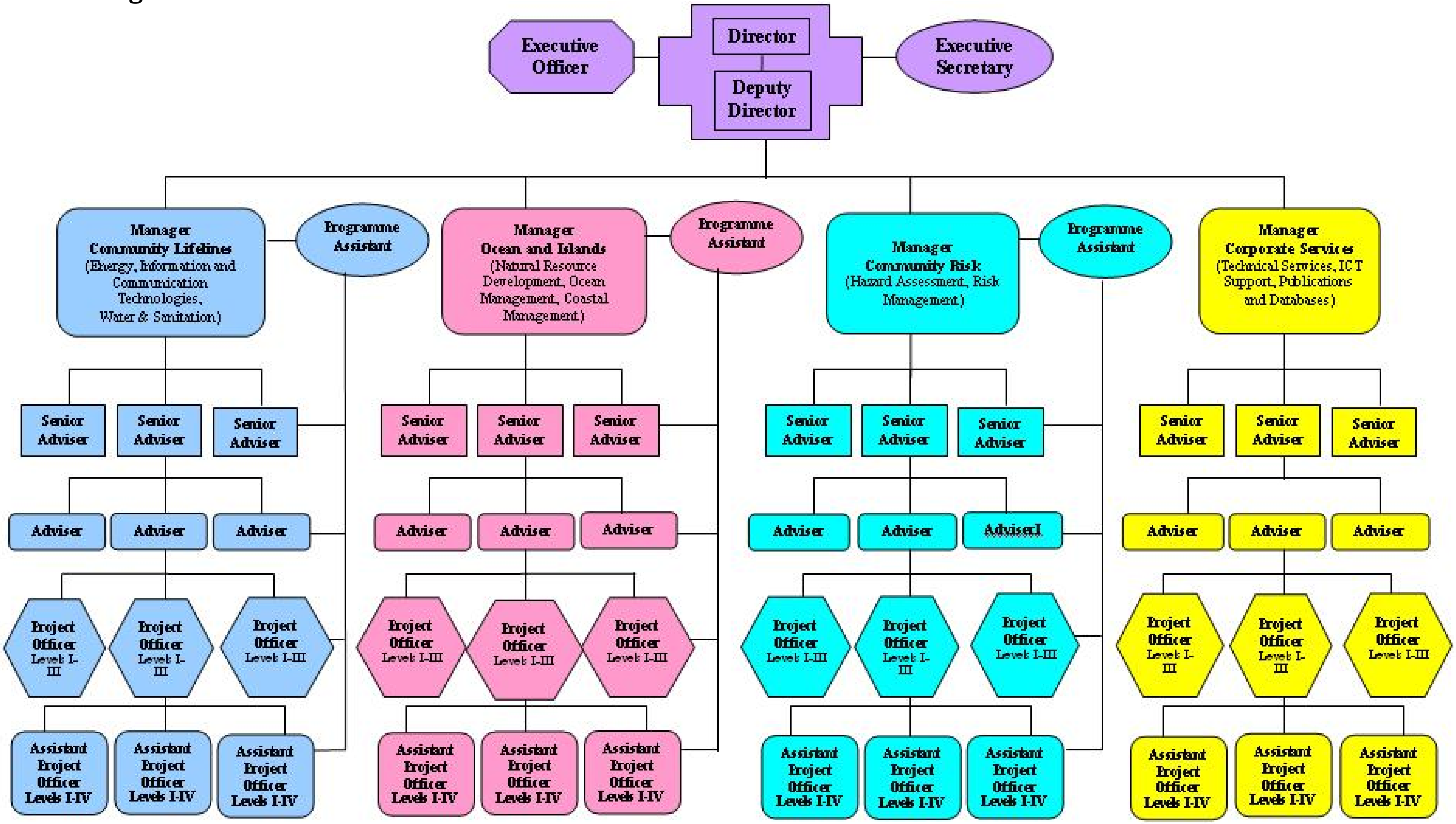
There are no changes on transfer of assets and liabilities as a result of change in transition period. All assumptions stated under section 5.9 remained unchanged.

