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## RESOURCE MANAGEMENT

### (c) Budget considerations for 2014 and 2015

#### Note by the Secretary-General

#### SUMMARY

*Executive summary:* This document updates the overall status of the Organization's budget for 2014 contained in document C 112/4(e) and provides a preliminary assessment of the budget prospects for 2015

*Strategic direction:* 4

*High-level action:* 4.0.1

*Planned output:* 4.0.1.1

*Action to be taken:* Paragraph 36

*Related documents:* A 28/19(c), A 28/19(c)/Add.1; resolution A.1063(28) and C112/4(e)

#### Introduction

1 The Secretary-General's initial overview of the budget prospects for 2014 was presented in document C 112/4(e) to the 112th session of the Council on the basis of the expenditure trends during the first quarter of 2014. C 112 noted that the forecast outturn level of the budget execution for 2014 would be kept within the approved appropriation for 2014. This document presents an updated review of the budget prospects on the basis of nine months' expenditure, to 30 September 2014, and further provides a preliminary assessment of the budget prospects for 2015.

2 The total appropriation of the **regular budget** for the 2014-2015 biennium was set at £64.3 million, representing 3.4% above the previous biennium of £62.2 million. In annual terms, the appropriation for 2014 was approved on the basis of a Zero Nominal Growth (ZNG) budget of £31.69 million, while the appropriation for 2015, of £32.62 million, reflected Zero Real Growth (ZRG) of 2.9% above the 2014 appropriation. Table 1 shows the approved appropriations and the corresponding assessments for 2014 and 2015, as decided by resolution A.1063(28). The biennial assessment of £60.23 million represents 94% of the biennial appropriation after subtracting a total of £4.07 million for other income and reimbursements expected during the current biennium.

**Table 1**  
**Regular budget appropriations and assessments for 2014 and 2015**

|                              | 2014          |                | 2015          |                | 2014-2015 Total |                  |
|------------------------------|---------------|----------------|---------------|----------------|-----------------|------------------|
|                              | £'000         | Annual changes | £'000         | Annual changes | £'000           | Biennial changes |
| <b>Appropriation (i)</b>     | <b>31,686</b> | 0.0%           | <b>32,618</b> | 2.9%           | <b>64,304</b>   | 3.4%             |
| Other offsetting income (ii) | 1,570         | 3.6%           | 2,502         | 59.4%          | 4,072           | 34.4%            |
| <b>Assessment (iii=i-ii)</b> | <b>30,116</b> | -0.2%          | <b>30,116</b> | 0.0%           | <b>60,232</b>   | 1.8%             |

3 In addition to the approval of the regular budget, the Assembly also approved the budget for the **other budgetary Funds of the Organization**, as shown in table 2 below, amounting to £25.77 million for the biennium, which represents a reduction of 3.4% on the last biennium. The total appropriation for those other budgetary Funds is less than half (40%) of the regular budget amount of £64.3 million.

**Table 2**  
**Appropriations of the other Funds of the Organization for 2014 and 2015**

|                               | 2014          |                | 2015          |                | 2014-2015 Total |                  |
|-------------------------------|---------------|----------------|---------------|----------------|-----------------|------------------|
|                               | £'000         | Annual changes | £'000         | Annual changes | £'000           | Biennial changes |
| Trading Fund                  | 5,824         | -6.0%          | 5,944         | 2.1%           | 11,768          | -4.8%            |
| Headquarters Capital Fund     | 930           | -22.1%         | 950           | 2.2%           | 1,880           | -18.7%           |
| Termination Benefit Fund      | 844           | -13.9%         | 997           | 18.1%          | 1,841           | 3.7%             |
| Training and Development Fund | 136           | -4.9%          | 141           | 3.7%           | 277             | -1.4%            |
| Technical Cooperation Fund    | 5,159         | 11.1%          | 4,841         | -6.2%          | 10,000          | 0.6%             |
| <b>Total other Funds</b>      | <b>12,893</b> | <b>-2.0%</b>   | <b>12,873</b> | <b>-0.2%</b>   | <b>25,766</b>   | <b>-3.4%</b>     |

### Review of pay and price factors

4 The Council will recall that the approved regular budget comprises the costs of staff, short-term assistance of other personnel (including overtime, temporary assistance, consultancy, interpreters and external translators), official mission travel and the running costs of Headquarters premises such as rent, rates and utilities. The actual expenditure outturn reflects movements, not only in the external pay and price factors in the United Kingdom (UK) economy, but also in the salaries and allowance levels set by the International Civil Service Commission (ICSC) and approved by the General Assembly of the United Nations (UN).

### *Budgetary assumptions and actual movements*

5 The approved budget for the current biennium took into account forecast movements of the economic indices in the UK economy and currency fluctuations between the pound sterling and the United States (US) dollar. Table 3 below summarizes the latest available indices on the UK economy published by the Office for National Statistics of the UK Government and the actual movements of the United Nations operational rate of exchange; while chart 1 illustrates the longer-term movement of those indicators.

**Table 3**  
**Trends of economic indicators**

|   | Assumption<br>2014-2015 | Actual          |      |      |      |      |        |
|---|-------------------------|-----------------|------|------|------|------|--------|
|   |                         | 2013<br>Average | 2014 |      |      |      |        |
|   |                         |                 | Jan  | Mar  | May  | July | Latest |
| UK Average Weekly Earnings (AWE) <sup>1/</sup>    | 2.5                     | 1.2             | 1.6  | 2.1  | 0.4  | 0.7  | 0.8    |
| UK Average Retail Price Index (RPI) <sup>2/</sup> | 2.5                     | 3.1             | 2.8  | 2.5  | 2.4  | 2.5  | 2.3    |
| USD/GBP exchange rate <sup>3/</sup>               | 1.55                    | 1.56            | 1.65 | 1.67 | 1.68 | 1.70 | 1.62   |

