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REVIEW OF THE WORK PROGRAMME AND BUDGET FOR 2003

Note by the Secretary-General

SUMMARY

Executive summary: This document provides an updated review of the Organization's work programme and budget for 2003, in accordance with resolution A.906(22). It concludes that because of an increase in unforeseen and unbudgeted demands, a supplementary estimate will be required. Accordingly, the Council is invited to decide that the supplementary estimate should be met from the Organization's reserves.

Action to be taken: Paragraph 8.

Related documents: C89/20

1 Introduction

1.1 The Secretary-General's initial review of the work programme and budget prospects for 2003 was presented to the Council in document C 89/20. This document updates that information taking into account possible changes to the remuneration levels of Professional staff recommended by the International Civil Service Commission (ICSC) at its July 2002 session.

1.2 This document also reports on the final outcome of discussions with Van Breda, the Organization's broker for health insurance cover for staff members.

1.3 It will be recalled that the Council noted at its eighty-eighth session (document C 88/18(e)) that the Secretary-General was taking steps to review the impact on the Organization of the rising costs of the provision of medical health insurance cover for the Organization's staff members in the light of a prospective substantial increase in premiums. This document therefore provides the results of recent negotiations with Van Breda, which as noted represents a group of underwriters to the UN health insurance scheme, and the outcome of the considerations of the Council Intersessional Working Group on Accounts and Audit (CIWGAA), which considered this matter in October 2002.

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2 Professional staff salaries

2.1 As noted in document C 89/19(a)/Add.1, the ICSC reviewed the current margin between the UN scale and the comparator's scale (the US Federal Civil Service) at its 55th session in July 2002, in order to consider a realignment at the desirable mid-point of 115 of the UN base salary with the comparator, in accordance with the UN General Assembly's policy. The ICSC has submitted to the General Assembly for consideration at its fifty-seventh session in November/December 2002, a new salary scale to take effect from 1 March 2003, which would achieve this objective. The proposed salary scale, which is attached as Annex 2 to C 89/19(a)/Add.1, shows that the base salary of the average grade and step of Professional and higher categories, namely P4 step VI level, would be increased by 5.4% over the present base salary. The new scale would reflect differential salary scale increases in order to achieve the desirable mid-point margin of 115 at all grades.

2.2 If approved by the General Assembly, the new Professional salary scale would add some £509,300 to the Organization's prospective pay-bill for 2003. This represents approximately 2.4% of the Organization's total appropriation for 2003. As reported in documents C 89/20 and C 89/19(d), some offsetting savings are expected, notably from the non-award of a cost of living adjustment for Professional staff in 2002. However, the prospective Professional salary increase has also to be seen in the context of other demands, which are discussed below.

3 Van Breda Health Insurance scheme

Current cost sharing arrangements

3.1 Council may recall that in accordance with Article VI of the Staff Regulations and Staff Rules, the Organization is responsible for establishing a scheme of social security for staff, including provisions for health protection. As noted in documents C 88/18(e) and C 89/20, Van Breda has negotiated with a number of UN Organizations the provision of a medical insurance scheme (the Plan). The essence of the Plan is that the costs of medical care are met by the income from premium payments; thus, the Plan is designed to be self-financing. Premium payments are shared between Member States, through a contribution in the regular budget, and the participating staff. For IMO, until 1999, the ratio of the premium payments between Member States and staff had been set at a ratio of 60:40.

3.2 Against the background of :

- (i) the Organization's policy of a Zero Nominal Growth (ZNG) and the need to contain the annual expenditure within the approved appropriation, and
- (ii) the prevailing favourable relationship between the premium rates and the total claims made,

the distribution formula was adjusted from 60:40 to a 50:50 basis from 1 January 1999. The total premium paid by the Organization (Member States and participants) in 2001 was £585,600 and in 2002, £677,200.

