

**RESOURCE MANAGEMENT****(c) Budget considerations for 2016 and 2017****Note by the Secretary-General****SUMMARY**

<i>Executive summary:</i>	This document updates the overall status of the Organization's budget for 2016 contained in document C 116/5(e) and also provides a preliminary assessment of the budget prospects for 2017
<i>Strategic direction:</i>	4
<i>High-level action:</i>	4.0.1
<i>Output:</i>	4.0.1.4
<i>Action to be taken:</i>	Paragraph 35
<i>Related documents:</i>	C 116/5(e); A 29/17(c), A 29/17(c)/add.1; resolutions A.1098(29) and A.1100(29)

**Introduction**

1 The Secretary-General's initial overview of the budget prospects for 2016 was presented in document C 116/5(e) to the 116th session of the Council, based on the expenditure trends for the first four months of 2016. The Council noted that, in view of the then review and in the absence of unforeseen expenditure, the forecast outturn expenditure for 2016 would be kept within the approved appropriations for the year. This document presents an updated review of the year-end budget status for 2016 based on the expenditure incurred for the first three quarters to 30 September 2016, and further provides a preliminary assessment of the budget prospects for 2017.

2 The total appropriation of the **regular budget** for the 2016-2017 biennium was set at £65.8 million, representing 2.3% above the previous biennium of £64.3 million. In annual terms, the appropriation for 2016 was approved on the basis of a Zero Nominal Growth (ZNG) budget of £32.6 million, while the appropriation for 2017 reflected Zero Real Growth of 1.6% to £33.2 million. Table 1 shows the approved appropriations for 2016 and 2017, as decided by resolution A.1100(29).

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 1 below, amounting to £26.34 million for the biennium, representing in year-on-year terms a 10.5%

(£1.54 million) reduction for 2016 and a further 0.7% (£90,000) reduction for 2017. The total appropriation for those other budgetary Funds is less than half (40%) of the regular budget amount of £65.8 million.

**Table 1**  
**Appropriations of regular budget and other Funds of the Organization**  
**for 2016 and 2017**

	2015	2016		2017	
	£'000	£'000	YoY Changes	£'000	YoY Changes
<b>Regular budget (i)</b>	<b>32,618</b>	<b>32,618</b>	0.0%	<b>33,154</b>	1.6%
<b>Other Funds total (ii)</b>	<b>14,763</b>	<b>13,217</b>	-10.5%	<b>13,127</b>	-0.7%
Trading Fund	5,944	5,983	0.7%	6,067	1.4%
Headquarters Capital Fund	2,840	950	-66.5%	990	4.2%
Termination Benefit Fund	997	1,019	2.2%	1,103	8.2%
Training and Development Fund	141	115	-18.4%	117	1.7%
Technical Cooperation Fund	4,841	5,150	6.4%	4,850	-5.8%
<b>TOTAL (i+ii)</b>	<b>47,381</b>	<b>45,835</b>	<b>-3.3%</b>	<b>46,281</b>	<b>1.0%</b>

### Review of pay and price factors

4 The Council will recall that the regular budget appropriation approved by the last Assembly comprises the costs of regular 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 in the external pay and price factors in the United Kingdom (UK) economy as well as 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 UN operational rate of exchange; while chart 1 illustrates the longer-term movement of those indicators.

**Table 2**  
**Trends of economic indicators**

All values in %	Assumption	2016					2016	
	2016-2017	Jan	May	Aug	Sep	Latest Rate*	Average	Range
UK Average Weekly Earnings (AWE) changes <sup>1/</sup>	2.0	2.7	4.6	2.1	2.5	2.5	2.2	1.3 - 2.7
UK Average Retail Price Index (RPI) changes <sup>2/</sup>	2.0	1.3	4.3	1.8	2.0	2.0	1.6	1.3 - 2.0
USD/GBP exchange rate <sup>3/</sup>	1.50	1.44	2.00	1.30	1.31	1.22	1.25	1.22 - 1.46

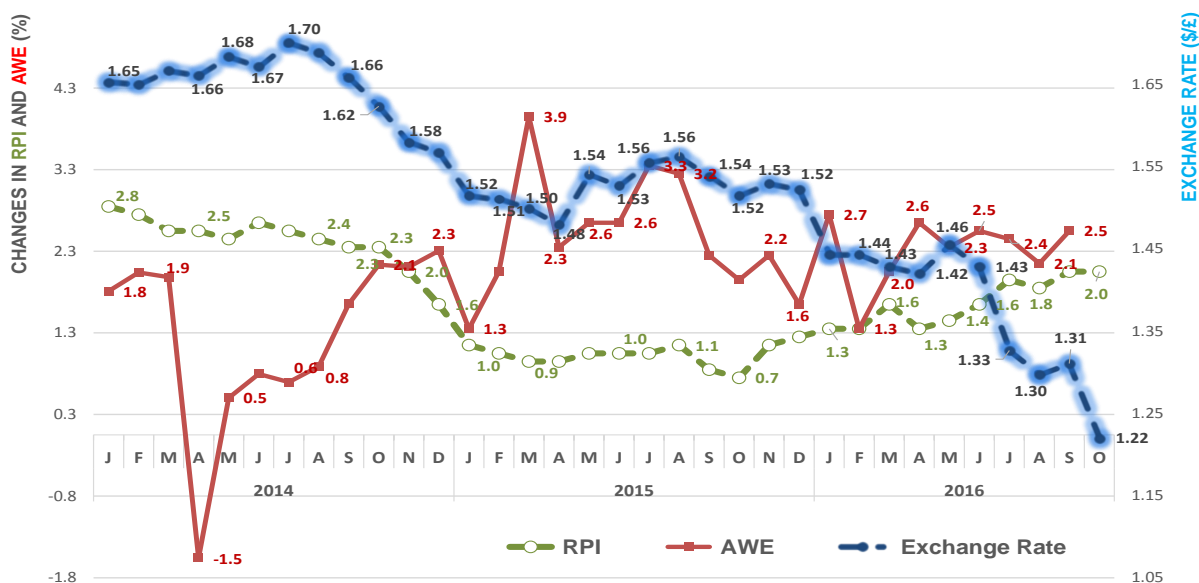
<sup>1/</sup> 12-month percentage changes of total pay measured monthly for average weekly earnings per job in the UK.