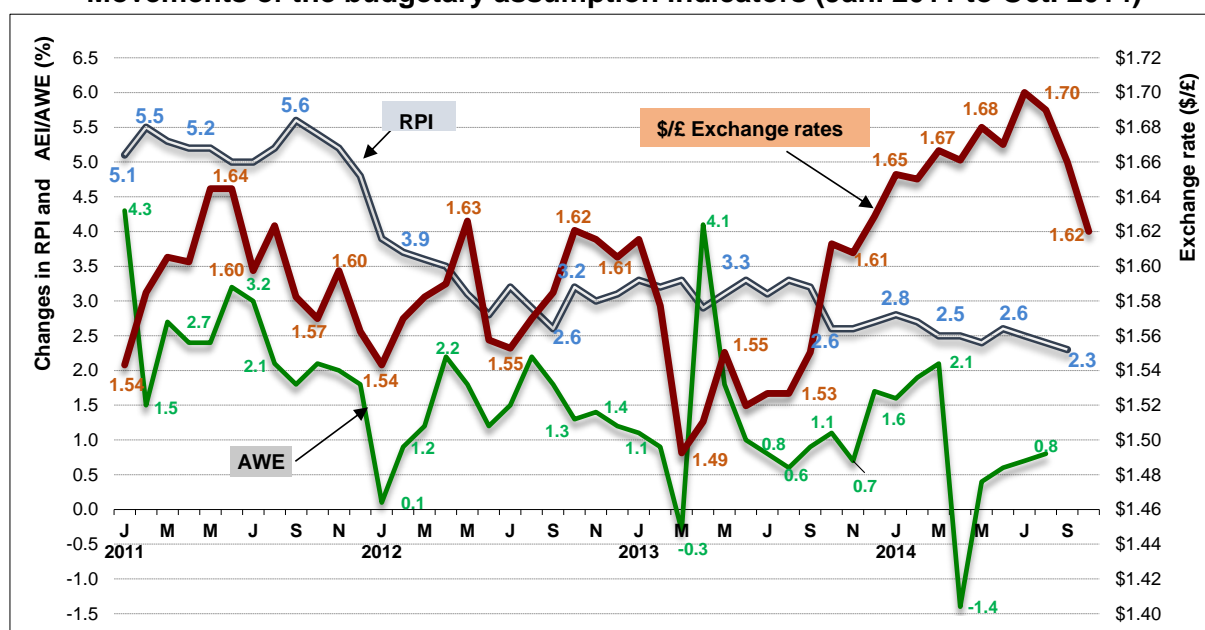
<sup>1/</sup> 12-month percentage change in total pay (including bonuses), which was changed from Average Earnings Index (AEI) to Average Weekly Earnings (AWE) in August 2010. The latest figure used here was for August 2014.

<sup>2/</sup> Annual inflation rate measured by 12-month percentage changes. The latest figure was for September 2014.

<sup>3/</sup> United Nations operational exchange rates (1GBP expressed in USD), the latest of which was for October 2014.

\* Source of AWE and RPI: UK Office for National Statistics (AWE and RPI are updated monthly)

**Chart 1**  
**Movements of the budgetary assumption indicators (Jan. 2011 to Oct. 2014)**



6 From the table and chart above, it can be seen that the annual inflation rate this year in the United Kingdom, considered in terms of Retail Price Index (RPI), has been floating around the budgetary assumption level of 2.5% whilst total pay (i.e. including bonuses), measured by the Average Weekly Earnings (AWE), has not yet recovered to the earlier level of 1.6% shown in January of this year and has been hovering at below 1% levels in recent months. The pound sterling value against the US dollar, measured in the United Nations operational exchange rate, has shown a steep increase, from a lowest point of \$1.49 per pound in March 2013, to \$1.70 in July 2014, dropping back to \$1.62 in October 2014. Overall, the movements in the economic indicators in the UK show some deviation from the budgetary assumptions, as may be seen in table 3 above, and the impact thereof is detailed below.

**Impact of exchange rates movement and ring-fencing results**

7 The Council will recall that the budgetary shortfall or surplus, arising from any difference between the United Nations operational rate of exchange and the exchange rate adopted for the calculation of appropriations, is now accounted for under the Working Capital Fund (WCF) in accordance with its terms of reference approved by the Assembly in resolution A.1039(27). Since the dollar value in the actual rate of exchange against the

pound sterling was weaker than the budget rate, as indicated in table 3 and chart 1 above, there have been currency exchange gains of £201,448 on ring-fenced US dollar expenditure over the first nine months of 2014. Should the exchange rate remain at the average rate of the last three months (\$1.66) for the remainder of 2014, the accumulated exchange rate gains would be in the order of £270,000 for 2014 to be credited to the WCF.

8 In this respect, the Council will recall that, at its 112th session, while noting the impact of the exchange rate movement on the financing capacity of the WCF, it endorsed the Secretary-General's proposal, which was prepared on the recommendation by the External Auditor, to set the financing capacity of the WCF at a minimum base of £1.5 million and that any depletion below such a level, as at the end of a financial year, should trigger action by the Council to replenish the WCF up to £2 million from any available reserves in the Organization's various Funds.

9 As reported to the Council in document C 112/4(e), the financing capacity of the WCF as at 31 December 2013 dropped to £1.65 million following the costs of exchange rate losses that had been levied against the Fund over the biennium 2012-2013. However, with the prospective addition of currency gains in the order of some £270,000, the financing capacity would increase to £1.92 million by the end of the year, unless other unexpected situations arise. The Secretary-General therefore considers that the Council need not take any action at this time to replenish the WCF.

#### ***Cost-of-living adjustments and pensionable remuneration***

10 The major part of the Organization's expenditure relates to staff costs. For the purpose of budgetary planning, the staff costs budget for 2014 reflected interim cost-of-living adjustments or increases of 2.5% both for staff in the Professional and higher categories and for General Service staff, in accordance with the United Nations common system methodology of salary calculation.

11 Following the ICSC's regular monthly reviews of the post adjustment multipliers applicable to duty stations worldwide, a new multiplier, applicable from February 2014 for the London duty station, was promulgated, which led to a pay increase of 1.02% for Professional and higher categories staff. The lower than expected cost-of-living adjustment for London-based Professional staff, which has resulted in a saving in staff costs of some £170,000 for 2014, was due to the freeze in the post adjustment for New York, the base duty station, following the ICSC's review of the remuneration level of the United States Federal employees. In respect of pensionable remuneration, no change is expected for this biennium due to the suspension in the post adjustment change for the base duty station.