Premium increase

3.3 Council will recall that in 2000 and 2001, the Organization experienced a number of unfortunate long-term sickness absences related to serious illnesses. As a result, the insurers faced considerable losses due to the substantial growth in medical claims. The total loss experienced by the insurers during the period 2000-2001 amounted to approximately £400,000. This loss to the insurers arose because the Plan included a 'cap' of 15% on premium increases, irrespective of the claims/premiums ratio. Accordingly, following representation by the insurers and discussions with the IMO Administration, Van Breda conducted a review of the age profile of the IMO participants population (staff and retirees) and evaluated the underlying pattern of health care claims by IMO over recent years. The outcome of Van Breda's review was that a 40% increase in premiums was essential in order to achieve an improved long-term stable relationship between the premiums and the claims made. Following recent representations by the IMO Administration, Van Breda has agreed that the increase will be introduced in two phases in 2003; 25% on 1 January 2003 and 24% on 1 July 2003. Van Breda hopes thereafter, that this structural increase will stabilize the Plan. However, it is worth noting that two additional external elements impact on the level of medical claims, i.e. the accelerated rate of medical inflation, which is a global phenomenon, and the cost of medical care in London, which is among the highest in the world.

Review of cost sharing arrangements

3.4 During the course of the Council Intersessional Working Group's (CIWGAA) consideration of the 2001 Accounts and Audit, the Group was up-dated by the Secretary-General's representative, the Director of Administration, on the above background and on the Organization's staff members' deep concerns on the matter. The Organization's staff very much appreciated the opportunity provided by the Chairman of the Working Group for the Chair of the Staff Committee to make a statement to the Group conveying staff members' concerns. She explained that staff had asked that the Council be invited to consider a revision of the cost-sharing arrangement, in the light of this latest increase. Council will wish to note that, as the report of the CIWGAA reflects (document C 89/19(b)/Add.1), the Members were sympathetic to staff concerns, recognizing both the extremely high costs of medical care in London and the Organization's social security obligations.

3.5 Council will note that the CIWGAA requested the Administration to review urgently with the staff possible options for ameliorating the impact on the Organization's staff of the prospective increase in premiums, which the Council might review at its eighty-ninth session.

3.6 The Secretary-General and all IMO staff very much appreciate the supportive position of the CIWGAA. As requested, a joint IMO Administration/Staff Working Party has conducted a review of the practice of UN organizations and other London-based intergovernmental bodies. It has concluded, after taking account of the Organization's social security obligations and in the light of the very serious impact on take-home pay of the rising costs of the medical care in London, that the Council be invited to adopt a new cost-sharing formula. This new formula would mirror the cost-sharing ratio adopted within the UN for contributions to the United Nations Joint Staff Pension scheme, namely a ratio of Member States:participants' contributions of two thirds:one third. It would be in line with best practice amongst UN organizations such as the World Health Organization (WHO), and the World Intellectual Property Organization (WIPO), while being less favourable than the formula applied by another international organization based in London, namely the European Bank for Reconstruction and Development (EBRD), which pays 100% of Van Breda premiums for its own staff.

3.7 In considering this proposal, Council will wish to note that the additional cost for the regular budget, without any change in the distribution, would be approximately £154,000 over and above the provision in the appropriation for 2003. The implementation of the proposed two thirds:one third ratio from 1 January 2003 would require an increase in the appropriation for 2003 of some £263,400. Its adoption would effectively mean that the Membership would absorb the 40% premium adjustment which is to be effective from 1 January 2003. The Secretary-General recognizes the unfortunate but unavoidable budgetary impact of these rising costs on the Membership. However, he very much shares and appreciates the concerns of the Members of the CIWGAA that staff should not be faced with the worry of rising medical costs over which they have no control, in such a high-cost city as London. Accordingly, he hopes the Council will agree to adopt a new contribution formula as recommended by the Administration/Staff Working Party. The consequential appropriation implications for 2003 are discussed below.

4 Overview

4.1 In summary therefore, the appropriation for 2003 faces two additional unforeseen cost increases:

- (i) depending on the outcome of the decisions of the General Assembly, an increase in the Organization's pay bill in respect of the ICSC's proposed new salary scale of some £509,300; and
- (ii) medical insurance premium increases: if the Council agreed on a two thirds:one third ratio from 1 January 2003, an additional cost of £263,400 would need to be met.

4.2 The budgetary impacts of these demands on the Major Programmes is set out in Table 1 below.

5 Technical Co-operation support cost income

5.1 The Secretary-General has also reviewed the level of annual support cost income receivable under Trust Funds in the light of project delivery for 2002. In doing so, the Secretary-General has taken due account of the need for both prudence and realism as he noted in the meeting of the CIWG on Accounts and Audit. Having reviewed project delivery performance in 2002 to date, it is now estimated that the level of support cost income in 2003 will follow the pattern of 2002, namely a forecast income of £400,000.