<sup>2/</sup> Annual inflation rates – 12-month percentage changes.

<sup>3/</sup> United Nations operational exchange rates (1GBP expressed in USD).

\* Latest rates: September for AWE, October for RPI and exchange rate

**Chart 1**  
**Movements of the budgetary assumption indicators (2014-2016)**



6 The movements in the economic indices in the UK in recent months may be seen from the table and chart above. The annual inflation rate measured in terms of Retail Price Index (RPI) has increased, from 1.3% shown at the beginning of the year to 2.0% for the month of October 2016, the same level as assumed in the approved budget. On the other hand, the annual change in total pay measured by the Average Weekly Earnings (AWE) Index decreased to 2.5 % for September from 2.7% shown in January this year. Meanwhile, the pound sterling value against the US dollar has fallen markedly from 1.44 at the beginning of the year to 1.22 in October, which represents 19% below the assumed budget rate of 1.50.

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

7 Following the result of the UK's referendum to leave the European Union, the pound sterling value has dropped sharply, as indicated in table 2 and chart 1 above, thereby incurring a currency exchange loss of £223,207 on US dollar expenditure to 30 September 2016. Should the exchange rate remain at \$1.22 to the pound for the remaining three months of the year, the estimated accumulated exchange rate loss would be roughly £430,000 for the year.

8 In this regard, the Council will recall that the budgetary shortfall or surplus arising from any difference between the UN operational rate of exchange and the US dollar rate against the pound sterling adopted for the calculation of appropriations is accounted for under the Working Capital Fund (WCF) in accordance with its terms of reference under resolution A.1039(27). Moreover, the Council, at its 112th session in June 2014, endorsed the Secretary-General's proposal to set the financing capacity of the WCF at a minimum base of £1.5 million and that any depletion below that 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 If the total currency loss for 2016 is materialized at £430,000 and charged to the WCF as noted above, the resources available in the Fund would decline to £1.4 million by the end of 2016, and thus trigger the replenishment threshold of £1.5 million. To address the matter, the Secretary-General has reviewed the available reserves of the Organization's Funds and **proposes that a transfer be made of the differential amounts to replenish the WCF resources up to £2 million as of 1 January 2017, from the prospective underspend of appropriations in the regular budget for 2016 (see table 3).**

### **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 2016 reflected interim cost-of-living adjustments or increases of 2% both for staff in the Professional and higher categories and for General Service staff, in accordance with the UN common system methodology of salary calculation.

11 For staff in the General Service (GS) category, the interim salary scale adjustment was made with an effect from 1 May 2016 of 1% pay rise, based on the 12-month review of the pay and price indices movements in the UK. This is within the 2% increase budgeted for 2016 and the associated pensionable remuneration scale was also adjusted accordingly.

12 For staff in the Professional and higher categories, the UN General Assembly adopted the ICSC's recommendation to adjust the base salary scale with a 1.08% increase effective from 1 January 2016 but instead to reduce the applicable cost-of living allowances by that amount, resulting in no change in the actual take-home pay. In respect of pensionable remuneration, no adjustment has been made since 2013. This is due to the continued freeze in the relative post adjustment for New York, in order to lower the current net remuneration margin, between positions of the UN in New York and comparable positions of the US Federal civil service.

13 In respect of the ICSC's compensation package (see documents C 116/5(a) and C 116/5(a)/1), which was approved by the UN General Assembly in December 2015, the Council may wish to note that the first of the three-phased implementation has come into force from 1 July 2016. The main applicable changes for IMO are settling-in and repatriation grants, but the budgetary impact of the implementation of those changes are assessed to be less than £50,000 per year based on the past three year trend. The second and third stages are due to be introduced in January and July 2017, respectively (see paragraphs 33.4).

### **Overview of the expenditure and forecast position of the regular budget for 2016**

14 Table 3 below sets out the expenditure status as at the end of September this year and its forecast year-end position by expenditure group. The Council will note from the table that the overall expenditure status is forecast to be on course, with expectation of some prospective efficiency savings of £2.1 million in the approved budget for 2016.

