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RESOURCE MANAGEMENT

(e) Budget considerations for 2006

Note by the Secretary-General

SUMMARY

Executive summary: This document updates the information provided in document C 96/3(e) on budget considerations for 2006. It summarizes the forecast overall budgetary position for 2006, as seen at 30 April 2006; and also sets out the status of the Organization's Funds (i.e. the Printing Fund, the Headquarters Capital Fund, the Termination Benefit Fund, the Training and Development Fund and the Technical Co-operation Fund).

Action to be taken: Paragraph 26

Related document: C 96/3(e)

Introduction

1 In document C 96/3(e), the Secretary-General presented a review of the budgetary assumptions used in the calculation of the biennium budget for 2006-2007 against the latest increases in pay and prices levels in the United Kingdom economy. This document updates the information then provided and presents an initial projection of the year-end budget status for 2006, based on expenditure trends seen as at 30 April 2006. To complement the Secretary-General's projection, this report also presents the status of each of the Organization's Funds.

Updated review of budgetary assumptions

2 The review of the assumptions made for the calculation of the Organization's budget estimates for this biennium, further to the one undertaken in document C 96/3(e), has been made based on the latest statistics available on the performance of the United Kingdom economy and the United Nations (UN) US dollar operational exchange rate, which are summarized in Table 1 below. Chart 1 illustrates a longer-term movement of the indicators.

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Table 1
Review of budgetary assumptions

| | <u>Budgetary assumptions</u> | <u>C 96/3(e)</u> | <u>C 96/3(e)/1</u> |
|---|------------------------------|---------------------|---------------------|
| United Kingdom's Retail Price Index (RPI) increases | 2.0% | 2.4% ^{1/} | 2.4% ^{4/} |
| United Kingdom's Average Earnings Index (AEI) increases | 4.2% | 3.8% ^{2/} | 4.2% ^{5/} |
| USD/GBP exchange rate | 1.75 | 1.744 ^{3/} | 1.768 ^{6/} |

1/ Reflects annual inflation rate to January 2006

2/ Reflects whole economy 3-month average to January 2006, excluding bonuses

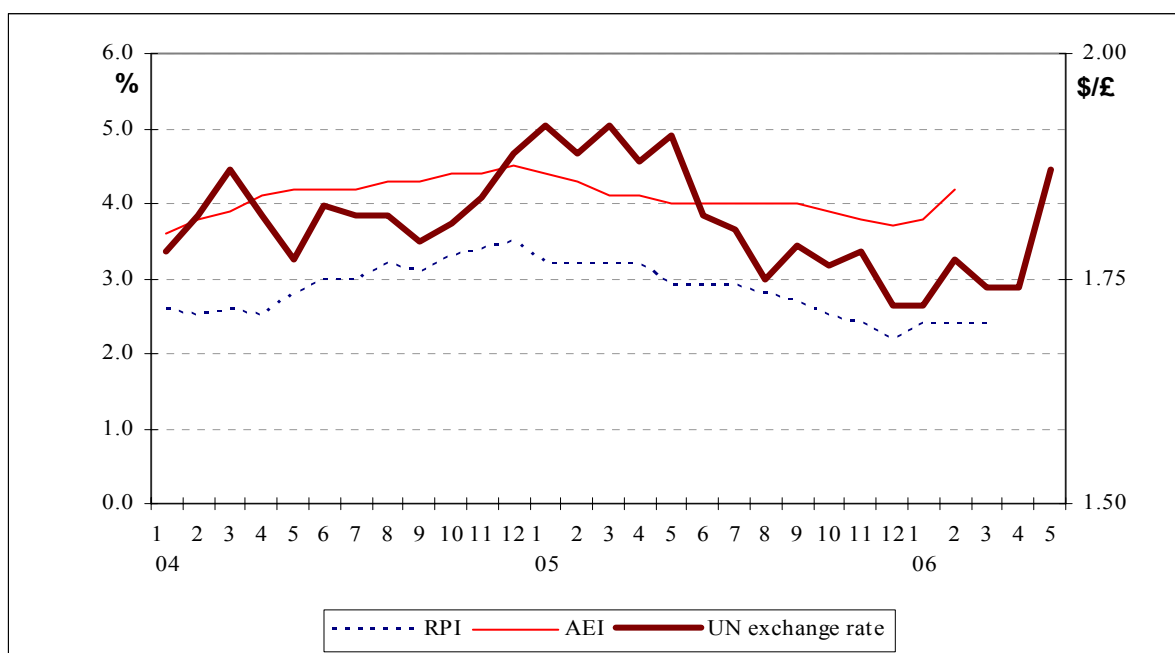
3/ Reflects an average UN exchange rate for months January to March 2006

4/ Reflects annual inflation rate to March 2006

5/ Reflects UK whole economy 3-month average to February 2006, excluding bonuses

6/ Reflects an average UN exchange rate for months January to May 2006

Chart 1
Movements of the budgetary assumption indicators (Jan 2004-May 2006)



3 Compared with the position presented in document C 96/3(e), the 3-month average of the United Kingdom's Average Earnings Index (AEI) increased to reach the budget assumption level of 4.2%; whilst the 12-month average increase in the United Kingdom's Retail Price Index (RPI) has not changed, remaining at 2.4%, slightly over the budget assumption level of 2.0%. The UN operational US dollar exchange rate against the pound sterling averaged 1.768 for the first five months of 2006, representing a slightly higher level than the budget assumption level of 1.750, due to a rapid movement shown in May. Overall, the current indicators confirm the budgetary assumptions and, providing that the indicators do not deviate significantly from the current average levels, there should be no adverse effect on the approved appropriation. The Secretary-General will continue to keep the matter under review and advise the Council accordingly at the November session.