12 As reported earlier, the ICSC has introduced a new methodology for the General Service salary survey. In order to provide adequate time for a thorough understanding of the new methodology by member organizations and their staff, the routine salary survey for London has been postponed to next year. Therefore, an interim salary scale adjustment was implemented, under the 12-month rule and based on the annual movements in the pay and price indices in the UK, resulting in a 1.4% increase in salary scales as of 1 October 2014, on the basis of the RPI and AWE movements seen in table 3 above. The associated pensionable remuneration scale was also adjusted accordingly.

#### **Overview of the expenditure and forecast position of the regular budget for 2014**

13 Table 4 below sets out the expenditure status as at the end of September this year and its forecast position for 2014 by expenditure group. The Council will note from the table that the overall expenditure status by the end of the year is forecast to generate some savings in the order of £1.91 million in total, equivalent to 6% of the approved budget for 2014.

**Table 4**  
**Forecast of the regular budget outturn by expenditure group as at 30 September 2014**

| 2013 Outturn<br>(£'000) | Objects of expenditure     | 2014<br>Appropriations<br>(£'000) | 2014 Expenditure (£ '000) |                       |                    | Forecast<br>year-end<br>balance |
|-------------------------|----------------------------|-----------------------------------|---------------------------|-----------------------|--------------------|---------------------------------|
|                         |                            |                                   | Actual<br>(Jan-Sep)       | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |                                 |
| 21,450                  | Staff costs*               | 23,730                            | 16,106                    | 6,160                 | 22,266             | 1,464                           |
| 1,674                   | Other personnel**          | 1,922                             | 1,129                     | 482                   | 1,611              | 311                             |
| 184                     | Official missions          | 300                               | 157                       | 65                    | 222                | 78                              |
| 4,761                   | General operating expenses | 4,966                             | 3,163                     | 1,742                 | 4,905              | 61                              |
| 800                     | Funds replenishment        | 768                               | 768                       | 0                     | 768                | 0                               |
| <b>28,869</b>           | <b>Total</b>               | <b>31,686</b>                     | <b>21,323</b>             | <b>8,449</b>          | <b>29,772</b>      | <b>1,914</b>                    |

\* These reflect staff turnover of £300,000 for the 2014 budget

\*\* This includes overtime, temporary assistance, consultancy and meetings personnel (interpreters and external translators)

### **Staff complement and post management**

14 The prospective savings in the regular budget for 2014 shown in table 4 above are mainly attributable to underspends in staff costs resulting from a longer than expected time-lapse in filling a number of vacant posts arising from the retirement or separation of staff. A total of 267 work-months (comprising 97 Professional work-months and 170 General Service work-months) were vacant for the first nine months of the year, a period during which 19 posts were filled but an additional 16 posts became vacant. As at 1 October 2014, there are 29 vacant posts in the regular budget, comprising 10 Professionals and 19 General Service posts; these are at various stages of the recruitment process with efforts being made to expedite that.

15 It should also be noted that the prospective savings are partly the result of the rationale of the Secretary-General's review and reform initiative which requires the Secretariat to critically assess the need for every vacant post; to transfer or redeploy posts in line with changes and imbalances in workload within and across divisions; to call for secondees and Associate Professional Officers (APOs) from interested Member States, IGOs and NGOs (the number of APOs/secondees totalled 11, as at 1 October 2014, from seven Member States); to enforce the policy on no contract extensions beyond normal retirement age; to reclassify every post to its original grade or less when it is vacated by an incumbent with a personal promotion; and, where applicable, to apportion to donor-financed projects the regular budget staff costs associated with their delivery.

### **Other personnel**

16 The budget for other personnel in table 4 above includes the costs of temporary assistance, overtime, consultants and meetings personnel (translators and interpreters). As costs under this component are more readily controlled, efficiency steps have also been taken in the context of the Secretary-General's review and reform initiative. General Service staff continue to be given compensatory time off for their overtime work, rather than cash payments at 150% of their hourly rates. Furthermore, continuing efforts have been made to rein in temporary assistance costs by ensuring consistency in the grade and step applicable for temporary appointments, across the Secretariat. And, while the interpreter-serviced meetings for this year remain unchanged at 17.2 meeting-weeks, cost-cutting efforts have been maintained through the more effective and efficient arrangement of services for meetings logistics and personnel.

***Official mission travel***

17 The continued economy measures for official mission travel include forward mission planning, advance flight/hotel reservation, use of restricted economy class tickets and limited participation in international forums, where feasible. Rapid increases in airport taxes, fares and fuel surcharges arising from recent overall market conditions require every effort to be made to increase the use of videoconferencing facilities, as far as practicable, instead of undertaking missions outside London. Additionally, a new Travel Manual containing lower travel standards has been promulgated and, overall, expenditure on official missions is now set to generate a saving of £78,000 on the approved budget.

***General operating expenses***

18 General operating expenses (GOE) include expenditure on the Headquarters premises (rents, rates, utilities and maintenance), office consumables and services (communications, minor equipment, IT maintenance, medical, library, meetings general expenses, etc.) and ancillary provisions (public information, shared costs for jointly financed United Nations bodies, etc.). This year's expenditure items include free distribution of publications to Member States and, in line with past practice, the £16,000 cost of mailing such publications has been charged to the regular budget of the Organization. While the GOE budget for 2014 reflects a 3% reduction on the equivalent budget for 2013, nevertheless, table 4 above shows prospective year-end economies of £61,000 under this heading, resulting from the cost-saving and austerity measures agreed by the senior management through stricter controls over the use of late night taxi services during meeting sessions; market testing and tendering for utilities; review of ICT provision; and review of the purchasing of non-urgent equipment/furniture. Moreover, additional ways of reducing the use of paper in the production of meeting documents have been and will be further generated through the shift to PaperSmart practices and the introduction of an electronic document management system (e-Docs).

***Funds replenishment***

19 The line item provision (£768,000) in the regular budget for Funds replenishment was transferred in the third quarter of the year to the Headquarters Capital Fund (£117,000) to address the sustained contribution of funds for capital investments, and also to the Termination Benefit Fund (£651,000) for the After Service Health Insurance (ASHI) costs, accrued annual leave and repatriation benefits.