6 Prospective Programme allocations

6.1 In reviewing the prospective additional demands in 2003, the Secretary-General has also considered the scope for prospective achievable savings. The Secretary-General would recall in this connection, the recommendation by the Marine Environment Protection Committee (MEPC) at its 48th session (C 89/6/Add.1) to defer the planned Diplomatic Conference on Ballast Water Management from 2003 to early 2004. Table 1 below reflects this saving together with other prospective economies.

Table 1

Revised programme appropriations for 2003						
<i>(expressed in UK£)</i>						
MAJOR PROGRAMMES			APPROPRIATIONS			
			Original	1/ Revised	Variance	%
1	General policy and direction		836,000	862,500	(26,500)	3.2%
2	Maritime Safety		1,910,000	1,906,200	3,800	-0.2%
3	Marine Environment Protection		1,495,400	1,502,200	(6,800)	0.5%
4	Legal Affairs		626,500	668,500	(42,000)	6.7%
5	Facilitation of Maritime Traffic		193,200	195,900	(2,700)	1.4%
6	Cross Sectoral Activities		586,300	698,700	(112,400)	19.2%
7	TC and Institutional Development		1,613,000	1,715,000	(102,000)	6.3%
8	Conference Services		5,232,200	5,236,000	(3,800)	0.1%
9	Administrative Services		4,163,800	4,306,500	(142,700)	3.4%
10	External Relations and Information Services		807,000	886,700	(79,700)	9.9%
Total Programme appropriations			17,463,400	17,978,200	(514,800)	2.9%
	General Operating Expenses and Headquarters Premises		3,795,300	3,795,300	0	
	Estimated staff turnover level		(136,000)	(136,000)	0	
Total appropriations			21,122,700	21,637,500	(514,800)	2.4%
	Direct and indirect cost recovered from the Printing Fund		(819,900)	(819,900)	0	
	Reimbursement of Technical Co-operation support costs		(274,200)	(400,000)	125,800	45.9%
Net appropriations			20,028,600	20,417,600	(389,000)	2.0%
1/	On the assumptions set out in paragraphs 4.1 and 5.1					

6.2 Council will wish to note that for the biennium 2004-2005, in accordance with the Secretary-General's advice to the Council and CIWGAA, the appropriation will be set in gross and not net terms. However, for 2002-2003, the Assembly voted the appropriation in net terms and for consistency therefore, the Secretary-General has represented Table 1 above in the same format that the 22nd Assembly approved.

6.3 Table 2 below summarizes the composition of the prospective increases and possible savings.

Table 2

Cost change analysis 2003				£
Approved appropriation 2003 (net)				20,028,600
Add:	Supplementary estimate			
	Prospective base salary increase for Professional staff	509,300		
	* Maritime Security Technical Adviser plus secretarial support	150,000		
	Estimated medical health care premium increase	263,400		
			922,700	
Less:				
	Saving on staff benefits and allowances	(281,400)		
	Estimated non-award of a cost of living adjustment in 2002	(70,000)		
	Postponement of Dip. Conference on Ballast Water Management	(56,500)		
			(407,900)	
	Total supplementary appropriation			514,800
Less:				
	Forecast reimbursement of TC support cost income	(274,200)		
	Estimated reimbursement of TC support cost income	(400,000)		
	Excess over estimated support cost reimbursement		(125,800)	
	Required supplementary estimates finance from accumulated surplus			389,000
Proposed revised appropriation 2003 (net)				20,417,600
* Approved by the Council at its 88th session (C 88/189(e)/Add.1)				

6.4 On the assumptions set out above therefore, and as foreshadowed by the Secretary-General in C 89/20, the unforeseen and unbudgeted demands point to the need for a supplementary estimate in 2003.

6.5 In this context, Council will wish to consider how this supplementary estimate should be funded. In document C 89/20, paragraph 3.5, the Secretary-General had noted that supplementary estimates might be funded from the Organization's accumulated reserves rather than the alternative of increasing assessment levels. The Secretary-General recognizes the public expenditure challenges which Member States face and would be reluctant therefore to recommend an increase in assessment levels. He would nonetheless recall the prospective and substantial call on the Organization's accumulated reserves. In addition to the funding of the ERP system as discussed in C 89/11/Add.2, Council will also recall that there are other prospective continuing demands on the depleted Headquarters Capital Fund, which finances the Organization's IT infrastructure investment and the Organization's share of capital works on the ageing Headquarters premises. The funding of all the Organization's capital assets to date has been sourced from either accumulated reserves or from transfers from the Printing Fund. As the Secretary-General noted in document C 89/19(d)/Add.1, the Organization has no provision at all in the regular budget for new investments (which is a matter to be addressed in the context of both the Strategic Plan and the work programme and budget for the biennium 2004-2005).