Status of the regular budget

Forecast of the year-end balance of the programme budget

4 The Secretary-General has reported, in document C 96/3(e), the outcome of the place-to-place survey on costs of living in London undertaken during the latter part of 2005 by the International Civil Service Commission (ICSC), which represented an increase in salaries of approximately 8.8% for the London-based Professional staff with effect from 1 April 2006. The calculation of the 8.8% increase was based on the then-prevailing post adjustment index applicable for the survey base month of September 2005. However, the application of the new index and multiplier set for April 2006 resulted in an actual increase of 9.21% on the payroll of the Professional staff. The impact of this salary increase is estimated, based on the current level of posts on the Organization's payroll, to add £558,000 to the staff costs for 2006.

5 Taking this additional cost into consideration, the Secretary-General has reviewed the overall expenditure status of the programme budget on the basis of the expenditure outturn realized during the first four months ending 30 April 2006 and arrived at the forecast as shown in Table 2, which provides a year-end status of appropriation by Major Programme.

Table 2
Status of regular budget appropriations by Major Programme
as at 30 April 2006

| Major Programmes | 2006 Appropriations | 2006 Expenditure | | | Year-end balance forecast | |
|--------------------------------------|---------------------|------------------|--------------------|-------------------|---------------------------|--------------|
| | | Actual (Jan-Apr) | Forecast (May-Dec) | Total | £ | % |
| Governance, direction and management | 2,900,200 | 827,300 | 2,152,100 | 2,979,400 | -79,200 | -2.7% |
| Capacity building and TC | 1,391,000 | 382,800 | 927,500 | 1,310,300 | 80,700 | 5.8% |
| Resource management | 3,216,800 | 1,007,800 | 2,281,400 | 3,289,200 | -72,400 | -2.3% |
| Technical and legal work | 5,139,200 | 1,627,500 | 3,672,500 | 5,300,000 | -160,800 | -3.1% |
| International meetings | 5,183,400 | 1,612,200 | 3,661,800 | 5,274,000 | -90,600 | -1.7% |
| External relations and information | 1,673,000 | 463,600 | 1,127,700 | 1,591,300 | 81,700 | 4.9% |
| Staff turnover | -200,000 | - | - | - | -200,000 | 100.0% |
| Direct programmes total (a) | 19,303,600 | 5,921,200 | 13,823,000 | 19,744,200 | -440,600 | -2.3% |
| Indirect programmes (b) | 4,994,700 | 959,800 | 3,859,900 | 4,819,700 | 175,000 | 3.5% |
| Total (a+b) | 24,298,300 | 6,881,000 | 17,682,900 | 24,563,900 | -265,600 | -1.1% |

6 Six Major Programmes incurred expenditure totalling £5,921,200 for the first four months of the year, representing 30.7% of the direct programme budget of £19,303,600 and are forecast to further incur a total of £13,823,000 for the remaining eight months, which will lead to an overrun by 2.3% of £440,600 over the direct programme budget for the year. Indirect programme costs, however, are forecast to be contained within the budget, generating estimated savings of £175,000, representing 3.5% of the indirect programme budget of £4,994,700 for 2006. On these forecasts, the year-end status of the regular budget programme would end with an overrun of £265,600, representing 1.1% of the approved budget for 2006. The analysis is further detailed in Table 3 showing the status by object of expenditure.

Table 3
Status of appropriation by object of expenditure as at 30 April 2006

| 2005 Outturn | Objects of expenditure | 2006 Appropriations | 2006 Expenditure | | | Year-end balance forecast |
|-------------------|--|---------------------|------------------|--------------------|-------------------|---------------------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | Total | |
| 16,036,900 | Staff costs in gross | 17,335,700 | 5,362,500 | 12,031,700 | 17,394,200 | -58,500 |
| 805,500 | Overtime/temp/consultancy | 598,300 | 258,000 | 596,500 | 854,500 | -256,200 |
| * | Staff turnover | -200,000 | - | - | - | -200,000 |
| 16,842,400 | Personnel costs in net (a) | 17,734,000 | 5,620,500 | 12,628,200 | 18,248,700 | -514,700 |
| 979,000 | Meetings (b) | 1,254,500 | 242,300 | 943,700 | 1,186,000 | 68,500 |
| 216,300 | Official missions (c) | 315,100 | 58,400 | 251,100 | 309,500 | 5,600 |
| 2,706,400 | Headquarters premises | 2,825,100 | 457,900 | 2,194,800 | 2,652,700 | 172,400 |
| 1,570,300 | Office consumables and services | 1,424,400 | 371,700 | 1,006,500 | 1,378,200 | 46,200 |
| 100,000 | Capital investment programme | 250,000 | - | 250,000 | 250,000 | 0 |
| 499,700 | Ancillary provision** | 495,200 | 130,200 | 408,600 | 538,800 | -43,600 |
| 4,876,400 | Indirect programmes sub-total (d) | 4,994,700 | 959,800 | 3,859,900 | 4,819,700 | 175,000 |
| 22,914,100 | Total (a+b+c+d) | 24,298,300 | 6,881,000 | 17,682,900 | 24,563,900 | -265,600 |

* Staff turnover in 2005 was planned at £200,000 and was absorbed in the staff costs outturn

** This comprises medical insurance for retirees, recruitment costs, External Audit and cost sharing for jointly financed UN common services.