***Expenditure details by Strategic Result (SR)***

20 A summary of expenditure for each strategic result, which is set out in table 5 below, shows that total expenditure for the period ending 30 September 2014 amounted to £21.32 million, representing 67% of the approved budget for 2014. As can be seen in chart 2, which illustrates the comparison of expenditure with the approved budget for each strategic result, most of those strategic results show a budget execution rate of more than 65%, indicating a delivery on course during January to September of the year, whilst other strategic results remain to be delivered in later months of the year.

**Table 5**  
**Expenditure details of each Strategic Result as at 30 September 2014**

| 2013<br>outturn<br>(£'000) | Strategic Results |  | 2014<br>Approved<br>budget<br>(a) | 2014 Expenditure |            | Balance<br>£'000<br>c=a-b) |
|----------------------------|-------------------|--|-----------------------------------|------------------|------------|----------------------------|
|                            |                   |  |                                   | Jan-Sep<br>(b)   | %<br>(b/a) |                            |
| 4,040                      | SR 1              | Enhanced status as a primary international maritime forum                    | 2,535                             | 2,052            | 81%        | 483                        |
| 2,460                      | SR 2              | Enhanced global compliance and uniform implementation                        | 3,089                             | 1,931            | 63%        | 1,158                      |
| 3,620                      | SR 3              | Strengthened capacity-building   | 3,600                             | 2,967            | 82%        | 633                        |
| 8,101                      | SR 4              | Enhanced governance, management and administration                           | 7,420                             | 5,447            | 73%        | 1,973                      |
| 5,155                      | SR 5              | Enhanced safety of human life at sea   | 7,421                             | 4,019            | 54%        | 3,402                      |
| 861                        | SR 6              | Enhanced security of the maritime transport network                          | 804                               | 519              | 65%        | 285                        |
| 1,661                      | SR 7              | Reduced adverse impact on the environment                                    | 3,047                             | 1,741            | 57%        | 1,306                      |
| 522                        | SR 8              | Ensured efficiency of shipping   | 664                               | 368              | 55%        | 296                        |
| 158                        | SR 9              | Increased attention to SIDS and LDCs   | 176                               | 122              | 69%        | 54                         |
| 64                         | SR 10             | Goal-based standards applied   | 306                               | 245              | 80%        | 61                         |
| 1,410                      | SR 11             | Raised profile of the safety, security and environmental records of shipping | 1,874                             | 1,337            | 71%        | 537                        |
| 472                        | SR 12             | Enhanced quality of shipping   | 610                               | 273              | 45%        | 337                        |
| 345                        | SR 13             | Enhanced environmental awareness   | 440                               | 302              | 69%        | 138                        |
|                            |                   | Staff turnover   | -300                              |                  |            | -300                       |
| <b>28,869</b>              | <b>TOTAL</b>      |  | <b>31,686</b>                     | <b>21,323</b>    | <b>67%</b> | <b>10,363</b>              |

**Chart 2**  
**Comparison of expenditure with the approved budget for each Strategic Result**

### Status of the Trading Fund for 2014

21 As at 30 September 2014, the income generated under the Trading Fund amounted to £7.25 million, which comprised publication sales of £6.7 million and catering sales and other miscellaneous income of £0.55 million, as set out in table 6 below. The overall income projected for the year is £11.9 million, slightly above the 2013 outturn. The growth in publication income is mainly attributable to continuing sales of the new IMDG Code and its supplement, which were marketed in the second half of this year; the GMDSS Manual; IMSBC Code; Ships' Routing; and ISM Code & Guidelines. On the other hand, catering sales, which reached some £0.76 million last year, thanks to increased function income derived from the Assembly session, are at present expected to be below the target of £0.66 million, partly due to the reduced meeting weeks and partly due to a customary sales drop in non-Assembly years.

22 In respect of expenditure, as in previous years, the publishing and catering services have been closely monitored and constrained to achieve, wherever possible, maximum economies both in the operation of the services as well as in negotiation with external suppliers. Total expenditure is projected at £5.28 million for 2014, which represents 44% of total income, resulting in an in-year surplus of £6.65 million, as can be seen in table 6 below, and representing 7% above the 2013 surplus of £6.21 million. The cash surplus from 2013 was distributed during the first half of this year, as shown in table 7 below, in accordance with the revised distribution formula approved by the Assembly in resolution A.1063(28), namely, 80% to the Technical Cooperation Fund (of which 5% is ring-fenced to support the World Maritime University in building up a sufficient financial reserve balance through a Special Reserve Fund established by the University for that purpose), 12.5% to the Headquarters Capital Fund, 1.5% to the Training and Development Fund, 1% to the Termination Benefit Fund and 5% to reduce the Member States' assessments for the regular budget. The prospective 2014 surplus will be distributed in 2015 once the Organization's final accounts for 2014 are audited and reported to the Council in June/July next year.

**Table 6**  
**Status of the Trading Fund for 2014**

| 2013<br>Outturn<br>£'000 | Statement                               | 2014<br>Appropriation<br>£'000 | Prospective status for 2014 (£'000) |                       |                    |
|--------------------------|---|--------------------------------|-------------------------------------|-----------------------|--------------------|
|                          |   |                                | Actual<br>(Jan-Sep)                 | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 10,757                   | Publication sales                       | 10,931                         | 6,693                               | 4,344                 | 11,037             |
| 755                      | Catering                                | 557                            | 331                                 | 209                   | 540                |
| 363                      | Interest earnings/ miscellaneous income | 350                            | 227                                 | 121                   | 348                |
| <b>11,875</b>            | <b>Income (a)</b>                       | <b>11,838</b>                  | <b>7,251</b>                        | <b>4,674</b>          | <b>11,925</b>      |
| 1,611                    | Publishing personnel                    | 1,643                          | 1,151                               | 387                   | 1,538              |
| 2,272                    | Publishing operating expenses           | 2,500                          | 1,246                               | 906                   | 2,152              |
| 505                      | Reimbursement/support costs             | 538                            | 312                                 | 168                   | 480                |
| <b>4,388</b>             | <b>Publication costs subtotal</b>       | <b>4,681</b>                   | <b>2,709</b>                        | <b>1,461</b>          | <b>4,170</b>       |
| 495                      | Catering personnel                      | 433                            | 306                                 | 112                   | 418                |
| 636                      | Catering operating expenses             | 579                            | 404                                 | 156                   | 560                |
| 147                      | Reimbursement/support costs             | 131                            | 92                                  | 35                    | 127                |
| <b>1,278</b>             | <b>Catering costs subtotal</b>          | <b>1,143</b>                   | <b>802</b>                          | <b>303</b>            | <b>1,105</b>       |
| <b>5,666</b>             | <b>Expenditure (b)</b>                  | <b>5,824</b>                   | <b>3,511</b>                        | <b>1,764</b>          | <b>5,275</b>       |
| <b>6,209</b>             | <b>Net income for the year (c=a-b)</b>  | <b>6,014</b>                   | <b>3,740</b>                        | <b>2,910</b>          | <b>6,650</b>       |

