



**Executive Board of the
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UNOPS: financial, budgetary and administrative matters

**Revised budget estimates for the biennium 2000-2001,
budget estimates for the biennium 2002-2003, and report on
the level of the operational reserve**

**Report of the Advisory Committee on Administrative and
Budgetary Questions**

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the report of the Executive Director of the United Nations Office for Project Services (UNOPS) on the revised budget estimates for the biennium 2000-2001, the estimates for the biennium 2002-2003 and the level of the operational reserve (DP/2001/28). The Committee also had before it, as background documentation, the UNOPS interim financial statements for the year ended 31 December 2000. During its consideration of these items, the Committee met with the Executive Director of UNOPS and his colleagues, who provided additional information.
2. The Advisory Committee notes that the revised estimates of income and expenditure for 2000-2001 and the corresponding projections for 2002-2003 have been greatly affected by the changes experienced in 2000-2001. Most important among these changes was the shortfall of project income in 2000, due to the 20 per cent reduction in delivery on the project portfolio. This resulted from the cancellation or delay of approved project budgets, mostly from the United Nations Development Programme (UNDP). The Committee exchanged views with the Executive Director on this matter (see also document DP/2001/19, paragraphs 19-22).
3. The Advisory Committee is of the opinion that this experience should be carefully analysed with a view to refining current procedures and methods by which UNOPS fixed assets can be adjusted to take account of fluctuations such as those referred to in paragraph 2 above, more quickly than is possible at the moment. To this end, the nature and profile of UNOPS contracts for personal services should be re-examined. UNOPS should also increase its efforts to examine the structure of its business portfolio with a view to refining the criteria taken into account to evaluate the commitment of clients and UNOPS own capacity to deliver. In addition to this, the Committee is of the opinion that the termination or postponement of project budgets should be managed through consultation of all parties concerned and in such a way as to minimize the financial consequences and their impact on UNOPS.
4. Paragraph 33 of the report (DP/2001/28) indicates that the Executive Director is "concerned that UNOPS might face an experience similar to that of 1994, when prolonged deliberations regarding its future status had a negative impact on its operations, thus resulting in lower levels of acquisition and delivery". This is borne



out by the most recent data made available to the Committee. The Committee shares the concern of the Executive Director, given that UNOPS is a unique and vital institution that applies business management models to programme delivery. The Committee notes that the Office of Internal Oversight Services has been requested by the Secretary-General to conduct a review of UNOPS but that the report will not be available in time for the consideration by the Executive Board of document DP/2001/28. The Committee is of the view that it is incumbent on the Secretary-General to inform Member States expeditiously of the results of the review. Furthermore, the Committee also recalls the Executive Board request, contained in paragraph 4 of decision 2000/22 of 28 September 2000, for the Administrator of UNDP and the Executive Director of UNOPS to submit at its annual session 2001 a detailed report on progress achieved on all recommendations of the evaluation report of February 2000 (the "Vinde evaluation report").

Revised administrative budget for the biennium 2000-2001

5. The revised estimates for the biennium 2000-2001 are based on actual delivery, income and expenditure for 2000 and on projections for 2001. Total project delivery for the biennium 2000-2001 is estimated at \$1,087.1 million (\$471.1 million of actual project delivery in 2000 and \$616.0 million projected for 2001). The revised income projection for 2000-2001 amounts to \$105.3 million (\$48.5 million of actual income in 2000 and \$56.8 million of projected income for 2001), comprising \$84.2 million from project implementation, \$14.5 million from services and \$6.6 million from other sources (see document DP/2001/28, paras. 8-13 and table 1). This compares to the revised estimates for total project delivery of \$1,180 million for the biennium (\$590.0 million per year) and income projected at \$103.2 million (\$51.6 million per year) indicated in DP/2000/37.

6. The Advisory Committee recommends that future submissions include, in table 1, an additional column indicating the initial targeted figures, which, for example, in the case of project delivery, would facilitate comparison with the actual and projected figures presented therein.

7. The revised budget for UNOPS administrative expenditures for the biennium 2000-2001 amounts to

\$110.6 million (\$55.3 million of actual expenditure in 2000 and \$55.3 million projected for 2001). As indicated in paragraph 14 of document DP/2001/28, the revised estimates represent an increase of \$4.3 million, or 4 per cent, over the existing approved budget of \$106.3 million for 2000-2001. The changes, by object of expenditure, are shown in table 2 of the document.

8. The revised budget for the biennium 2000-2001 for administrative expenditures also reflects the distinction between recurring and non-recurring administrative expenditures. Table 1 indicates a provision of \$107.6 million under recurring and \$3.0 million under non-recurring administrative expenditures. The Advisory Committee notes that the 2000 budget provided for \$3.1 million under non-recurring expenditures, against which expenditures of \$3.0 million have been recorded. As indicated in paragraph 14 of the report, no other provision was included nor is further revision envisaged in this regard.

9. The Advisory Committee further notes from paragraphs 15-17 and table 3 that the Executive Director proposes to establish 45 additional posts at the P-5 level and below, offset by 32 posts to be abolished, increasing the number of established posts from 419 to 432 for the biennium 2000-2001. The Committee recommends acceptance of this proposal.