Personnel costs

7 The main component of the direct programme costs are personnel costs (including staff costs, overtime and night differentials, temporary assistance and consultancy); meetings, comprising costs for external interpreters and translators; and official mission travel. Staff costs, which represent approximately 90% of the direct programme costs for the year, amounted to £5.36 million during the first four months and are forecast to reach £17.39 million for the year, if the current levels of post management and currency exchange rates are maintained. The projected outturn level, which includes the additional staff costs incurred from April as a result of the pay increase for Professional staff and the additional costs (\$60,000) of insurance taken out to cover nuclear, biological and chemical terrorism (NBC) acts reported in document C 96/3(e), will result in a projected small overrun of £58,500 against the budget for staff costs, as presented in Table 3 above. However, as the Assembly set the staff turnover saving at £200,000 for 2006, the net overrun in staff costs will further exceed the budget by that amount. The maintenance of vacancies through the management of posts inevitably leads to reliance on extended work hours resulting in overtime payments for General Service staff, short-term assistance by temporary staff and, in certain cases, consultancy services, in order for the Secretary-General to deliver the work programmes of the Organization to the standard expected. The additional costs thus incurred are anticipated to result in an overrun of £256,200. As can be seen in Table 3, the expenditure associated with personnel costs will, in total, amount to £18.25 million, incurring an anticipated overrun of £514,700 for 2006.

Meetings

8 The Council will note, from Table 3 above, that some savings are projected under the meetings programme, although, as was indicated in document C 96/3(e), unanticipated additional costs associated with the relocation of meetings, as a result of the Headquarters Refurbishment Project, may arise which may not be able to be met from the Project budget. The Council should note that the Legal Committee, at its ninety-first session in April 2006, moved a step closer towards completion of the draft text concerning a wreck removal convention and rescheduled, to 2007, a diplomatic conference to adopt the convention, which will be hosted by the Government of Kenya. Thus, the provision of £68,500 allocated in the 2006 budget for the

diplomatic conference will be earmarked as a saving for transfer to 2007, in accordance with the Organization's Financial Regulations, to meet regular costs to be borne by the Organization in undertaking the diplomatic conference in 2007.

Indirect programme costs

9 Table 3 above also demonstrates that the projected savings of £175,000 in the indirect programmes are mostly generated from the costs of running and maintaining the Organization's Headquarters premises; this reflects the reduced level of costs in utilities and other associated costs expected in the building at No.55 Victoria Street, London which is smaller than the current premises. However, it should be noted that the relocation of the Secretariat may incur various incidental programme costs which might not be met through the Refurbishment Project budget.

10 Some prospective savings to be made in office consumables and services are expected to be offset by the overrun in the ancillary provision caused, in particular, by cost rises in medical insurance for retirees, the number of which has kept increasing. The Secretary-General has taken appropriate steps to ensure that offsetting savings are earmarked in order to keep the total expenditure in indirect costs within the approved appropriation.

11 The Assembly, at its twenty-fourth session, by resolution A.969(24), provided a budget provision for capital funds of £250,000 in the regular budget to contribute to the financing of the Organization's capital investment programme. Although the Assembly, at its previous occasion, authorized the Secretary-General to draw upon this provision, at his discretion, to provide some flexibility in managing the Organization's human resource requirements, he will endeavour to manage staff resource deployment so that the capital provision of £250,000 can be transferred to the Headquarters Capital Fund at the end of 2006, as voted by the Assembly.

Supplementary budget

12 From the analysis above, it can be summarized that:

- .1 the year-end status of the regular budget for 2006 is anticipated to overrun by £265,600, for which a supplementary provision is inevitable;
- .2 as the projected savings include the budget of £68,500 for a diplomatic conference which is now rescheduled for 2007 and the funds need to be transferred to 2007, the supplementary estimates will further increase by that amount to £334,100; and
- .3 as the savings in indirect programme costs can vary depending on the scope and level of the incidental costs associated with relocation that fall on the regular budget, the required level of supplementary budget will accordingly be affected.

13 In this context, the Secretary-General, with the support from his senior colleagues, will continue to take stringent economy measures on the controllable expenditure to generate offsetting savings to the extent possible. However, the Secretary-General considers that it would be prudent to inform the Council that a certain level of supplementary estimate for 2006 is inevitable to cover the shortfall in the approved appropriation. The Secretary-General will make his firm reassessment of the annual expenditure in the latter part of this year and present his supplementary budget proposal, which is expected to be financed from the accumulated reserves of the General Fund, to the Council at its November session this year.

Budget transfers between Major Programmes

14 The Council will recall that the new programme structure applied in the current biennium represents the allocation of resources by reference to seven Major Programmes defined with programme objectives and activities under three broad strategic directions¹ of the Organization's Strategic Plan. To address certain new and changing responsibilities of the Organization, the allocation of resources between the programmes has been reviewed. Table 4 below sets out transfers between Major Programmes for 2006 based on the re-estimated programme demands, to which the Secretary-General seeks an endorsement of the Council in accordance with the Organization's Financial Regulations.

Table 4
Transfer between Major Programmes

| Transfer from | £ | Transfer to |
|---------------------------------|----------|---|
| MP4: Technical and legal work | 2,700* | MP1: Governance, direction and management |
| MP7: General operating expenses | 25,000** | MP3: Resource management |

* Redistribution of mission travel costs

** Reflection of medical adviser's fee

Forecast of the prospective year-end status of the General Fund surplus

15 Table 5 below presents the prospective year-end financial position for 2006 concerning the Organization's accumulated surplus under the General Fund. It is projected that the Organization will maintain a cash surplus, but at a reduced level, amounting to approximately £1 million compared with the 2005 outturn of approximately £2 million. The decline in the prospective cash reserves is caused by the shortfall of income over expenditure, which is driven by the overrun in expenditure reflecting the increase in Professional staff costs and is based on receipts of assessed contributions for 2006 at the rate of 97%, the average level of the last three biennia. The Secretary-General very much hopes that the full and timely payment of assessed contributions and settlement of prior years' arrears will yield an improvement in the year-end prospects. The Secretary-General will continue to keep the Council informed on the contributions position.

