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RESOURCE MANAGEMENT

(e) Budget considerations for 2006

Note by the Secretary-General

SUMMARY

Executive summary: This document provides the Secretary-General's overview of the Organization's budget prospects for 2006

Action to be taken: Paragraph 20

Related documents: A 24/20(d); A 24/20(d)/Add.1; C/ES.23/5; and resolution A.969(24)

Introduction

1 At its twenty-fourth regular session, the Assembly, by resolution A.969(24), adopted the work programme and budget for the twenty-fourth financial period 2006-2007. The Assembly also authorized the Council to review, at its ninety-sixth session, the 2007 budget provisions and, if it decides it is necessary, to approve any appropriate recalculation of the 2007 appropriations and assessment figures in the light of the budgetary and exchange rate situation at that time.

2 The Council will recall that the 2006-2007 regular budget appropriation of £49,730,300 represented an increase of 7.7% over the previous biennium 2004-2005. In annual terms, the programme budget for 2006 provided for an increase of 2.6% over the 2005 appropriation with the level of appropriation for 2007 set at 4.7% above the 2006 level. Table 1 summarizes the approved programme budget for the 2006-2007 biennium under the Organization's Funds, except the Technical Co-operation Fund. Table 2 shows the year-on-year changes in the regular budget appropriation and assessment levels after incorporating estimated miscellaneous income and approved transfers.

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Table 1
Approved budgets for 2006-2007 compared with 2004-2005

	2004-2005	2006-2007	Changes	
			£	%
Regular budget	46,194,900	49,730,300	3,535,400	7.7%
Printing Fund	9,172,200	7,916,600	- 1,255,600	-13.7%
Headquarters Capital Fund	3,403,000	2,508,100	- 894,900	-26.3%
Termination Benefit Fund	444,100	630,400	186,300	42.0%
Training and Development Fund	376,000	132,000	- 244,000	-64.9%
Total	59,590,200	60,917,400	1,327,200	2.2%

Table 2
Regular budget appropriation and assessment: year-on-year changes

	2005		2006		2007	
	£	Annual change (%)	£	Annual change (%)	£	Annual change (%)
Appropriations*(a)	23,684,500	5.2%	24,298,300	2.6%	25,432,000	4.7%
Income/transfers/reimbursements(b)	2,320,900	2.7%	1,879,200	-19.0%	1,863,800	-0.8%
Assessments(c=a-b)	21,363,600	5.5%	22,419,100	4.9%	23,568,200	5.1%

* Taking into account staff turnover of £200,000 per annum

3 The focus of this document is the Secretary-General's review of the budgetary assumptions used in the calculation of the biennium budget for 2006-2007 against the latest increases on pay and price levels in the United Kingdom economy. The budget prospects for the year 2006 will be reported in document C 96/3(e)/1 when the actual outturn of the first quarter of 2006 is available.

Review of budgetary assumptions

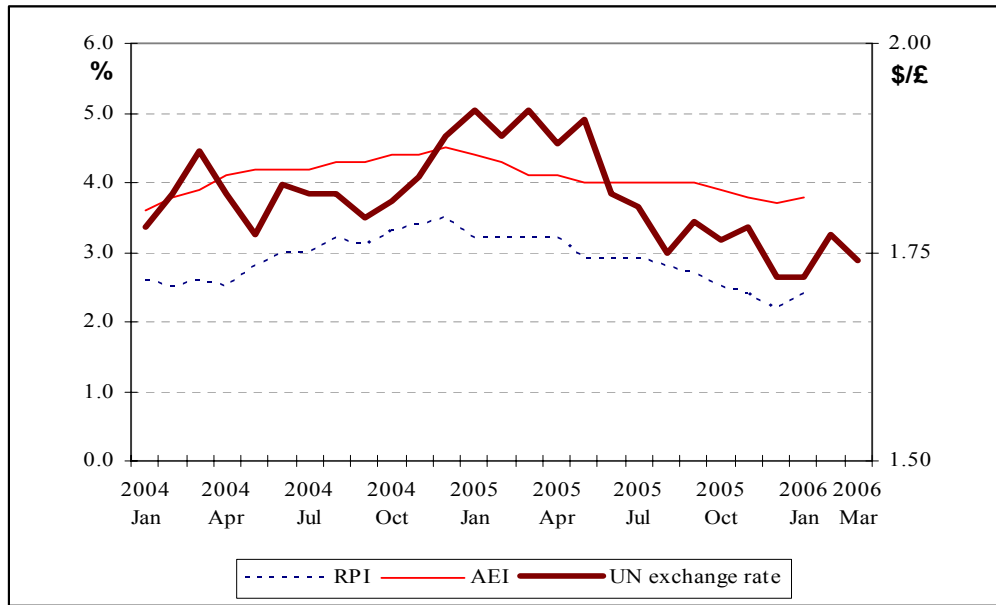
4 The assumptions made for the calculation of the Organization's budget estimates for 2006 and 2007 are:

- the United Kingdom's Retail Price Index (RPI) increases: 2.0%
- the United Kingdom's Average Earnings Index (AEI) increases: 4.2%
- the USD/GBP exchange rate: 1.75

5 As Chart 1 below shows, as at January 2006, the published "All items" annual RPI stood at 2.4% and the annual AEI for the whole economy in the United Kingdom stood provisionally at 3.8% as reported by the United Kingdom authorities¹. Authoritative independent forecasts of the United Kingdom economy project that the current annual levels of retail price inflation and wage settlements in the United Kingdom economy will remain steady during 2006. The average United Nations (UN) US dollar operational exchange rate for the first quarter of 2006 stood at \$1.744 against the pound sterling.

¹ United Kingdom Office for National Statistics.

Chart 1
Movements of the budgetary assumption indicators



6 The current indicators are therefore running parallel, in terms of the overall effects, with the budgetary assumptions. Accordingly, the Secretary-General has concluded that the price and earnings assumptions reflected in the 2006 appropriation are prudent and will not have an adverse effect on the approved appropriation if the indicators do not deviate from the current levels. The Secretary-General will continue to keep the matter under review and advise the Council as necessary. The Organization’s annual outturn expenditure is, however, also affected by changes in personnel costs and the prospective changes in the UN common system in respect of salaries and allowances for Professional staff which will have an effect on 2006-2007 budgets. This is discussed in more detail below.

Personnel costs: Professional staff

7 The Council is aware that the major part (approximately 75%²) of the Organization’s expenditure relates to personnel costs and that the factors affecting changes in these costs are either inflation-led or arise from the recommendations of the International Civil Service Commission (ICSC) approved, as necessary, by the General Assembly of the United Nations for application throughout the UN common system.

8 The basic emoluments of Professional staff include the **net base salary and post adjustment**: the base salary is established in US dollars on a global scale for application to all Professional staff in the UN common system regardless of place of duty station; and the post adjustment is variable according to the duty station, which is designed to maintain equality of purchasing power of a given salary at all duty stations by offsetting differences in the cost of living and taking account of changes in the rate of exchange between the US dollar and local currencies. A place-to-place cost-of-living survey is carried out by the ICSC every five years at all duty stations. Between surveys, interim increases in the post adjustment at Headquarters’ duty stations can take place either after a full 5% movement in the local Retail Price Index or after the completion of a 12-month period, whichever occurs first.

² This is based on the outturn of the regular budget for 2005. It does not include interpreters and temporary translators provided for the service of IMO meetings.

9 As reported in document C/ES.23/5, the Commission's place-to-place survey of London on post adjustment allowances for Professional staff was conducted during the latter part of 2005. Uncertainty at the outcome of the survey was noted in paragraph 21 of document C/ES.23/5 concerning the Secretary-General's work programme and budget for the twenty-fourth financial period 2006-2007. Thus, the expenditure plans for 2006, as well as for 2007 concerning staff costs, reflected only the interim cost-of-living adjustment in accordance with the UN common system methodology of calculation and did not take account of any prospective adjustment to be based on the outcome of the then prevailing survey.

10 Following the Commission's place-to-place survey and the updated expenditure factors relating to costs of living in London, the United Nations Advisory Committee on Post Adjustment Questions (ACPAQ) recommended, at its 28th session in February 2006, a Post Adjustment Index (PAI) of 165.71 for September 2005, representing an increase in salaries of approximately 8.8% for the London-based Professional staff. The ICSC has considered the ACPAQ's recommendation and the new PAI will be effective from 1 April 2006, which will impact on the approved appropriations for 2006 and 2007. There is no retrospective action.