10. The Advisory Committee was informed that in view of the changes mentioned in paragraph 2 above, several measures had been introduced during the current biennium with the aim of balancing the budget. They included deferral of investments, particularly those relating to equipment, a staffing review and redeployment of staff, and a freeze on new recruitment and reclassifications. In addition, the establishment of offices or implementation units away from headquarters are to be undertaken only when identifiable savings would be generated. Moreover, instead of issuing budgets to individual units, as an incentive-based approach, resources would be released from a pool only as additional income is generated. The Committee commends UNOPS for the initiatives taken.

Administrative budget for the biennium 2002-2003

11. Table 1 of the budget report shows that, for the biennium 2002-2003, total project delivery is projected at \$1,264.0 million (\$632.0 million per year). This constitutes, as indicated in paragraph 34 of the report, an increase of \$176.9 million, or 16.6 per cent, over the revised 2000-2001 delivery projections. The revised income projection for the biennium 2002-2003 amounts to \$116.2 million (\$58.1 million per year) and comprises 97.3 million from project implementation, \$16.0 million from services and \$2.8 million from other sources.

12. The Advisory Committee was further informed that of the project portfolio, United Nations agencies held the largest share (47 per cent), followed by Management Service Agreements (20 per cent), UNDP General Resources (20 per cent) and UNDP Trust Funds (13 per cent).

13. However, as a result of the reorganization launched at the end of 2000, focusing on a reorientation of UNOPS around client accounts, the Executive Director of UNOPS indicates, in paragraph 32 of the report, that changes in structure, location, technology and work processes are most likely to occur and that the related details of these changes are still being refined, including an assessment of the financial impact. In view of this, it is pointed out that, when this work is completed, UNOPS "will bring details of the new arrangements to the attention of the Executive Board, and submit, if appropriate, a supplementary budget, including the potential use of the operational reserve in connection with personnel-related liabilities resulting from the organizational changes".

14. The Advisory Committee was informed that the reorganization would be implemented gradually, starting early 2002. The Committee was further informed that this review would not cover UNDP personnel working on assignment to UNOPS. The Committee urges the Executive Director of UNOPS and the Administrator of UNDP to review expeditiously the question of the future status of the UNDP personnel working with UNOPS and the respective liabilities of UNDP and UNOPS. The Executive Board should be kept informed of the results of this review, which would be carried out in the framework of the Memorandum of Understanding of April 1997.

15. Administrative expenditures for the biennium 2002-2003 are projected at \$113 million (\$56.5 million for each year). The \$5.4 million increase over the revised expenditures for 2000-2001 relates to the projected increase in staff costs to cover salaries and normal increments, as indicated in paragraph 35 of the report.

16. The \$3.2 million projected excess income over projected expenditures relating to the administrative budget will be applied to the replenishment of the operational reserve. A transfer of \$1.6 million for each year of the biennium to UNOPS operational reserve is forecast for 2002-2003, thus raising the level of the available operational reserve from \$12 million at the end of 2001 to \$15.2 million at the end of 2003 (see also paras. 18 and 20 below).

17. The Advisory Committee requests the Executive Director to present, in the context of the next estimates, his views on the feasibility and advantages, or otherwise, of presenting future estimates on a biennial basis.

Review of the level of the operational reserve

18. In accordance with Executive Board decision 99/16, the report of the Executive Director includes a review of the level of the UNOPS operational reserve. As indicated in paragraph 38, the operational reserve was established in order to cover shortfalls in income and uneven cash flows, professional or contractual liabilities associated with UNOPS services and liabilities associated with UNOPS personnel contracts funded from the UNOPS account. The current funding level is targeted at 4 per cent of the combined expenditure on administrative and project budgets of the previous year. The movements on the operational reserve from the 1998-1999 biennium, including projections for 2002-2003, are included in table 1 and summarized in paragraph 40 of the report.

19. The Advisory Committee notes that, following the recent review of the UNOPS financial situation by an external financial consulting firm (KPMG), two issues meriting attention were identified (para. 41 of DP/2001/28). The first issue refers to the appropriate level of funding for after-service medical and dental benefits for retired staff members, which was not considered in the original definition or calculation of

the reserve. In this regard, the Committee notes with satisfaction that UNOPS is currently working with the United Nations Secretariat and UNDP to establish the level of these obligations. The Committee also notes that pending the conclusion and determination of the impact on the level of funding required for the operational reserve, the Executive Director is proposing to fund this type of obligation pertaining to UNOPS staff, both against the UNOPS Account and project accounts; this will be done from the existing reserve, requiring a modification to UNOPS Financial Regulation 8.3 (a) (iv), as indicated in paragraph 42 of the report. The Committee recommends acceptance of this proposal.

20. The second issue relates to the fluctuations in the level of the operational reserve resulting from the current single-year basis of the calculation formula. The Advisory Committee notes that, following a review of this matter, the resulting proposal is to replace the existing formula and funding requirements with a calculation of the reserve level based on a three-year moving average of expenditure on administrative and project budgets instead. As indicated in paragraph 44 of the report, the new proposal would therefore take the 4 per cent average of the project delivery and administrative expenditures for 1998, 1999 and 2000, or \$567.7 million, and at a rate of 4 per cent, would set the new operational reserve requirements at \$23.1 million instead of \$21.1 million under the current calculation. The Committee notes, as indicated therein, that while the difference is not large, the new proposal would produce a more stable and less variable reserve level that effectively achieves the buffering effect of the reserve while not requiring modifications to the current Financial Regulation 8.3. The Committee concurs with this proposal.

21. Taking into account the comments and observations made above, the Advisory Committee recommends that the Executive Board approve the actions set out in paragraph 46 of the report of the Executive Director (DP/2001/28).