16 The Council will recall that the Assembly approved, in resolution A.942(23), transfers from the surplus of the General Fund to the Headquarters Capital Fund (HQCF) of £300,000 and the Training and Development Fund (TDF) of £200,000 for 2004 and 2005, respectively. However, in the light of the insufficient cash position of the General Fund prevailing at the end of both 2003 and 2004, the Secretary-General was unable to carry out the transfers up to the amount as approved by the Assembly and limited the transfers to £250,000 for 2004 (£200,000 to HQCF and £50,000 to TDF)² and £75,000 for 2005 (£50,000 to HQCF and £25,000 to TDF)³. In this context, the Council may wish to note that, as the year-end cash reserves for 2005 of £2 million significantly reflected the un-transferred funds totalling £675,000 (£350,000 to HQCF and £325,000 to TDF), the Secretary-General now intends to carry out transfers but only to the extent that will not affect the level of cash necessary to meet the supplementary estimates for 2007 which reflect the Professional staff costs increase. Based on the current projection, the transfer is

¹ namely: Enhancement of status and effectiveness; Development and maintenance of a comprehensive framework; and Enhancement of profile, culture and conscience.

² This was reported to the Council in document C 92/17(e)/Add.1.

³ Document C 94/3(e) contained this information.

most likely to be £350,000 (£300,000 for HQCF and £50,000 for TDF). The Secretary-General will report on this when he presents supplementary estimates to the Council's November session.

Table 5
Status of the General Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | Total £ |
|----------------------|--|----------------------------|---------------------|-----------------------|-------------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | |
| 21,157,253 | Assessed contribution | 22,419,100 | 13,587,400 | 8,159,100 | 21,746,500 |
| 0 | Transfers from reserves and other Funds | 175,000 | 0 | 175,000 | 175,000 |
| 293,786 | TC support cost income | 300,000 | 65,000 | 234,000 | 299,000 |
| 1,451,700 | Reimbursement from the Printing Fund | 1,016,800 | 508,400 | 508,400 | 1,016,800 |
| 1,160,245 | Interest earnings and miscellaneous income | 387,400 | 138,600 | 332,600 | 471,200 |
| 24,062,984 | Income total (a) | 24,298,300 | 14,299,400 | 9,409,100 | 23,708,500 |
| 18,037,632 | Direct programme costs | 19,303,600 | 5,921,200 | 13,823,000 | 19,744,200 |
| 4,876,384 | Indirect costs including capital investment | 4,994,700 | 959,800 | 3,859,900 | 4,819,700 |
| 22,914,016 | Expenditure total (b) | 24,298,300 | 6,881,000 | 17,682,900 | 24,563,900 |
| 1,148,968 | Surplus income over expenditure (c=a-b) | 0 | 7,418,400 | -8,273,800 | -855,400 |
| 2,264,204 | Accumulated surplus from prior years (d) | 2,250,000 | 3,544,500 | - | 3,544,500 |
| 75,000 | Less: Transfers to other Funds (e) | 0 | 0 | 350,000* | 350,000 |
| 206,347 | Outstanding contribution for the year (f) | 0 | 8,831,700 | -8,159,100 | 672,600 |
| 3,544,519 | Year-end fund balance (g=c+d-e+f) | 2,250,000 | 19,794,600 | -16,782,900 | 3,011,700 |
| 1,326,606 | Less: Arrears from previous years (h) | 1,144,600 | 1,423,100 | -91,100 | 1,332,000 |
| 209,827 | Less: Arrears from the current year (i) | 0 | 8,831,700 | -8,159,100 | 672,600 |
| 2,008,086 | Cash available at year end (j=g-h-i) | 1,105,400 | 9,539,800 | -8,532,700 | 1,007,100 |

* This is a provisional figure as indicated in paragraph 16.

Status of other Funds of the Organization

17 The following paragraphs set out the status of the other Funds of the Organization, namely, the Printing Fund, the Headquarters Capital Fund, the Termination Benefit Fund, the Training and Development Fund and the Technical Co-operation Fund. A summary income and expenditure statement of the Organization's Funds is provided at annex. This annex compares the planned income and expenditure with the forecast year-end position for each of the Funds, taking account of prior years' balances. The following paragraphs below provide the key points.

The Printing Fund

18 As at 30 April 2006, the income generated from the sale of IMO publications amounted to approximately £2 million. This figure represents approximately 33 percent of the forecast revenue appropriation for 2006. On the basis of prevailing sales trends and taking into account new publications of the IMDG Code and the ISPS Code which are scheduled to launch in the latter part of this year, the target sales for 2006 of £6 million is expected to be attainable. The increases in Professional salaries financed from the Printing Fund are expected to be absorbed within the approved budget level because the maintained vacancy in the complement under the Fund has already generated sufficient savings. Based on the current trends, the net income for 2006 is forecast at £2.82 million and the outturn level of the accumulated surplus of the Fund, after adding the accumulated surplus of prior years of £5.10 million and deducting the approved transfer-outs to other Funds of £3.64 million, is projected to reach approximately £4.28 million at the end of 2006, representing a 16% decline compared with the level shown in 2005. The estimated revenue and expenditure for 2006 voted by the Assembly at its twenty-fourth session and its forecast outturn based on the 2006 expenditure trend is shown at Table 6 below.