11 Table 3 below shows the historical data on the result of the cost-of-living surveys at the London duty station over the three survey cycles from 1995 to 2005. In accordance with the interim adjustment rule, as mentioned in paragraph 8 above, an average increase in take-home pay of 0.82% in April 2005 was awarded by the ICSC to the London-based Professional staff.

Table 3
Cost-of-living survey results: London

<u>Survey month</u>	<u>Prevailing PAI</u>	<u>Survey PAI</u>	<u>% changes</u>
November 1995	146.36	156.28	6.8%
October 2000	127.60	136.43	6.9%
September 2005	152.30	165.71	8.8%

12 As noted in paragraph 9 above, the Organization appropriation for 2006 did not include a contingency provision for cost-of-living adjustments to professional salaries beyond the forecast movement of general price increases in the UK economy of approximately 1%. The financial consequences of the PAI adjustment is estimated to add £497,000 to the Organization's pay-bill for the 9-month period from 1 April to 31 December 2006 and £718,000 for 2007. In comparison, since the October 2000 survey, the increases in the RPI and AEI in the United Kingdom economy are 12.5% and 20.5%, respectively, the average of which, representing a 16.5% increase, is in excess of the 8.8% approved by the ICSC.

13 The Council will recall that the Secretary-General intimated in document C/ES.23/5 that, if such an adjustment could not be absorbed from the 2006 appropriation (bearing in mind the likelihood of unforeseen expenditure arising in 2006-2007 due to the temporary relocation of the Secretariat and the Headquarters refurbishment programme), he would seek the necessary supplementary estimate to be financed from reserves. In this context, the Secretary-General will, of course, seek to exert, together with his senior colleagues, the maximum economy in operations in order to generate savings to make up for this additional funding requirement to the extent possible. He will provide, in document C 96/3(e)/1, an initial projection of the year-end budget status based on the first three months outturn, as noted in paragraph 3 above.

14 However, it should be noted that, with the existing, substantial pressures on the appropriation for 2006-2007, it will be extremely difficult to generate savings to a level equivalent to 2.05% (£497,000) and 2.82% (£718,000) within the 2006 and 2007 appropriations, respectively, whilst maintaining the full range and quality of services expected by the Membership. The Secretary-General proposes, therefore, that the Council revisit this issue at its November session in which he will provide, based on the nine-month outturn (which will also reflect unforeseen costs incurred as a result of relocation during the Headquarters refurbishment) a revised projection of the year-end budget position and propose, if unavoidable, a supplementary budget for the cost-of-living adjustment in accordance with the Organization's Financial Regulations³. The financing of the supplementary budget, if proposed, will be sought from the Organization's accumulated reserves in the General Fund so that no change will be made in the current assessment level for Member States in respect of the 2006-2007 biennium. At the time of preparing this report, an early indication of available reserves, based on the Organization's provisional final accounts for 2005 which are being audited by the External Auditors, suggests an accumulated cash surplus amounting to approximately £2 million as at 31 December 2005.

Personnel costs: General Service staff

15 A comparative survey by the ICSC of the remuneration levels of General Service staff in London is scheduled to take place in the latter part of 2006. In accordance with the UN common system methodology of calculation for an interim salary increase, the interim increase based on the cost-of-living changes over the previous 12 months would normally be payable in October 2006 and has been assumed in the approved budget for the biennium 2006-2007. However, as it is not the ICSC standard practice to award interim salary increases within six months of a salary survey, the timing of the ICSC survey this year means that any cost-of-living adjustment for 2006 will be deferred to 2007 and the costs of any retrospection would need to be met within the appropriation for 2007.

Insurance of staff members

16 The Council will recall that, at its ninety-third and ninety-fourth regular sessions (C 93/9(a)/Add.1 and C 94/3(a)), the Secretary-General advised that the Organization was carrying the liability for providing an adequate insurance cover up to the limits of indemnity for nuclear, biological and chemical terrorism (NBC) acts provided under the prevailing Staff Compensation Policy set out in Appendix D of the Organization's Staff Regulations and Staff Rules as cover was unavailable commercially. Negotiations have continued through an insurance broker who has identified NBC cover⁴ with a premium of US dollars \$60,000 for the period 1 April to 31 December 2006. In consultation with the Council Chairman, the Secretary-General has decided to take out the NBC insurance cover for the remainder of 2006. As the cost for the NBC cover was not accounted for in the 2006-2007 budget, the Secretary-General will again try his best to absorb this additional cost within the annual approved appropriation for 2006. Prior to the renewal of the NBC insurance cover for 2007, the Secretary-General will explore the scope for reducing the insurance premium through further competitive tendering.