6.6 However, the Secretary-General has concluded that for 2003, the funding of the supplementary estimates should be made from the accumulated reserves and that the assessment burden on the Member States should not be increased beyond the level approved by the

Assembly at its 22nd session in November 2001. For 2004-2005 and beyond, Council will no doubt wish to consider a longer-term and more strategic view of the funding of the Organization's capital programme. Table 3 below shows the revised appropriations for 2003 and the unchanged assessment level.

Table 3

Appropriations and assessments 2000 - 2003							
	A	B	B as % change to A	C	C as % change to B	D	D as % change to C
	2000	2001		2002		2003	
	Appropriation	Appropriation	%	Appropriation	%	Revised Appropriation	%
	£	£		£		£	
	18,104,700	18,947,800	4.7%	19,502,500	2.9%	20,417,600	4.7%
Less:							
Miscellaneous income	(140,000)	(70,300)	-49.8%	(200,000)	184.50%	(200,000)	0.0%
Retrospective refund from local Authority rates accrued in 2001	-	(350,000)	-	-	-100.00%	-	-
Transfer from accumulated reserves	-	(160,000)	-	-	-100.00%	(389,000)	-
Transfer from the Printing Fund	(200,000)	(200,000)	0.0%	(400,000)	100.00%	(400,000)	0.00%
Net to be assessed	17,764,700	18,677,500	2.3%	18,902,500	4.00%	19,428,600	2.8%

6.7 Finally, the Secretary-General would wish to note that the level of supplementary estimates will need to be adjusted when the General Assembly has taken decisions on the recommendation of the ICSC concerning in particular, the Professional salary scale. At the time of drafting of this document, the Fifth Committee of the General Assembly is reviewing the ICSC recommendation; the Secretary-General will report on the outcome of these deliberations to the Council's 89th session, if decisions have been taken. Otherwise, the Secretary-General will report to the 90th session of the Council. Pending the General Assembly's decision, the Secretary-General now seeks the Council's approval to supplementary estimates in 2003 on the assumptions noted in paragraphs 4.1 and 5.1.

7 Income

7.1 The Organization's cash inflows and outflows are entirely dependent on contribution receipts from Member States. The Secretary-General would like to thank Member States for the efforts, which have been made by them to fulfil their financial obligations. Assessment notices and related invoices for 2003 will be sent to Member States in December this year.

8 Action requested of the Council

8.1 The Council is invited to:

- .1 take note of the information contained in this document and the conclusion of the Secretary-General's review of external pay and price factors;
- .2 note the Secretary-General's continuing commitment to achieve economies where possible;
- .3 note that the recommendation of the MEPC at its 48th session to defer the Diplomatic Conference on Ballast Water Management from October 2003 to early 2004 will result in budgetary savings in 2003;
- .4 decide on a revised distribution of the medical insurance premiums to take effect from 1 January 2003;
- .5 note the approved staff complement and the staff turnover level required to contain expenditure within the approved appropriation;
- .6 approve the prospective requirement for a supplementary estimate in appropriation of £514,800;
- .7 decide that the financing of a supplementary estimate of £389,000 (after taking account additional forecast technical co-operation support cost income of £125,800), should be made from accumulated reserves;
- .8 note that the Secretary-General will report to the 90th session of the Council on the final level of supplementary estimates required in the light of the decisions of the General Assembly;
- .9 approve the Secretary-General's proposal in C 89/20 for a supplementary estimate under the Printing Fund of £177,600 to finance the printing and publishing programme in 2003;
- .10 note the authority given to the Secretary-General by the Assembly at its twenty-second session in resolution A.906(22) to draw, if necessary, on the Printing Fund, the Headquarters Capital Fund, the Technical Co-operation Fund and the Termination Benefit Fund monies to finance the approved regular budget programme appropriations; and
- .11 urge Member States to remit their financial contributions promptly in accordance with the Organization's Financial Regulations and Rules.