Table 6
Status of the Printing Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | |
|----------------------|---|----------------------------|---------------------|-----------------------|------------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | Total £ |
| 6,507,570 | Publication sales | 6,000,000 | 1,964,300 | 4,125,000 | 6,089,300 |
| 199,879 | Interest earnings/ miscellaneous income | 320,700 | 144,500 | 260,100 | 404,600 |
| 6,707,449 | Income (a) | 6,320,700 | 2,108,800 | 4,385,100 | 6,493,900 |
| 991,977 | Personnel | 1,006,500 | 252,800 | 606,700 | 859,500 |
| 108,180 | Official missions/promotions | 135,000 | 43,700 | 89,100 | 132,800 |
| 473,980 | Contract-out (printing) | 853,500 | 102,200 | 715,400 | 817,600 |
| 726,952 | Operating expenses | 708,000 | 127,500 | 535,500 | 663,000 |
| 1,451,700 | Reimbursement to the regular budget | 1,016,800 | 508,400 | 508,400 | 1,016,800 |
| 127,397 | Others (Model courses, etc.) | 185,000 | 5,400 | 178,000 | 183,400 |
| 3,880,186 | Expenditure (b) | 3,904,800 | 1,040,000 | 2,633,100 | 3,673,100 |
| 2,827,263 | Net income for the year (c=a-b) | 2,415,900 | 1,068,800 | 1,752,000 | 2,820,800 |
| 3,519,717 | Accumulated surplus-prior years (d) | 4,675,100 | 5,097,000 | - | 5,097,000 |
| 1,250,000 | Less: Transfers to other Funds (e) | 3,640,000 | 3,465,000 | 175,000 | 3,640,000 |
| 5,096,980 | Year-end fund balance (f=c+d-e) | 3,451,000 | 2,700,800 | 1,577,000 | 4,277,800 |

19 As approved by the Assembly in resolution A.969(24), total transfers to other Funds of the Organization from the surplus of the Printing Fund were made in January 2006 of £3,465,000 comprising: the Technical Co-operation Fund of £2.4 million; the Headquarters Capital Fund of £700,000; the Termination Benefit Fund of £300,000; and Training and Development Fund of £65,000. The approved transfer to the General Fund of £175,000 will be carried out in the second half of the year.

The Headquarters Capital Fund

20 Table 7 below represents the forecast status of the regular programmes under the Headquarters Capital Fund based on the outturn as at 30 April 2006, which indicates a small amount of net income for the year expected at £89,000. A transfer of £700,000 from the surplus of the Printing Fund was carried out as approved by the Assembly, at its twenty-fourth regular session, in resolution A.969(24). The majority of the transfer amount represented the Organization's liability of £625,000 for 2006 to the United Kingdom Government in respect of the Headquarters Refurbishment Project. The approved capital flow from the regular budget of £250,000 for 2006 will be made in the latter part of the year, as noted in paragraph 11 above. Another prospective transfer from the cash surplus of the General Fund of £300,000, as indicated in paragraph 16 above, would further strengthen the fund balance for the longer-term repayment of the Organization's liability concerning the refurbishment; the year-end balance would be approximately £1.83 million, representing an increase of 5% compared with the 2005 outturn of approximately £1.74 million.

Table 7
Status of the Headquarters Capital Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | |
|----------------------|---|----------------------------|---------------------|-----------------------|------------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | Total £ |
| 500,000 | Transfers from other Funds | 950,000 | 700,000 | 550,000* | 1,250,000 |
| 64,250 | Interest earnings/ miscellaneous income | 49,600 | 39,900 | 40,000 | 79,900 |
| 564,250 | Income (a) | 999,600 | 739,900 | 590,000 | 1,329,900 |
| 26,200 | Major building repairs | 15,000 | - | 95,000 | 95,000 |
| - | Refurbishment repayment | 625,000 | - | 625,000 | 625,000 |
| 14,856 | Major equipment/vehicle/ furniture | 50,000 | - | 25,000 | 25,000 |
| 201,889 | Improving information technology | 505,700 | 164,900 | 313,500 | 478,400 |
| 61,744 | ERP | 50,000 | 2,500 | 15,000 | 17,500 |
| 304,689 | Expenditure (b) | 1,245,700 | 167,400 | 1,073,500 | 1,240,900 |
| 259,561 | Net income for the year (c=a-b) | -246,100 | 572,500 | -483,500 | 89,000 |
| 1,482,150 | Accumulated surplus- prior years (d) | 1,287,000 | 1,741,700 | - | 1,741,700 |
| 1,741,711 | Year-end fund balance (f=c+d-e) | 1,040,900 | 2,314,200 | -483,500 | 1,830,700 |

* included the prospective transfer of £300,000 from the Genral Fund as noted in paragraph 16.

21 The Council may wish to note that the Secretariat has established a cost plan concerning the temporary relocation of the Organization's Secretariat and some meetings, which is to be financed from the £1.9 million allocation in the Refurbishment Project budget. All costs relating to the relocation under the two main expenditure headings, namely, office relocation and meetings, will be funded from a quarterly cash advance received from the Host Government.

The Termination Benefit Fund

22 This Fund was established to finance the Organization's liability for termination indemnity and the costs of staff repatriation including travel, grants and personal effects' shipment. Table 8 below displays the status of the Termination Benefit Fund including the forecast expenditure for the year, based on prospective separations.