**Table 7**  
**Distribution of Trading Fund surpluses**

|  | In-year surplus amount | Technical Cooperation Fund | Headquarters Capital Fund | Training and Development Fund | Termination Benefit Fund | Reduction in Member States' assessments |
|--|------------------------|----------------------------|---------------------------|-------------------------------|--------------------------|---|
|  | 100%                   | 80%                        | (WMU support)<br>12.5%    | 1.5%                          | 1.0%                     | 5.0%                                    |
| Actual distribution of 2013 surplus      | £6,209,172             | £4,967,337                 | £248,367                  | £776,146                      | £93,138                  | £62,092                                 |
| Prospective distribution of 2014 surplus | £6,650,000             | £5,320,000                 | £266,000                  | £831,250                      | £99,750                  | £66,500                                 |

### Status of the Headquarters Capital Fund for 2014

23 Table 8 below shows the forecast status of the Headquarters Capital Fund (HQCF) based on the outturn as at 30 September 2014. The overall resource requirement for this year is projected to be contained within the level of the approved appropriation. In respect of the refurbishment of escalators and lifts, most of the works have been completed, other than three lifts (including one for goods), which are to be replaced/refurbished by the middle of next year. The Organization bears 20% of the total costs of £1.5 million in accordance with the Lease Agreement with the Host Government. Other capital investment is on course as planned, in particular the upgrade of the ICT infrastructure and replacement of obsolete servers. In order to achieve value for money on the investment in the SAP system, the Organization is currently preparing, with advisory support from the consulting company Deloitte, tender packages, including evaluation of prospective vendors to undertake the SAP hosting, support and development functions, as the contract with the current service provider is due to expire next year.



**Table 8**  
**Status of the Headquarters Capital Fund for 2014**

| 2013<br>Outturn<br>£'000 | Expenditure statement        | 2014<br>Appropriation<br>£'000 | Prospective status for 2014 (£'000) |                       |                    |
|--------------------------|------------------------------|--------------------------------|-------------------------------------|-----------------------|--------------------|
|                          |                              |                                | Actual<br>(Jan-Sep)                 | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 19                       | Major building repairs       | 100                            | 52                                  | 48                    | 30                 |
| 28                       | Equipment/furniture/vehicles | 30                             | 7                                   | 9                     | 16                 |
| 739                      | IT/IS and SAP system         | 800                            | 142                                 | 580                   | 722                |
| <b>786</b>               | <b>Expenditure total</b>     | <b>930</b>                     | <b>201</b>                          | <b>637</b>            | <b>768</b>         |

#### Status of the Termination Benefit Fund for 2014

24 The status of the Termination Benefit Fund as at 30 September 2014, which is given in table 9 below, indicates that expenditure will be on course, as planned. The forecast large amount under the termination and repatriation heading is provision for repatriation grants/travel/shipment associated with staff members separating or retiring from the Organization in 2014. The actual outturn for After-Service Health Insurance (ASHI) represents payments in respect of retirees' medical coverage only, which is expected to remain within the budget, and does not include changes in the ASHI liabilities of current staff members.

**Table 9**  
**Status of the Termination Benefit Fund for 2014**

| 2013<br>Outturn<br>£'000 | Expenditure statement                 | 2014<br>Appropriation<br>£'000 | Prospective status for 2014 (£'000) |                       |                    |
|--------------------------|---------------------------------------|--------------------------------|-------------------------------------|-----------------------|--------------------|
|                          |                                       |                                | Actual<br>(Jan-Sep)                 | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 458                      | Termination and repatriation          | 275                            | 97                                  | 178                   | 275                |
| 504                      | After-service health insurance (ASHI) | 554                            | 375                                 | 143                   | 518                |
| 0                        | Replacement of long-term sick leave   | 15                             | 7                                   | 2                     | 9                  |
| <b>962</b>               | <b>Expenditure total</b>              | <b>844</b>                     | <b>479</b>                          | <b>323</b>            | <b>802</b>         |

#### Status of the Training and Development Fund for 2014

25 The expenditure under the Training and Development Fund is forecast at £105,000 for 2014, which mainly covers the costs associated with staff learning and development, in line with the strengthened performance management system and on the basis of training demand as identified by line managers. Various training programmes in respect of human resource development and IT/IS proficiency have commenced through arrangements with commercial training providers, while other needs, in particular for SAP financial management and control processes have mostly been met through the use of in-house expertise. The induction programme for translators is planned as usual for delivery towards the end of the year to avoid disruption in the Organization's meetings, and an induction video film, to introduce all new staff members to IMO, has also been developed with in-house resources.