**Table 3**  
**Forecast of the regular budget outturn by expenditure group as at 30 September 2016**

2015 Outturn (£'000)	Objects of expenditure	2016 Appropriations (£'000)	2016 Expenditure (£ '000)			Forecast year- end balance
			Actual (Jan-Sept)	Forecast (Oct-Dec)	Total (Jan-Dec)	
22,372	Staff costs*	24,362	16,708	5,869	22,577	1,785
1,660	Other personnel**	1,607	1,292	483	1,775	-168
195	Official missions	590	292	133	425	165
4,786	General operating expenses	5,089	3,525	1,241	4,766	323
780	Funds replenishment	970	970	0	970	0
<b>29,793</b>	<b>Total</b>	<b>32,618</b>	<b>22,787</b>	<b>7,726</b>	<b>30,513</b>	<b>2,105</b>

\* These reflect staff turnover of £300,000 for the 2016 budget

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

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

15 Savings in staff costs are expected to be £1.78 million in the regular budget for 2016, as shown in table 3 above. The prospective savings are partly because of no pay rise in the take-home pay for the Professional and higher categories and partly attributable to a longer than expected time-lapse in filling a number of vacant posts arising from the retirement or separation of staff. For the first nine months of the year, 340 work-months were vacant in total in the regular budget, comprising 102 in the Professional and higher categories and 238 in the GS category. As at 1 October 2016, the vacant posts in the regular budget totalled 35, comprising 12 Professional and 23 GS posts. A number of those posts are at various stages of the recruitment process, having been previously advertised under the efforts made to expedite the corresponding recruitment process. It should also be noted that the prospective savings are partly thanks to the result of continued utilization of secondees and Junior Professional Officers (JPOs) provided by Member States (the number of secondees/JPOs totalled nine, as at 1 October 2016, from five Member States<sup>1</sup>) and, where applicable, apportionment to donor-financed projects of the regular budget staff costs associated with their delivery.

### ***Other personnel***

16 The budget for other personnel in table 3 above includes the costs of temporary assistance, overtime, consultants and meetings personnel (external translators and interpreters). The forecast overrun in this cost group is because of the inevitable use of temporary assistance to cover for the work of some vacant posts. However, as the costs under this component can be controlled, efficiency steps have been taken. Firstly, overtime work of the GS staff continues to give rise to compensatory time off rather than cash payments. Secondly, continuing efforts have been made to ensure consistency in the applicable grade and step for the use of temporary assistance. In addition, cost-cutting efforts have been made through the early, effective and efficient arrangement of logistic services for meetings, which has increased to 16.8 meeting weeks for 2016, from 15.4 weeks in 2015.

### ***Official mission travel***

17 Provision for official mission travel, which is to enable the Organization to play a full and effective part in global initiatives on relevant issues, has significantly increased for 2016, as may be seen in table 3 above. For the most part, this reflects a programme/volume change to address the new resource requirement for auditors' travel under the mandatory Member State Audit Scheme, which alone adds £300,000 to the 2016 budget. The expenditure is projected for this year at some £210,000 and this will increase over the next years as the mark of 25 audits a year is approached. For other official mission travel, strengthened economy measures have been undertaken, which include forward planning, advance flight/hotel reservation, use of restricted economy class tickets and limited participation in international forums, where feasible. In addition, the use of video or tele-conferencing facilities continues to be encouraged instead of undertaking missions physically outside London.

### ***General operating expenses***

18 General operating expenses include expenditure on the Headquarters premises (rents, rates, utilities and maintenance), office consumables and services (communications, minor equipment, IT maintenance, medical, library, meetings and general expenses, etc.) as well as ancillary provisions (public information, shared costs for jointly financed UN bodies, etc.). Table 3 above indicates that expenditure on this component is on course and will remain

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<sup>1</sup> Germany (1), Japan (2), Republic of Korea (2), Malaysia (1) and Turkey (3).

within the appropriations approved. Economy measures have been taken through continued tight controls of consumable items and controllable expenditure through market testing and tendering; review of the equipment acquisition plan; and shifting to Paper-Smart practices including e-Docs and SharePoint. In addition, as reported to C 116, the Secretariat of the IOPC Funds has now moved into the Headquarters premises from 1 September 2016, which helps generate savings of some £80,000 in the general operating expenses for 2016 through partly sharing of costs in the maintenance of the Headquarters building, including rent and utilities.

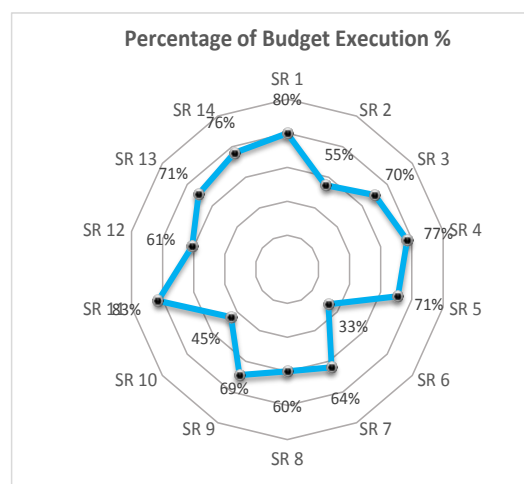
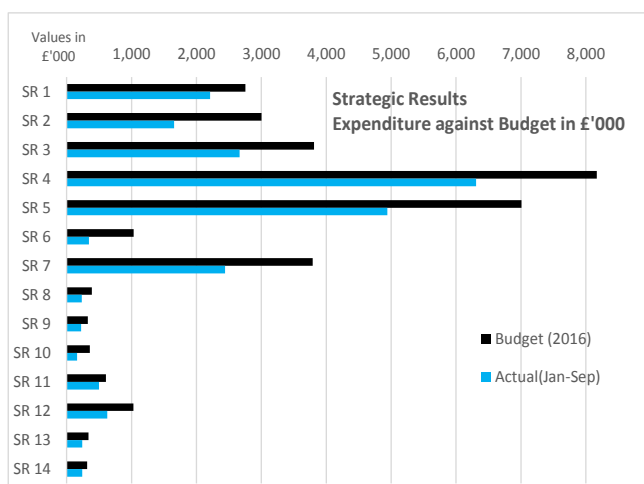
### Funds replenishment