Table 8
Status of the Termination Benefit Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | |
|----------------------|---|----------------------------|---------------------|-----------------------|-----------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | Total £ |
| - | Transfers from other Funds | 300,000 | 300,000 | - | 300,000 |
| 34,622 | Interest earnings/ miscellaneous income | 22,600 | 15,000 | 30,000 | 45,000 |
| 34,622 | Income (a) | 322,600 | 315,000 | 30,000 | 345,000 |
| 502,909 | Repatriation and termination indemnity | 443,300 | 135,600 | 300,000 | 435,600 |
| 26,911 | Replacement of long-term sick leave | 45,000 | 4,900 | 19,600 | 24,500 |
| 529,820 | Expenditure (b) | 488,300 | 140,500 | 319,600 | 460,100 |
| -495,198 | Net income for the year (c=a-b) | -165,700 | 174,500 | -289,600 | -115,100 |
| 1,030,348 | Accumulated surplus- prior years (d) | 578,300 | 535,200 | - | 535,200 |
| 535,150 | Year-end fund balance (f=c+d-e) | 412,600 | 709,700 | -289,600 | 420,100 |

It should be noted that the year-end balance of the Fund is forecast to drop by 21% to £420,100 from the 2005 outturn of £535,150, which indicates that a significant level of fresh funds is needed to rebuild the base of the Fund in order to meet future repatriation and termination indemnity. In this context, the Secretary-General will reassess the status of the Fund in the last quarter of this year and will make an appropriate recommendation to the Council to rebuild the Fund to the required level of approximately £3.1 million to meet the Organization's liability for repatriation and termination indemnity of staff. The estimated total liability as at 31 December 2005 amounted to approximately £1.9 million for repatriation costs and to approximately £1.2 million for accrued annual leave.

The Training and Development Fund

23 The Training and Development Fund was established to finance the cost of the Organization's change management programme. It is envisaged that the performance management system and the induction programme for translators will be launched organizational-wide as planned during the latter part of 2006. The year-end fund balance is forecast to be £194,200, representing a 62% increase compared with the 2005 balance level, which reflects the approved transfer of £65,000 from the Printing Fund surplus as well as the prospective transfer from the cash surplus of the General Fund as noted in paragraph 16 above.

Table 9
Status of the Training and Development Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | Total £ |
|----------------------|---|----------------------------|---------------------|-----------------------|----------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | |
| 25,000 | Transfers from other Funds | 65,000 | 65,000 | 50,000* | 115,000 |
| 6,083 | Interest earnings/ miscellaneous income | 5,300 | 3,100 | 6,000 | 9,100 |
| 31,083 | Income (a) | 70,300 | 68,100 | 56,000 | 124,100 |
| 40,086 | Human resource management | 30,000 | - | 30,000 | 30,000 |
| 157 | Financial and budgetary management | 25,000 | - | 10,000 | 10,000 |
| - | Induction programme for translators | 11,000 | - | 10,000 | 10,000 |
| 40,243 | Expenditure (b) | 66,000 | - | 50,000 | 50,000 |
| -9,160 | Net income for the year (c=a-b) | 4,300 | 68,100 | 6,000 | 74,100 |
| 129,298 | Accumulated surplus- prior years (d) | 110,700 | 120,100 | - | 120,100 |
| 120,138 | Year-end fund balance (f=c+d-e) | 115,000 | 188,200 | 6,000 | 194,200 |

* included the prospective transfer of £50,000 from the General Fund as noted in paragraph 16.

The Technical Co-operation Fund

24 The Technical Co-operation Fund has become the Organization's major financial resource base to support the Organization's Integrated Technical Co-operation Programme (ITCP). In 2005, the Fund financed almost 50% of the costs of implementing the ITCP. The budget for 2006 is currently set at approximately £3.49 million, nearly the same level as the 2005 outturn, as can be seen in Table 10 below. As the actual delivery of the budget plan is closely associated, in many cases, with the matching donor programmes, the current target delivery is set at 90% of the budget, amounting to £3.16 million. The transfer from the Printing Fund surplus was carried out at £2.4 million as approved by the Assembly in resolution A.969(24). The year-end balance of the Fund is forecast to decline by 24% to £2.01 million from the 2005 outturn level of £2.66 million.

Table 10
Status of the Technical Co-operation Fund for 2006

| 2005 Outturn £ | Statement | 2006 Appropriation £ | Status for 2006 | | |
|----------------------|---|----------------------------|---------------------|-----------------------|------------------|
| | | | Actual (Jan-Apr) | Forecast (May-Dec) | Total £ |
| 1,000,000 | Transfers from other Funds | 2,400,000 | 2,400,000 | - | 2,400,000 |
| 93,925 | Interest earnings/ miscellaneous income | 113,400 | 41,600 | 74,900 | 116,500 |
| 1,093,925 | Income (a) | 2,513,400 | 2,441,600 | 74,900 | 2,516,500 |
| 995,023 | Project personnel | 892,300 | 71,600 | 943,300 | 1,014,900 |
| 478,959 | Official missions | 858,900 | 74,900 | 452,000 | 526,900 |
| 1,255,194 | Group training and fellowship | 1,043,700 | 12,400 | 1,010,400 | 1,022,800 |
| 345,832 | Sub-contracts | 389,200 | - | 350,300 | 350,300 |
| 96,150 | Equipment/publications | 207,700 | 18,500 | 130,000 | 148,500 |
| 308,713 | Sundry | 101,300 | 43,400 | 54,300 | 97,700 |
| 3,479,871 | Expenditure (b) | 3,493,100 * | 220,800 | 2,940,300 | 3,161,100 |
| -2,385,946 | Net income for the year (c=a-b) | -979,700 | 2,220,800 | -2,865,400 | -644,600 |
| 5,043,024 | Accumulated surplus- prior years (d) | 3,090,600 | 2,657,100 | - | 2,657,100 |
| 2,657,078 | Year-end fund balance (f=c+d-e) | 2,110,900 | 4,877,900 | -2,865,400 | 2,012,500 |

*Approved allocations for ITCP for the 2006-2007 biennium is a total of £5,161,400 and the budget for 2006 is based on the Programme Implementation Documents (PIDs) formulated in 2006.