**Table 10**  
**Status of the Training and Development Fund for 2014**

| 2013<br>Outturn<br>£'000 | Expenditure statement               | 2014<br>Appropriation<br>£'000 | Prospective status for 2014 (£'000) |                       |                    |
|--------------------------|-------------------------------------|--------------------------------|-------------------------------------|-----------------------|--------------------|
|                          |                                     |                                | Actual<br>(Jan-Sep)                 | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 87                       | Performance/language                | 109                            | 62                                  | 25                    | 87                 |
| 0                        | SAP and IT training                 | 18                             | 5                                   | 2                     | 7                  |
| 9                        | Induction programme for translators | 9                              | 0                                   | 9                     | 9                  |
| <b>96</b>                | <b>Expenditure total</b>            | <b>136</b>                     | <b>67</b>                           | <b>36</b>             | <b>103</b>         |

### Status of the Technical Cooperation Fund for 2014

26 Based on the delivery rate and commitments incurred during the first nine months of this year, as well as the actual delivery pattern shown last year, overall expenditure for activities under the Organization's Integrated Technical Cooperation Programme (ITCP) that are financed by the TC Fund, is forecast to reach £3.51 million, representing 68% of the planned expenditure of £5.12 million for 2014, as shown in table 11 below. Reasons for the apparently low outturn figures include, in part, the breakout of Ebola Virus Disease in Africa (which has halted a number of activities in the region) and delayed reporting of actual expenditure from regional organizations (for example SPREP, SPC, etc.) which needs to be posted to the Organization's SAP system. It should also be noted that the financial grant of £248,367 provided to the World Maritime University, as presented in table 7 above in accordance with resolution A.1063(28), is no longer included in the "Global programmes" of table 11 and, instead, will continue to be treated, in accordance with IPSAS, as a simple financial transfer with no effect on the budget outturn of the TC Fund.

**Table 11**  
**Status of the Technical Cooperation Fund for 2014**

| 2013<br>Outturn<br>£'000 | Programmed Region         | 2014<br>Appropriation<br>£'000 | Prospective status for 2014 (£'000) |                       |                    |
|--------------------------|---------------------------|--------------------------------|-------------------------------------|-----------------------|--------------------|
|                          |                           |                                | Actual<br>(Jan-Sep)                 | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 1,086                    | Africa                    | 1,350                          | 439                                 | 356                   | 795                |
| 289                      | Arab States/Mediterranean | 363                            | 99                                  | 174                   | 273                |
| 346                      | Asia                      | 449                            | 113                                 | 121                   | 234                |
| 280                      | Pacific Islands           | 207                            | -                                   | 165                   | 165                |
| 105                      | CIS/Eastern Europe        | 242                            | 23                                  | 82                    | 105                |
| 403                      | Latin America             | 377                            | 148                                 | 184                   | 332                |
| 363                      | Caribbean                 | 303                            | 129                                 | 168                   | 297                |
| 1,773                    | Global programmes         | 1,868                          | 618                                 | 690                   | 1,308              |
| <b>4,645</b>             | <b>Expenditure total</b>  | <b>5,159</b>                   | <b>1,569</b>                        | <b>1,940</b>          | <b>3,509</b>       |

### Status of extrabudgetary programmes

27 As reported previously to the Council, extrabudgetary activities and resources, in conjunction with the major contribution made by the Technical Cooperation Fund, play a fundamental role in promoting the strategic objectives of the Organization as well as the successful implementation of IMO's technical instruments by Member States. During the first nine months of this year, a total of \$6.6 million was received to support the Organization's extrabudgetary programmes, including that portion of the ITCP that is donor-financed. The amount represents a 61% (\$2.5 million) increase on donations received for the same period in 2013 (\$4.1 million) and the increase is attributable, among others, to: the establishment by the Secretary-General of the IMO West and Central Africa Maritime Security Trust Fund to implement maritime security projects in the Gulf of Guinea, including the prevention and

suppression of piracy and armed robbery against ships and other illicit maritime activity, for which a total of \$1.2 million was donated by the Governments of Japan, the UK and Nigeria during this year; funds of \$0.6 million received for verification audits of Goal-Based Ship Construction Standards; and \$0.54 million received from GEF/UNDP for a project on transforming the global maritime industry towards a low carbon future through improved energy efficiency. Table 12 below sets out the status of extrabudgetary programmes for 2014, with a delivery level forecast at some \$9.38 million for this year, which is slightly lower than the outturn in 2013 due to the closure of some major programmes.

**Table 12**  
**Status of extrabudgetary programmes for 2014**

| 2013<br>Outturn<br>US\$'000 | Programmed Region         | 2014<br>Budget*<br>US\$'000 | Prospective status for 2014 (US\$'000) |                       |                    |
|-----------------------------|---------------------------|-----------------------------|--|-----------------------|--------------------|
|                             |                           |                             | Actual<br>(Jan-Sep)                    | Forecast<br>(Oct-Dec) | Total<br>(Jan-Dec) |
| 4,165                       | Africa                    | 1,425                       | 1,167                                  | 86                    | 1,253              |
| 1,402                       | Arab States/Mediterranean | 941                         | 858                                    | 296                   | 1,154              |
| 1,371                       | Asia                      | 568                         | 237                                    | 17                    | 254                |
| 0                           | CIS/Eastern Europe        | 120                         | 7                                      | 32                    | 39                 |
| 3,494                       | Global programmes         | 12,420                      | 4,578                                  | 2,098                 | 6,676              |
| <b>10,432</b>               | <b>Expenditure total</b>  | <b>15,474</b>               | <b>6,847</b>                           | <b>2,529</b>          | <b>9,376</b>       |

\* The expenditure budget for 2014 is based on the Programme Implementation Documents (PIDs) formulated/ revised by 30 September 2014.

### Budgetary transfers in 2014

28 On the basis of the review of the status of the regular budget for 2014, no significant budget transfer between strategic results appears necessary until the year-end, when actual expenditure for the year will be fully accounted for. Nevertheless, in order to be prepared for unforeseen circumstances, the Secretary-General seeks the Council's authorization, in accordance with the Organization's Financial Regulations and Financial Rules, to make, whenever necessary, timely transfers between strategic results to the extent that balances are available to cover or reduce deficits in each strategic result appropriation balance.

### Preliminary consideration of 2015 budgets

29 As noted in tables 1 and 2, the budgets approved for 2015 are £32.62 million for the regular budget and £12.87 million for other Funds of the Organization, which represent a 2.9% increase and a 0.2% reduction, respectively, on the corresponding budgets for 2014.