19 The line item provision (£970,000) in the regular budget for Funds replenishment was transferred, partly to the Headquarters Capital Fund (£120,000) to address the sustained contribution of funds for capital investments, and partly to the Termination Benefit Fund (£850,000) for the After Service Health Insurance (ASHI) costs, accrued annual leave and repatriation benefits.

**Table 4**  
**Expenditure details of each Strategic Result as at 30 September 2016**

Strategic Results	Approved budget 2016 (a)	Expenditure		Balance £ (c) = (a) - (b)
		Jan-Sep (b)	% (b/a)	
SR 1 Enhanced status as a primary international maritime forum	2,754	2,210	80%	544
SR 2 Enhanced global compliance and uniform implementation	3,003	1,655	55%	1,348
SR 3 Strengthened capacity-building	3,811	2,664	70%	1,147
SR 4 Enhanced governance, management and administration	8,170	6,310	77%	1,860
SR 5 Enhanced safety of human life at sea	7,009	4,942	71%	2,067
SR 6 Enhanced security of the maritime transport network	1,032	344	33%	688
SR 7 Reduced adverse impact on the environment	3,790	2,440	64%	1,350
SR 8 Ensured efficiency of shipping	388	234	60%	154
SR 9 Increased attention to SIDS and LDCs	324	224	69%	100
SR 10 Goal-based standards applied	357	160	45%	197
SR 11 Raised profile of the safety, security and environmental records of shipping	603	499	83%	104
SR 12 Enhanced quality of shipping	1,027	627	61%	400
SR 13 Enhanced environmental awareness	335	238	71%	97
SR 14 Reduced administrative burdens	315	240	76%	75
Staff turnover	-300	0		-300
<b>TOTAL</b>	<b>32,618</b>	<b>22,787</b>	<b>70%</b>	<b>9,831</b>

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



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

20 A summary of expenditure for each strategic result, which is set out in table 4 above, shows that total expenditure for the first nine months of the year amounted to £20.4 million, representing 70% of the approved budget for 2016. Chart 2 above illustrates the comparison of expenditure with the approved budget for each strategic result. With the preparation and delivery of 12.9 meeting-weeks by the end of September 2016, this seems consistent and is expected to rise in line with the progress of the remaining 3.9 meeting-weeks for the rest of the year.

**Status of the Trading Fund for 2016**

21 As at 30 September 2016, the income generated under the Trading Fund amounted to £9.03 million, which comprised £8.45 million from publication sales and £0.58 million from catering and other miscellaneous income, as set out in table 5 below. Overall income for the year is projected at £12.36 million, slightly over the last year's achievement of £12.3 million, attaining 98% of the target income for the year. The publication sales are attributable mainly to the marketing of various new editions (IAMSAR Manual – 3 volumes, IMDG Code, IMSBC Code, IBC Code). The catering sales figure has been estimated conservatively and is subject to increase, depending on additional function and event arrangements.

**Table 5**  
**Status of the Trading Fund for 2016**

2015 Outturn £'000	Statement	2016 Appropriation £'000	Prospective status for 2016 (£'000)		
			Actual (Jan-Sept)	Forecast (Oct-Dec)	Total (Jan-Dec)
11,217	Publication sales	11,647	8,446	3,099	11,545
759	Catering	587	391	110	501
322	Interest earnings/ miscellaneous income	391	192	123	315
<b>12,298</b>	<b>Income (a)</b>	<b>12,625</b>	<b>9,029</b>	<b>3,332</b>	<b>12,361</b>
1,385	Publishing personnel	1,922	1,086	393	1,479
1,953	Publishing operating expenses	2,100	1,482	673	2,155
434	Reimbursement/support costs	523	239	235	474
<b>3,772</b>	<b>Publication costs subtotal</b>	<b>4,545</b>	<b>2,807</b>	<b>1,301</b>	<b>4,108</b>
489	Catering personnel	575	351	45	396
609	Catering operating expenses	698	437	141	578
171	Reimbursement/support costs	165	103	39	142
<b>1,269</b>	<b>Catering costs subtotal</b>	<b>1,438</b>	<b>891</b>	<b>225</b>	<b>1,116</b>
<b>5,041</b>	<b>Expenditure (b)</b>	<b>5,983</b>	<b>3,698</b>	<b>1,526</b>	<b>5,224</b>
<b>7,257</b>	<b>Net income for the year (c=a-b)</b>	<b>6,642</b>	<b>5,331</b>	<b>1,806</b>	<b>7,137</b>