6.3.11 Possible relocation or retention of SOPAC Suva Campus

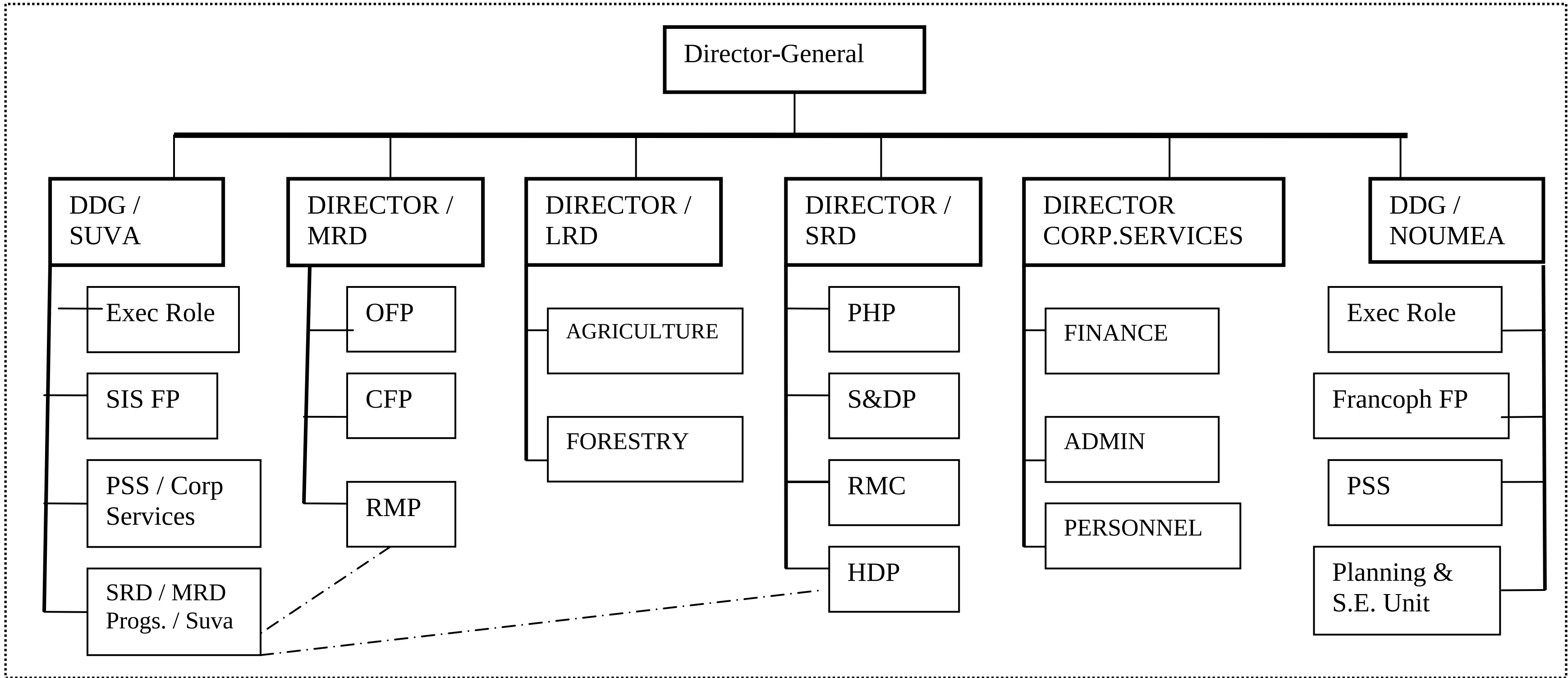
Assumption regarding retention of SOPAC Suva campus stated under section 5.10 remains unchanged.