### Review of the regular budget for 2015

30 With continued cost-saving and efficiency measures, together with the ongoing effects of current review and reform initiatives, and in the absence of any unforeseen expenditure demand, it is projected, on a preliminary basis, that a potential saving of £0.94 million in the regular budget for 2015 can be achieved, which represents 2.9% of the approved budget for the year, as may be seen in table 13 below. Savings are expected from the following sources:

- .1 The overall approved budget for staff costs was calculated at £24.5 million, representing a 3.2% increase on the 2014 staff costs budget, reflecting: statutory increments (step increases); cost of living adjustments and annual interim salary adjustments of 2.5%; and other unavoidable and uncontrollable costs increases (education grants and medical insurance costs). However, when taking into account movements of UK economic indicators as noted in paragraph 6 above, the change in the post

adjustment index for staff in the Professional and higher categories is assessed to amount to less than a 1.5% increase in February 2015. For General Service staff in London, a comparative survey by the ICSC of remuneration levels is scheduled to take place in the latter part of 2015 following its postponement and, as it is not the ICSC standard practice to award interim salary increases within six months of a salary survey, any cost-of-living adjustment for 2015 will be deferred to 2016. In addition, there will be underspends arising from the prolonged recruitment phase on currently vacant posts that may not all be filled by the end of this year.

- .2 Some savings expected from other personnel costs are attributable largely to the reduced costs of meetings (15.4 weeks in 2015 as compared to 17.2 weeks in 2014) emanating from the Secretary-General's review and reform.
- .3 For official mission travel, some 25% cuts are expected to be made in mission plans by utilizing videoconference facilities.
- .4 The budget increase in general operating expenses for 2015 is 2% above the corresponding 2014 budget, only barely matching the inflationary change and, thus, the potential for savings is, at this stage, limited to the continued application of the efficiency/austerity measures adopted in 2014, as noted in paragraph 18 above.
- .5 Funds replenishment provisions will be fully transferred as planned.
- .6 If the pound exchange rate remains at the average January-September 2014 rate (\$1.67) for the whole of 2015, a total exchange rate gain of £270,000 would occur and be credited to the Working Capital Fund.

**Table 13**  
**Expenditure projection in the regular budget for 2015**

|                            | 2014                      |               | 2015              |                    |             |
|----------------------------|---------------------------|---------------|-------------------|--------------------|-------------|
|                            | Expenditure<br>Projection | Budget<br>(a) | Projection<br>(b) | Balance<br>(c=a-b) | c/a (%)     |
| Staff costs                | 22,266                    | 24,518        | 23,820            | 698                | 2.8%        |
| Other personnel            | 1,611                     | 1,922         | 1,820             | 102                | 5.3%        |
| Mission travel             | 222                       | 308           | 230               | 78                 | 25.3%       |
| General operating expenses | 4,905                     | 5,090         | 5,030             | 60                 | 1.2%        |
| Funds replenishment        | 768                       | 780           | 780               | 0                  | 0.0%        |
| <b>Total</b>               | <b>29,772</b>             | <b>32,618</b> | <b>31,680</b>     | <b>938</b>         | <b>2.9%</b> |

**Review of the Trading Fund budget for 2015**

31 Table 14 below sets out the projection of overall income and expenditure in the Trading Fund for 2015, seen as at 30 September 2014. It is envisaged that income may exceed the target by some 2% in 2015, which would nevertheless not surpass the actual income projection for this year. This is mainly due to fluctuations in demand for IMO publications by year. On the other hand, catering income is expected to increase owing to the customary Assembly functions. On the expenditure side, a saving of £524,000 is expected mainly from operating expenses in publishing. The resultant in-year surplus is forecast to be £6.34 million, which would be 14% above the target set for 2015.

**Table 14**  
**Income and expenditure projection of the Trading Fund for 2015**

|                                       | 2014                  | Budget<br>(a) | 2015              | Variance    |               |
|---------------------------------------|-----------------------|---------------|-------------------|-------------|---------------|
|                                       | Outturn<br>Projection |               | Projection<br>(b) | (c=a-b)     | c/a (%)       |
| Publication sales                     | 11,037                | 10,506        | 10,700            | -194        | -1.8%         |
| Catering income                       | 540                   | 663           | 720               | -57         | -8.6%         |
| Miscellaneous income                  | 348                   | 336           | 340               | -4          | -1.2%         |
| <b>Total income</b>                   | <b>11,925</b>         | <b>11,505</b> | <b>11,760</b>     | <b>-255</b> | <b>-2.2%</b>  |
| Publishing                            | 3,690                 | 4,236         | 3,780             | 456         | 10.8%         |
| Catering                              | 978                   | 1,024         | 1,020             | 4           | 0.4%          |
| Support costs                         | 607                   | 684           | 620               | 64          | 9.3%          |
| <b>Total expenditure (by service)</b> | <b>5,275</b>          | <b>5,944</b>  | <b>5,420</b>      | <b>524</b>  | <b>8.8%</b>   |
| <b>Cash surplus</b>                   | <b>6,650</b>          | <b>5,561</b>  | <b>6,340</b>      | <b>-779</b> | <b>-14.0%</b> |

### **Review of other budgets for 2015**

32 Table 15 below shows the forecast expenditure projections of the Headquarters Capital Fund, the Termination Benefit Fund, the Training and Development Fund and the Technical Cooperation Fund based on the expenditure trends under those Funds as at 30 September 2014. Some main features of the projections for those Funds include:

- .1 In the Headquarters Capital Fund, refurbishment work to the old lifts will be completed and another plan is under preparation to review and upgrade the current sound system of the Main Hall and Committee Rooms 9 and 10, which the manufacturer ceased to produce some years ago, causing difficulties in securing parts to replace/repair because these, even if sourced, are not compatible with the available new systems. In addition, implementation of SAP system improvements are expected to follow an operational analysis of current SAP utilisation and new contracts for SAP hosting, support and development.
- .2 On the basis of the staff age profile, which indicates the separation/retirement of 11 Professional and 6 General Service staff members in 2015, associated costs are to be met within the budget approved for 2015 under the Termination Benefit Fund, unless some unanticipated terminations become inevitable.
- .3 Programmes under the Training and Development Fund will be further facilitated in conjunction with the staff career development and mobility programmes.
- .4 The overall budget outturn under the Technical Cooperation Fund for 2015 is forecast to increase by more than 20% to £4.27m compared with the 2014 projection, with expectation that new projects will be coming on stream and that the Ebola Virus Disease will have been controlled, permitting the implementation of postponed activities to get back on track.