22 In respect of Trading Fund expenditure, maximum economies are being continuously sought, wherever possible, both in the delivery of commercial services as well as in negotiations with external suppliers. Total expenditure is projected at £5.22 million for 2016, which represents 42% of total forecast income and an overall margin of 58%, resulting in an in-year surplus of £7.14 million, as can be seen in table 5 above. The prospective surplus for 2016, if fully materialized, will be distributed in 2017 in accordance with the distribution formula in resolution A.1063(28): 80% to the Technical Cooperation Fund (of which 5% is ring-fenced for the World Maritime University, to support its efforts to build reserves equal to its one year operating expenditure); 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 surplus of £7.26 million achieved in 2015 has already been distributed in 2016, as shown in table 6 below.

**Table 6**  
**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%	(W MU support)	12.5%	1.5%	1.0%	5.0%
Actual distribution of 2015 surplus	£7,256,730	£5,805,384	£290,269	£907,091	£108,851	£72,567	£362,836
Prospective distribution of 2016 surplus	£7,137,000	£5,709,600	£285,480	£892,125	£107,055	£71,370	£356,850

### Status of the Headquarters Capital Fund for 2016

23 The overall status of the budget execution under the Headquarters Capital Fund, shown in table 7 below, is projected to exceed the budget approved. In respect of building management, full assessments of major repair works have been completed by the Host Government. Based on this, the works requiring urgent attention have been prioritized for 2016, which include, among others, repairs to the air handling units and the building management control system. The total cost is estimated to be £1.03 million, of which the Organization bears 20%, i.e. £206,000. Some initial works have already started in order to avoid major disruption to planned meetings and the regular work of IMO. The budgetary impact of these works results in a requirement of extra funds of £106,000 for 2016 under the heading of major building repairs (table 7). Some other priority works are also planned to take place in 2017 with additional funding requirements (see paragraph 33.6).

**Table 7**  
**Status of the Headquarters Capital Fund for 2016**

2015 Outturn £'000	Expenditure statement	2016 Appropriation £'000	Prospective status for 2016 (£'000)		
			Actual (Jan-Sept)	Forecast (Oct-Dec)	Total (Jan-Dec)
943	Major building repairs	100	41	165	206
14	Equipment/furniture/vehicles	30	23	4	27
507	IT/IS and SAP system	820	591	376	967
<b>1,464</b>	<b>Expenditure total</b>	<b>950</b>	<b>655</b>	<b>545</b>	<b>1,200</b>

24 The IT/IS costs include server upgrades to accommodate the SharePoint system introduced across IMO in 2015. Efforts have been made to enhance overall ICT systems further to drive efficiencies. The internet band width has been doubled to 200MB/s, and the end users connectivity to the IMO's network, including access to IMO's digital document repository, has been improved. Moreover, for the implementation of the ICSC's compensation package changes (see paragraphs 13 and 33.4), the IMO's SAP system is being adapted accordingly. Now that further information has been promulgated and following the detailed assessment, the associated and related SAP configuration costs, which are not budgeted, are estimated to be some £174,000 for 2016, resulting in additional funds requirement of £147,000 under the IT/IS and SAP budget heading in table 7 above.

25 After having re-prioritized work to accommodate the inevitable urgent expenditure, there is a **supplementary budget requirement of £250,000** in the Headquarters Capital Fund for 2016. The Secretary-General, having reviewed the position of the fund reserve available for financing from the Headquarters Capital Fund, which stood at £1.4 million as at 30 September 2016, proposes a **supplementary budget of £250,000 to meet the unavoidable overrun for the year, with its financing from the reserves of the Headquarters Capital Fund.**



**Status of the Termination Benefit Fund for 2016**

26 Table 8 below, which shows the status of the Termination Benefit Fund as at 30 September 2016, indicates that projected expenditure is containable within the approved budget. Termination and repatriation payments are based on the age profile of staff reaching retirement in 2016, totalling 12 staff members (5 Professional and 7 GS staff). For after service health insurance (ASHI), which covers 226 retirees as of 1 October 2016, some overruns are projected due to the rise in the medical insurance premium from 1 January 2016, the first increase since 2013.

**Table 8**  
**Status of the Termination Benefit Fund for 2016**

2015 Outturn £'000	Expenditure statement	2016 Appropriation £'000	Prospective status for 2016 (£'000)		
			Actual (Jan-Sept)	Forecast (Oct-Dec)	Total (Jan-Dec)
295	Termination and repatriation	415	14	377	391
600	After-service health insurance (ASHI)	589	446	165	611
23	Replacement of long-term sick leave	15	10	6	16
<b>918</b>	<b>Expenditure total</b>	<b>1,019</b>	<b>470</b>	<b>548</b>	<b>1,018</b>

**Status of the Training and Development Fund for 2016**

27 The expenditure under the Training and Development Fund is forecast at £103,000 for 2016, 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. 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.