Summary

25 Taking the above analysis into account, the Secretary-General has concluded that the regular budget will need a certain level of supplementary provision for both 2006 and 2007 to make up for the shortfall arising from the increase in staff costs associated with cost-of-living adjustments, which were foreshadowed but not reflected in the approved budget for the 2006-2007 biennium. He also concludes that, in the absence of any other unforeseen expenditure, the budgets under various Funds of the Organization for 2006 remain attainable. The Secretary-General and his senior management team will continue exploring the scope for savings to offset any cost increases, through prioritizing the expenditure programme whilst securing the Organization's deliverables and the work programme.

Action requested of the Council

26 The Council is invited to:

- .1 note the Secretary-General's updated review and provisional conclusion in respect of changes in the external pay and price factors (paragraphs 2 and 3; Table 1 and Chart 1);
- .2 note the actual impact on staff costs of the revised cost-of-living adjustment multiplier applied from April 2006, as set by the ICSC (paragraph 4);
- .3 note the forecast outturn level of the regular budget expenditure for 2006 (paragraph 6 and Tables 2 and 3); the Secretary-General's preliminary review of the prospective level of supplementary provisions for 2006 (paragraph 12); and his plan to place the supplementary budget proposal at the Council's November session, based on a further assessment of the Organization's financial situation (paragraph 13);

- .4 endorse the proposed transfers between Major Programmes (paragraph 14 and Table 4) and authorize, in accordance with the Organization's Financial Regulations (regulations 3.6 and 4.4), the Secretary-General to make necessary transfers between Major Programmes to the extent that balances are available to cover or reduce deficits in programme appropriation balances;
- .5 note the forecast level of the year-end cash surplus of the General Fund (paragraph 15 and Table 5) and the dependency of this forecast on a continued 97 per cent level of contribution receipts and, accordingly, urge Member States to remit their financial contributions promptly in accordance with the Organization's Financial Regulations and Rules;
- .6 note the Secretary-General's intention to carry out the transfers partly unrealized in 2004 and 2005 from the cash surplus of the General Fund to the Headquarters Capital Fund and the Training and Development Fund, but only to the extent that will not affect the level of cash necessary to meet the supplementary estimates for 2007, which reflect the Professional staff costs increase; and
- .7 note the status of the Organization's various Funds and projected year-end balances and reserves (paragraphs 17 to 24 and Tables 6 to 10).

ANNEX

EXECUTIVE SUMMARY: FUNDS OVERVIEW FOR 2006

| | 2006 budgets | Fund balance and reserves |
|--------------------------------------|---|---|
| General Fund (Regular budget) | <ul style="list-style-type: none"> • Pay and prices levels run parallel with budgetary assumptions • The ICSC's cost-of living adjustment for Professional staff generates shortfalls in the approved staff costs • The diplomatic conference is postponed to 2007 to be held in Kenya • Relocation of the Secretariat may incur incidental costs that might not be covered by the Refurbishment budget | <ul style="list-style-type: none"> • Contribution receipts are estimated at 97% of the assessment, resulting in £672,600 arrears for 2006 • The improved cash surplus as at 31.12.2005 enabled the Secretary-General to carry out overdue transfers to other Funds, as approved A.942(23) • Forecast year-end cumulative arrears stands at £2m and cash surpluses at £1m |
| Printing Fund | <ul style="list-style-type: none"> • Publication sales is anticipated to achieve the target of £6m for 2006 • Professional salary increases due to the cost-of-living adjustment can be absorbed within the approved budget • Overall budgetary savings are expected to be approximately £230,000 and net income is expected at £2.82m | <ul style="list-style-type: none"> • Transfers to TC Fund of £2.4m; HQ Capital Fund of £0.7m; Termination Benefit Fund of £0.3m and Training and Development Fund of £65,000 were made on 1.1.2006 • Transfers to the General Fund (regular budget income) of £175,000 will be made in the second half of the year • Forecast cumulative year-end balances after all approved transfers are expected at £4.28m |
| Headquarters Capital Fund | <ul style="list-style-type: none"> • The 2006 main expenditure component is the Organization's liability of £625,000 for 2006 concerning the Refurbishment of the Headquarters premises • Due to some unexpected costs in respect of relocation, overall expenditure is barely within the budget level | <ul style="list-style-type: none"> • Forecast end-year balance at 31.12.2006 of some £1.83m • An overdue transfer of £300,000 is expected from the improved cash surplus in the General Fund The Organization's future liability concerning the Refurbishment amounts to £1,875,000 |
| Termination Benefit Fund | <ul style="list-style-type: none"> • Separation costs is estimated at some £440,000 • Personnel costs replacing staff on long-term sick leave are estimated at £25,000 | <ul style="list-style-type: none"> • Replenishment of fund at £0.3m in 2006 • Cumulative year-end balance forecast to be £0.42m • On-going replenishment is required to reflect the future £3.1m liability as seen at 31.12.2005 |
| Training and Development Fund | <ul style="list-style-type: none"> • Programmes are to be implemented within the approved budget | <ul style="list-style-type: none"> • An overdue transfer of £50,000 is expected from the improved cash surplus in the General Fund • Cumulative Fund status forecast at some £194,200 at 31.12.2006 |
| Technical Co-operation Fund | <ul style="list-style-type: none"> • Forecast expenditure level of £3.16m, declined by 9% of the 2005 outturn • Delivery levels will vary depending on the availability of matching donor/trust funds to be secured | <ul style="list-style-type: none"> • Transfers of £2.4m were made from the Printing Fund surplus • Cumulative year-end balance forecast to be at £2.01m • Continued replenishment is required to sustain the ITCP activities |