³ REGULATION 3.8: Supplementary programme budget proposals may be submitted by the Secretary-General whenever necessary. The Secretary-General shall prepare supplementary programme budget proposals in a form consistent with the approved programme budget and shall submit such proposals to the Council for approval.

⁴ The proposed NBC insurance policy sets out the aggregate limit of liability for any one event within the period of insurance of \$35m with a maximum benefit to any one insured staff member of \$300,000. In the event of injury or death, the Secretariat will compensate a staff member or an immediate family member up to the financial limits set out in Appendix D, and claim back the relevant costs from the underwriter.

International meetings

17 The approved appropriations for the meetings programme for 2006 was based on 21.6 meeting-weeks, which are summarized in Table 4 below. The meetings' budget mainly comprises the costs of interpreters and temporary translators, which are variable depending on the negotiation at the UN inter-agency level with the International Association of Conference Interpreters (AIIC) and the Association internationale des traducteurs de conférence (AITC). The negotiations with AIIC regarding the increase in the rate of pay for interpreters under the Agreement concerning conditions of employment of short-term conference interpreters are still on-going. However, the increase in the rate of pay applicable for 2006 is expected to be in line with cost-of-living increases, which can be absorbed within the approved meeting budget.

Table 4
List of meetings approved for 2006

	2006
ASSEMBLY	0.0
COUNCIL	2.0
MSC, MEPC	5.0
TC Committee	0.6
Sub-committees	9.0
Legal Committee	2.0
Facilitation Committee	1.0
London Convention	1.0
Diplomatic Conferences	1.0
Total	21.6

18 The Council will recall that the meetings' budget has been framed on the basis that all those meetings listed are to be held at IMO Headquarters. As a result of the Headquarters refurbishment programme, five meetings (DSC; MEPC; LEG; LC; Council; and MSC), amounting to 6 meeting-weeks, are planned to be held outside of the IMO Headquarters Building. Additional costs arising from the relocation of the meetings, over and above the provision in the regular budget, will be financed either from the Refurbishment Project budget or by the Governments hosting the meetings. The Council will be aware that the timing of the Diplomatic Conference on Wreck Removal in 2006 depends upon the progress made in the Legal Committee sessions to be held this year.

Summary

19 The delivery of the appropriation for 2006 will be very challenging given the increased volume of work for the Organization and the inevitable pressures from the temporary relocation of the Secretariat and the scheduled IMO meetings during the refurbishment of the Headquarters Building in the year commencing in August 2006. Thus, the Secretary-General is taking steps to explore the scope for offsetting savings from other controllable cost elements in order to deliver the approved work programmes within the appropriation set by the Assembly. The forecast of annual outturn expenditure for 2006 against the revised Programme allocations and planned transfers between Programmes, including the year-end status of all Administrative Funds of the Organization, will be presented to the Council in document C 96/3(e)/1.

Action requested of the Council

20 The Council is invited to:

- .1 note the information contained in this document and the provisional conclusion of the Secretary-General's review of impacts by the external pay and price factors (paragraph 6);
- .2 note the financial implication of the result of the ICSC survey on the cost of living at the London duty station (paragraph 12);
- .3 welcome the Secretary-General's commitment to seek to exert the maximum economy in operation in order to generate savings to absorb the additional costs, to the extent possible, driven by the ICSC's cost-of-living adjustment for Professional staff (paragraph 13);
- .4 note the Secretary-General's intention to provide the Council, at its November session, with the updated forecast of the year-end budget status in the likelihood of the submission of the supplementary budget which is to be financed from the accumulated cash surplus of the General Fund (paragraph 14);
- .5 note the financial provision required from the insurance cover for nuclear, biological and chemical terrorism (NBC) acts provided under the prevailing Staff Compensation Policy set out in Appendix D of the Organization's Staff Regulations and Staff Rules (paragraph 16); and
- .6 note that additional costs arising from the relocation of the meetings, over and above the provision in the regular budget, will be financed either from the Refurbishment Project budget or by the Governments hosting the meetings (paragraph 18).