**Table 9**  
**Status of the Training and Development Fund for 2016**

2015 Outturn £'000	Expenditure statement	2016 Appropriation £'000	Prospective status for 2016 (£'000)		
			Actual (Jan-Sept)	Forecast (Oct-Dec)	Total (Jan-Dec)
84	Performance/HR Management	70	11	51	62
37	Language training	37	26	10	36
4	Induction programme for translators	8	0	5	5
<b>125</b>	<b>Expenditure total</b>	<b>115</b>	<b>37</b>	<b>66</b>	<b>103</b>

**Status of the Technical Cooperation Fund for 2016**

28 The actual outturn of Technical Cooperation Fund (TC Fund) for the Integrated Technical Cooperation Programme (ITCP) amounted to £2.66 million to September 2016, representing 52% of the planned expenditure of £5.15 million, as shown in table 10 below. 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 ITCP activities financed by the TC Fund is forecast to reach £4.13 million, representing 80% of the plan. It should also be noted that the financial grant of £290,269 provided from the TC Fund to the World Maritime University, as shown in table 6 above, is no longer presented under the actual outturn but instead is treated, in accordance with IPSAS, as a simple financial transfer with no effect on the budget outturn of the TC Fund.

**Table 10**  
**Status of the Technical Cooperation Fund for 2016**

2015 Outturn £'000	Expenditure region	2016 Appropriation £'000	2016		Total (Jan-Dec)
			Actual (Jan-Sept)	Forecast (Oct-Dec)	
739	Africa	1,287	541	390	931
138	Arab States/Mediterranean	360	57	69	126
384	Asia	460	173	158	331
211	Pacific Islands	210	86	99	185
22	Eastern Europe	69	15	28	43
320	Latin America	377	25	237	262
280	Caribbean	343	124	81	205
1,652	Global programmes	2,044	1,642	407	2,049
<b>3,746</b>	<b>Expenditure total</b>	<b>5,150</b>	<b>2,663</b>	<b>1,469</b>	<b>4,132</b>

### Status of extra-budgetary programmes

29 As reported previously to the Council, extra-budgetary activities and resources, in conjunction with the major contribution made by the TC Fund, play a fundamental role in promoting the strategic objectives of the Organization as well as the successful implementation of IMO's treaties by Member States. During the first nine months of this year, a total of \$5.3 million was received to support the Organization's extra-budgetary programmes, including that portion of the ITCP that is donor-financed. The amount represents a 36% (\$1.4 million) increase on donations received for the same period in 2015 (\$3.9 million). This year a number of major projects are underway. These include capacity building for climate change mitigation in the maritime sector with the objective of providing support for developing countries in limiting and reducing Greenhouse Gases (GHG) emissions from their shipping sectors through technical assistance/capacity building to promote ship energy efficiency, which has been established with funds from the European Union (EU) of €10 million. Also concluding this year is a €1.2 million EU-funded project to support training and capacity-building activities aimed at enhancing flag State implementation and port State control in west and central Africa, with a view to upgrading the region's maritime administrations and preparing its States for the IMO Member State Audit Scheme. Also due for completion this year is the project on safe and environmentally sound ship recycling in Bangladesh, with a budget of \$1.5 million funded by the Norwegian Agency for Development Cooperation (NORAD). In view of the above and on the basis of the budget programmed by the end of September 2016, extra-budgetary programme expenditure for this year is expected to be largely at the same level as the outturn in 2015, as may be seen in table 11 below.

**Table 11**  
**Status of extrabudgetary programmes for 2016**

2015 Outturn US\$'000	Expenditure region	2016 Budget* US\$'000	2016		Total (Jan-Dec)
			Actual (Jan-Sept)	Forecast (Oct-Dec)	
639	Africa	660	357	119	476
692	Arab States/Mediterranean	600	464	134	598
471	Asia	778	261	237	498
6,958	Global programmes	12,488	3,711	3,463	7,174
<b>8,760</b>	<b>Expenditure total</b>	<b>14,526</b>	<b>4,793</b>	<b>3,953</b>	<b>8,746</b>

\* The expenditure budget for 2016 is based on the Programme Implementation Documents (PID) formulated /revised by 30th September 2016

30 The Council may wish to note that the Secretary-General has established a multi-donor trust, The Delivering Strategy and Reform – Voyage Together Trust Fund, in accordance with the Organization's Financial Regulations (regulation 6.7) in September 2016. The purpose of the Fund is to provide a dedicated source of funding, outside the Organization's regular budget estimates, to facilitate programmes and/or activities for which the Organization has not been making, historically, provisions under its biennial budget estimates. Such programmes or activities will be in support of the delivery of IMO's mission and vision articulated in its Strategic Plan and shall be focused on the following four key thematic areas: promotion of better implementation of IMO standards; improvement of capacity building; improvement of the Secretariat; and promotion of a global approach and improvement of awareness.

31 Donations to the Fund may be made at any time and the donor has the option to make a donation without being specific as to its use or by identifying the area of work for which it should be utilized. However, in the latter case donations will be accepted on the understanding that the work in relation to the area identified by donor will commence after sufficient funding becomes available. The Government of the Republic of Korea has made an initial contribution of some \$1.91 million this year and pledged a sum up to \$2 million next year. The Secretary-General seeks kind contributions from other Member States.