Appendix A

A.1 Organisation chart - SOPAC

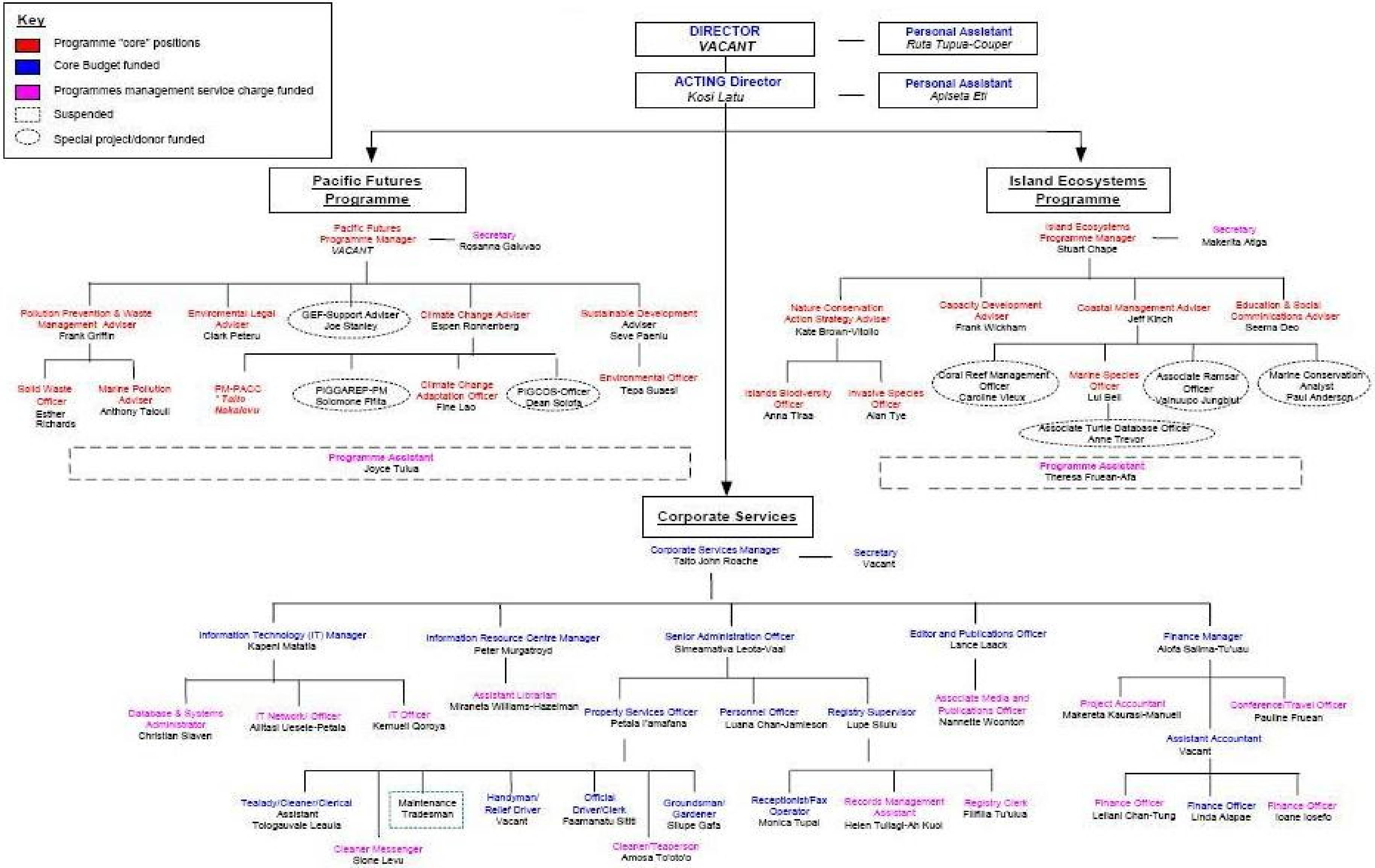


A.2 Organisation chart – SPC



CFP	Coastal Fisheries Programme	MRD	Marine Resources Division	SIS FP	Small Island States Focal Point
Francoph FP	Francophone Focal Point	OFP	Oceanic Fisheries Division	SRD	Social Resources Division
HDP	Human Development Programme	PHP	Public Health Programme	S&DP	Statistics & Demography Programme
LRD	Land Resources Division	PSS	Programme Support Services	S.E. Unit	Strategic Engagement Facility
RMC	Regional Media Centre				

A.3 Organisation chart – SPREP



A.4 Key Contact

Our review was conducted by holding discussions with SOPAC, SPREP and SPC staff members, observing procedures and reviewing relevant documentation.

Key staff members with whom we held discussion were:

- Ms Cristelle Pratt : Director SOPAC
- Mr Kosi Latu : Acting Director SPREP
- Mr Jimmie Rogers : Director General SPC
- Mr Mohinish Kumar : Manager Corporate Services SOPAC
- Mr John Yee Chief : Director Corporate Services SPC
- Ms Alofa Salima – Tu'uau : Finance Manager SPREP
- Mr Rewi Edwin Pittman : Consultant
- Ms Catherine Bennett : Consultant
- Mr Russell Howorth: Consultant

A.5 List of abbreviations

CEO – Chief Executive Officer

CROP – Council of Regional Organisations in the Pacific

DG – Director General

EU – European Union

HR – Human Resources

ICT – Information, Communication and Technology

IT – Information Technology

MoU– Memorandum of Understanding

RIF – Regional Institutional Framework

SPC – Secretariat of the Pacific Community

SPREP – Secretariat of the Pacific Regional Environment Programme

SOPAC – Secretariat of the Pacific Islands Applied Geoscience commission

TOR – Terms of reference

UNDP – United Nations Development Programme