THE FORECAST STATUS OF THE ORGANIZATION'S FUNDS FOR 2006

| | General Fund (GF) | | Printing Fund (PF) | | Headquarters Capital Fund | | Termination Benefit Fund | | Training and Development Fund | | Technical Co-operation Fund | |
|--|-------------------|-------------------|--------------------|------------------|---------------------------|------------------|--------------------------|-----------------|-------------------------------|----------------|-----------------------------|------------------|
| | A 969(24) | Forecast | A 969(24) | Forecast | A 969(24) | Forecast | A 969(24) | Forecast | A 969(24) | Forecast | TC 55/3/3 * | Forecast |
| Assessed contributions | 22,419,100 | 21,746,500 | - | - | - | - | - | - | - | - | - | - |
| Capital flow from regular budget | - | - | - | - | 250,000 | 250,000 | - | - | - | - | - | - |
| Transfers from the GF cash reserves | - | - | - | - | - | 300,000 | - | - | - | 50,000 | - | - |
| Transfers from the PF reserves | 175,000 | 175,000 | - | - | 700,000 | 700,000 | 300,000 | 300,000 | 65,000 | 65,000 | 2,400,000 | 2,400,000 |
| Reimbursements from the Printing Fund | 1,016,800 | 1,016,800 | - | - | - | - | - | - | - | - | - | - |
| Donor programme support costs income | 300,000 | 299,000 | - | - | - | - | - | - | - | - | - | - |
| Publication sales | - | - | 6,000,000 | 6,089,300 | - | - | - | - | - | - | - | - |
| Interest earnings and other miscellaneous income | 387,400 | 471,200 | 320,700 | 404,600 | 49,600 | 79,900 | 22,600 | 45,000 | 5,300 | 9,100 | 113,400 | 116,500 |
| Total income and transfer (a) | 24,298,300 | 23,708,500 | 6,320,700 | 6,493,900 | 999,600 | 1,329,900 | 322,600 | 345,000 | 70,300 | 124,100 | 2,513,400 | 2,516,500 |
| Personnel costs including experts and consultants | 17,734,000 | 18,248,700 | 1,006,500 | 859,500 | - | - | 488,300 | 460,100 | - | - | 892,300 | 1,014,900 |
| IMO Meetings | 1,254,500 | 1,186,000 | - | - | - | - | - | - | - | - | - | - |
| Official missions/ sales promotions | 315,100 | 309,500 | 135,000 | 132,800 | - | - | - | - | - | - | 858,900 | 526,900 |
| Office automation/ IT | 223,600 | 229,000 | 18,500 | 15,700 | 555,700 | 495,900 | - | - | - | - | - | - |
| Equipment, vehicles, furniture | 175,600 | 158,800 | 31,000 | 21,700 | 50,000 | 25,000 | - | - | - | - | 207,700 | 148,500 |
| IMO Headquarters premises | 2,825,100 | 2,652,700 | - | - | 640,000 | 720,000 | - | - | - | - | - | - |
| Communications and freight | 279,100 | 246,400 | 255,000 | 255,000 | - | - | - | - | - | - | - | - |
| Group training, fellowships and staff training | 39,900 | 36,600 | - | - | - | - | - | - | 66,000 | 50,000 | 1,043,700 | 1,022,800 |
| Catering | 442,900 | 442,900 | - | - | - | - | - | - | - | - | - | - |
| Contract-out/ ITCP sub-contracts | - | - | 853,500 | 817,600 | - | - | - | - | - | - | 389,200 | 350,300 |
| Budgetary transfers/income sharing/reimbursement | 250,000 | 250,000 | 1,201,800 | 1,200,200 | - | - | - | - | - | - | - | - |
| Other operational and miscellaneous costs | 758,500 | 803,300 | 403,500 | 392,300 | - | - | - | - | - | - | 101,300 | 97,700 |
| Total expenditure (b) | 24,298,300 | 24,563,900 | 3,904,800 | 3,673,100 | 1,245,700 | 1,240,900 | 488,300 | 460,100 | 66,000 | 50,000 | 3,493,100 | 3,161,100 |
| Excess/deficit of income over expenditure (c=a-b) | - | -855,400 | 2,415,900 | 2,820,800 | -246,100 | 89,000 | -165,700 | -115,100 | 4,300 | 74,100 | -979,700 | -644,600 |
| Accumulated reserves from prior years(d) | 2,250,000 | 3,544,500 | 4,675,100 | 5,097,000 | 1,287,000 | 1,741,700 | 578,300 | 535,200 | 110,700 | 120,100 | 3,090,600 | 2,657,100 |
| Less: Transfers to regular budget/ other Funds (e) | - | 350,000 | 3,640,000 | 3,640,000 | - | - | - | - | - | - | - | - |
| Outstanding contribution for the year (f) | - | 672,600 | - | - | - | - | - | - | - | - | - | - |
| Year-end accumulated fund balance (g=c+d-e+f) | 2,250,000 | 3,011,700 | 3,451,000 | 4,277,800 | 1,040,900 | 1,830,700 | 412,600 | 420,100 | 115,000 | 194,200 | 2,110,900 | 2,012,500 |
| Less: Arrears from previous years (h) | 1,144,600 | 1,332,000 | - | - | - | - | - | - | - | - | - | - |
| Less: Arrears from the current year (i) | - | 672,600 | - | - | - | - | - | - | - | - | - | - |
| Cash available at year-end (j=g-h-i) | 1,105,400 | 1,007,100 | 3,451,000 | 4,277,800 | 1,040,900 | 1,830,700 | 412,600 | 420,100 | 115,000 | 194,200 | 2,110,900 | 2,012,500 |

* Based on TCC document TC 55/3/3 and allocated funds for 2006 in individual programme implementation documents(PIDs) for the 2006-2007 biennium