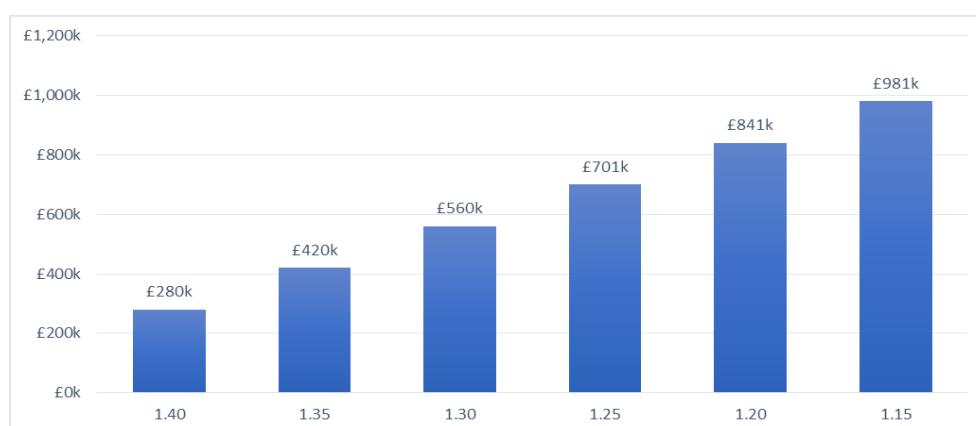
### **Preliminary consideration of 2017 budgets**

32 As noted in table 1, the budgets approved for 2017 are £33.15 million for the regular budget and £13.13 million for other Funds of the Organization, which represent a 1.6% increase and a 0.7% reduction, respectively, on the corresponding budgets for 2016. In review of the budgetary status for 2017, major considerations have been made in the following features:

- .1 **movements in the pay and price indices** – as noted in table 2 and chart 1, the movements in AWE and RPI have ranged 1.3-2.7 and 1.3-2.0, respectively, over the past months in 2016 and, if the trend stays at the latest available level, a 2% pay rise would be made for the GS staff as of 1 May 2017. The interim salary adjustment, if realized, is aligned to the assumed 2% increase reflected in the staff costs budget for 2017;
- .2 **impact of the ICSC cost-of-living survey consequence** – for staff in the Professional and higher categories, ICSC's overall cost-of-living surveys commenced in all UN headquarters duty stations, including London, in September 2016. The initial result of the survey will be known in the first quarter of the next year, and the ICSC's meeting planned in April 2017 will discuss it for finalization. If the consequential budgetary impact of the survey result is greater than the 2% pay rise embedded in the staff costs budget for 2017, the Secretary-General will make every effort to accommodate the consequential increase within the approved regular budget through various stringent austerity measures. Notwithstanding the effort, when some overruns are inevitable, the excess amount will be financed from the Special Contingency Account (SCA) of the Organization. The SCA was set up in 2014 by the Assembly by means of resolution A.1063(28) with a provision of £2 million under the General Fund to address, without resorting to increases in Member States' assessments, the funding of any excess in the budget that might be incurred by significant pay rises beyond the assumption embedded in the budget for staff costs. If the place-to-place survey results in 5% pay rises for the London duty station, the required amount is assessed at £615,000 for 2017 (for the full year) under the current staff profile and salary scales;

- .3 **impact of exchange rates movement and ring-fencing for 2017** – as outlined in paragraph 7, since the UK referendum to leave the EU, the pound remains increasingly volatile reaching the level last seen in 1985. The chart below sets out the scale of currency losses for 2017 simulated at varying exchange rates. If the pound exchange rate remains at \$1.22, applicable for October 2016, for the whole year of 2017, a total exchange rate loss would be some £828,000, depleting the Working Capital Fund reserves again below the 1.5 million threshold. The Secretary-General will keep carefully monitoring the exchange rate fluctuation and will report to the Council at its 118th session on the prevailing impact and further required action, if any, to address the situation;

**Chart 3**  
**Currency fluctuation impact (loss) on the Working Capital Fund for 2017**



- .4 **implementation of ICSC compensation package changes for staff in the Professional and higher categories** – the second stage implementation, which comes with the introduction of a simplified uniform base salary scale while establishing a spouse and transitional allowances, is assessed to have no immediate budgetary impacts for 2017. However, savings of some £385,000 are estimated in the transitional allowance in total for six years to come, because it will be completely phased out over that period. The third stage, introducing sliding scales in the payment of education grants from July 2017, is assessed to reduce some £80,000 per year based on the 2016 claims amounting to £850,000;
- .5 **commercial income and expenditure (Trading Fund)** – the overall trading income for 2017 is projected, based on the sales trend in 2016, to meet well over the target (£11.5 million) but slightly less than the projected outturn in 2016 of £12.36 million. This is mainly because of yearly fluctuations in demand for IMO publications, although catering income is expected to increase owing to the customary Assembly functions. On the expenditure side, it is estimated to be broadly in line with the approved budget (£6.07 million) with some prospective efficiency savings (£0.27 million). Overall, at these levels of sales and expenditure, the projected profit would be in the range of £6.6 million for 2017;

- .6 **capital expenditure (Headquarters Capital Fund)** – the building refurbishment for 2017 (including upgrade of generators, electrical distribution and related cabling works), in line with the required work assessment by the Host Government is estimated to cost £1.49 million, of which IMO needs to finance 20%, i.e. £297,000, in accordance with the Headquarters Agreement. This will incur an overrun of £197,000 on the approved budget for this heading. Some overruns are also expected in the SAP system configuration to address the cost relating to the ICSC compensation package implementation as set out in paragraphs 24, but this will be offset by prioritizing the expense for equipment and furniture. Hence, the Secretary-General proposes that the required additional funds of £189,000 be incorporated as supplementary budget for 2017 and be financed from the prospective reserves of the Headquarters Capital Fund;