**Table 15**  
**Expenditure projection in other budgets for 2015**

|                             | 2014                      | Budget<br>(a) | 2015              | Balance    |             |
|-----------------------------|---------------------------|---------------|-------------------|------------|-------------|
|                             | Expenditure<br>Projection |               | Projection<br>(b) | (c=a-b)    | c/a (%)     |
| Headquarters Capital Fund   | 768                       | 950           | 800               | 150        | 15.8%       |
| Termination Benefit Fund    | 802                       | 997           | 960               | 37         | 3.7%        |
| Training & Development Fund | 103                       | 141           | 110               | 31         | 22.0%       |
| Technical Cooperation Fund  | 3,509                     | 4,841         | 4,267             | 574        | 11.9%       |
| <b>Total</b>                | <b>5,182</b>              | <b>6,929</b>  | <b>6,434</b>      | <b>495</b> | <b>7.1%</b> |

### Summary

33 Projections for the 2014 expenditure under all budgetary Funds (other than donor/trust Funds) show overall savings of some £4.35 million, representing 9.8% of the approved budget (table 16). The total projection of £40.23 million in expenditure represents a 2% (£0.79 million) drop on the 2013 actual of some £41.02 million, and this is mostly due to a lower budget outturn, as noted in paragraph 26 above, in the Technical Cooperation Fund.

**Table 16**  
**Summary of the budget prospects for 2014**

|                               | 2013                   | Budget<br>(a) | 2014              | Balance (£'000) |             |
|-------------------------------|------------------------|---------------|-------------------|-----------------|-------------|
|                               | Expenditure<br>Outturn |               | Projection<br>(b) | (c=a-b)         | c/a (%)     |
| Regular budget                | 28,869                 | 31,686        | 29,772            | 1,914           | 6.0%        |
| Trading Fund                  | 5,666                  | 5,824         | 5,275             | 549             | 9.4%        |
| Headquarters Capital Fund     | 786                    | 930           | 768               | 162             | 17.4%       |
| Termination Benefit Fund      | 962                    | 844           | 802               | 42              | 5.0%        |
| Training and Development Fund | 96                     | 136           | 103               | 33              | 24.3%       |
| Technical Cooperation Fund    | 4,645                  | 5,159         | 3,509             | 1,650           | 32.0%       |
| <b>Expenditure total</b>      | <b>41,024</b>          | <b>44,579</b> | <b>40,229</b>     | <b>4,350</b>    | <b>9.8%</b> |

34 The overall projection for 2015 expenditure totals some £44.1 million, generating a saving of £1.4 million (3.1%) on the total approved budget (table 17). The projected expenditure represents a 9.6% (£3.86 million) increase on the 2014 projection of £40.23 million.

**Table 17**  
**Summary of the budget prospects for 2015**

|                             | 2014                      | Budget<br>(a) | 2015              | Balance      |             |
|-----------------------------|---------------------------|---------------|-------------------|--------------|-------------|
|                             | Expenditure<br>Projection |               | Projection<br>(b) | (c=a-b)      | c/a (%)     |
| Regular budget              | 29,772                    | 32,618        | 31,680            | 938          | 2.9%        |
| Trading Fund                | 5,275                     | 5,944         | 5,420             | 524          | 8.8%        |
| Headquarters Capital Fund   | 768                       | 950           | 800               | 150          | 15.8%       |
| Termination Benefit Fund    | 802                       | 997           | 960               | 37           | 3.7%        |
| Training & Development Fund | 103                       | 141           | 110               | 31           | 22.0%       |
| Technical Cooperation Fund  | 3,509                     | 4,841         | 4,267             | 574          | 11.9%       |
| <b>Total</b>                | <b>40,229</b>             | <b>45,491</b> | <b>44,095</b>     | <b>1,396</b> | <b>3.1%</b> |

35 In light of the above review and in the absence of any unforeseen expenditure, the Secretary-General is confident that the outturn expenditure for 2014 is attainable within the approved appropriations of the regular budget and other budgetary Funds. Nevertheless, he will continue to closely monitor the budgetary status, the implementation of economy and austerity measures, and the potential to generate further savings in the various budgets without thereby compromising the ability to deliver on the Organization's agreed programme of work. The Secretary-General's updated review of the prospective status of the budget for 2015 will be presented, taking into account any changes and developments in the prevailing economic and financial circumstances, to the Council at its 114th session in June/July 2015.

#### **Action requested of the Council**

36 The Council is invited to:

- .1 note the review of external pay and price factors (paragraphs 4 to 6, table 3 and chart 1);
- .2 note the forecast outturns of regular budget expenditure for 2014, assessed to be kept within the approved appropriation (paragraphs 7 to 20, tables 4 and 5 and chart 2);
- .3 note the income and expenditure outturn and forecast in the Trading Fund and the consequential in-year surplus distribution (paragraphs 21 and 22 and tables 6 and 7);
- .4 note the expenditure status of the Headquarters Capital Fund (paragraph 23 and table 8); the Termination Benefit Fund (paragraph 24 and table 9); the Training and Development Fund (paragraph 25 and table 10); the Technical Cooperation Fund (paragraph 26 and table 11); and extrabudgetary programmes (paragraph 27 and table 12);
- .5 authorize the Secretary-General to make, as and when necessary, timely transfers between strategic results to the extent that balances are available to cover or reduce deficits in strategic results appropriation balances, in accordance with the Organization's Financial Regulations and Financial Rules (paragraph 28);
- .6 note the preliminary consideration of the 2015 budget prospects for the regular budget (paragraph 30 and table 13), the Trading Fund (paragraph 31 and table 14) and other Funds (paragraph 32 and table 15); and
- .7 note the summary, the Secretary-General's conclusion and his intention to present an updated review of budget prospects to C 114 (paragraphs 33 to 35 and tables 16 and 17).