**Table 12**  
**Forecast expenditure outturns of the Headquarters Capital Fund**

2016 Outturn £'000	Expenditure statement	2017 Appropriation £'000	Prospective status for 2017 (£'000)	
			Forecast (Jan-Dec)	Variation (Jan-Dec)
206	Major building repairs	100	297	197
27	Equipment/furniture/vehicles	70	20	-50
967	IT/IS and SAP system	820	862	42
<b>1,200</b>	<b>Expenditure total</b>	<b>990</b>	<b>1,179</b>	<b>189</b>

- .7 **separation and ASHI (Termination Benefit Fund)** – in 2017, there will be 11 staff members (10 Professional and 1 General Services) separating from the Organization on retirement. The associated costs are estimated to total £675,000, which is more than the budget amount of £470,000. In addition, some terminations are carefully being considered in accordance with Staff Regulations and Staff Rules, which, if materialized, would drive extra funding requirement. The Secretary-General will provide the update on this matter to C 118;
- .8 **staff training and development (Training and Development Fund)** – various programmes under the Training and Development Fund will be further facilitated in conjunction with the staff career development and mobility programmes; and
- .9 **capacity building (Technical Cooperation Fund)** – capacity-building programme activities for 2017 are projected to be £4.03 m, with expectation that donors may show interest in the implementation of activities which the current ITCP envisages for delivery during the 2016-2017 biennium.

## Summary

33 In summary, the overall expenditure outturns for 2016 of the regular budget and other Funds, other than the Headquarters Capital Fund, are assessed, in the absence of any unforeseen expenditure demand, to be contained within the budget approved for the year. Likewise, with continued cost-saving and efficiency measures, the 2017 budget outturns are preliminarily assessed to be also on course, other than the uncertainty of the ICSC's place-to-place survey result and the additional funds requirement in the Headquarters Capital Fund and possibly in the Termination Benefit Fund. The Secretary-General will continue closely monitoring the budgetary status, while undertaking the appropriate and necessary

economy and austerity measures, to generate efficiency 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 2017 will be presented, taking into account any changes and developments in the prevailing economic and financial circumstances, to the Council at its 118th session in July 2017.

34 To address the additional funds requirement under the Headquarters Capital Fund for 2016 and 2017, the Secretary-General proposes its revised budget for the current biennium as summarized in table 13 below and the financing of the supplementary funds be made from the available reserves in the Headquarters Capital Fund.

**Table 13**  
**Revised budget proposal of the Headquarters Capital Fund**  
**for the 2016-2017 biennium**

	Approved (£'000)		Revised Proposal (£'000)		Biennial Totals		Changes	
	2016 (a)	2017 (b)	2016 (c)	2017 (d)	Approved (e=a+b)	Revised (f=c+d)	£'000 (g=f-e)	% (g/e)
Major building repairs	100	100	206	297	200	503	303	152%
Equipment/furniture/vehicles	30	70	27	20	100	47	-53	-53%
IT/IS and SAP system	820	820	967	862	1,640	1,829	189	12%
<b>Expenditure total</b>	950	990	1,200	1,179	1,940	2,379	439	23%

#### Action requested of the Council

35 The Council is invited to:

- .1 **note** the review of external pay and price factors (paragraphs 4 to 6 and 10 to 13, table 2 and chart 1);
- .2 **note** the impact of exchange rates movements (paragraph 7) and **authorize** the Secretary-General to replenish the Working Capital Fund up to £2 million through transfer the differential amount (currently assessed to be some £0.43 million), as of 1 January 2017, from the prospective underspend of appropriations in the regular budget for 2016 (paragraphs 8 and 9);
- .3 **note** the forecast outturns of regular budget expenditure for 2016, assessed to be kept within the approved appropriation (paragraphs 14 to 20, tables 3 and 4 and chart 2);
- .4 **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 5 and 6);
- .5 **note** the additional resource requirements in the Headquarters Capital Fund for 2016 (paragraphs 23 to 25 and table 7) and 2017 (paragraph 32.6) and **approve** the Secretary-General's proposal of the revised budget of the Headquarters Capital Fund for the 2016-2017 biennium and its financing source of the supplementary funds (paragraph 34 and table 13);
- .6 **note** the expenditure status of the Termination Benefit Fund (paragraph 26 and table 8); the Training and Development Fund (paragraph 27 and table 9); the Technical Cooperation Fund (paragraph 28 and table 10); and extra-budgetary programmes (paragraph 29 and table 11);

- .7 **note** the establishment in September 2016, under the Financial Regulations and Rules, of the Delivering Strategy and Reform – Voyage Together Trust Fund, as a multi-donor trust fund (paragraphs 30 and 31);
  - .8 **note** the main features considered in the preliminary assessment of budget prospects for 2017 (paragraph 32); and
  - .9 **note** the summary, the Secretary-General's conclusion and his plan to present an updated review of budget prospects for 2017 to C 118 (paragraph 33).
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