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UNITED NATIONS OFFICE FOR PROJECT SERVICES

Revised budget estimates for the biennium 1997-1998

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 1998-1999 (DP/1998/35). In addition, as a background document, the Advisory Committee had before it the interim financial statements for the biennium ended 31 December 1997. During its consideration of the report, the Advisory Committee met with the Executive Director and his colleagues, who provided additional information.

2. The Advisory Committee notes from paragraph 6 of the report that the revised budget estimates for the biennium 1998-1999 are based on the expectation that UNOPS will continue to operate in accordance with the self-financing principle for recurring expenditures and that extraordinary, non-recurring expenditure will be funded by the UNOPS operational reserve if income generated during the biennium 1998-1999 is insufficient. The Advisory Committee trusts that every effort will be made to match income with expenditure so as to avoid shortfalls in income and recourse to the operational reserve.

3. In his initial estimates for the biennium 1998-1999, the Executive Director had projected income at $84.7 million. As indicated in paragraph 9 of the report under consideration, the revised income projections are $90.8 million, reflecting an increase of $6.1 million. The breakdown of initial and revised projected income for the 1998-1999 biennium is given in table 1 of the report with related information in paragraphs 10 to 14.

4. The Advisory Committee notes from paragraph 14 of the report that for the biennium 1998-1999 contributions "will again cover related expenditures and therefore both contributions and expenditures have been excluded from the figures in table 1". The Advisory Committee does not agree with this and requests that all income and expenditure be included in future reports.

5. The report of the Executive Director proposes that the revised estimated expenditure for the biennium 1998-1999 be increased from $80.4 million to $89.6 million for recurring activities, and from $4.3 million to $11.4 million for extraordinary, non-recurring activities, for a total increase to $101 million.

Recurrent expenditure

6. The increase in recurrent expenditure relates mainly to the proposed increase in the number of posts and the related expenditure associated with these additional posts.

7. The staffing needs of UNOPS for the biennium 1998-1999 are projected to increase from the 281 posts established at the end of the 1996-1997 biennium to a total of 345. The main reasons, as indicated in paragraphs 20 to 27 of the report of the Executive Director, are the significant growth in business volume and the related need to build the capacity to deliver on projects and services. As reflected in table 3 of the report, 19 of the proposed additional posts are project-related while 45 are proposed as established posts. Of these 45 posts, as indicated in the footnote to table 3, one post relates to the Chief Information Officer established in decision 98/16 of the Executive Board while, as indicated in paragraph 26 of the report, pursuant to Executive Board decision 94/32, the Executive Director is requesting approval for the establishment of the post of Chief of the Abidjan office at the D-1 level.

8. With regard to the vacancy situation, on enquiry, the Advisory Committee was informed that the vacant posts shown in table 3 of the report included the additional posts now being requested in the revised estimates. The Advisory Committee was also informed that budgeting of all UNOPS posts has been made on a "when expected on board" basis. The Advisory Committee recommends that the Executive Board accept the proposal of the Executive Director for an increase in the number and level of posts as indicated in his report. The Advisory Committee requests that future budget reports should show more clearly how estimates for staffing resources were arrived at.

9. The Advisory Committee notes from paragraph 28 of the report that the Executive Director is seeking the approval of the Executive Board to establish a UNOPS office in Rome, with staffing through relocation of two posts from headquarters. While the Advisory Committee recommends that the Executive Board accept the proposal of the Executive Director, the Committee reiterates its comments in paragraph 15 of its report contained in document DP/1997/28 that the possibility of sharing common premises and services with other agencies in the field should be explored with a view to realizing economies in UNOPS field operations. The Advisory Committee trusts that in line with the policy that all decentralized offices adhere to the self-financing principle, necessary

financial and management control will also be exercised in this case to ensure that the office will earn sufficient income to cover its costs.

10. As indicated in paragraph 29 of the report, reimbursements to UNDP for services provided by UNDP country offices, which were initially estimated at $4 million, have been projected to be $4.4 million for the biennium 1998-1999. The Advisory Committee notes that the principles established during a review to establish the basis and methods for the charging and reimbursing of common services provided by the United Nations and UNDP to UNOPS will be applied to central services and associated costs for the biennium 1998-1999. As stated in paragraph 31 of the report "this process is ongoing and its conclusion will provide an improved basis for understanding the common services provided to UNOPS and their related costs" and "in turn this will provide a better basis for reviewing the efficiency and cost effectiveness of the services". The Advisory Committee recommends that any agreement reached at the conclusion of the review be submitted to the Committee for scrutiny and that the submission take place before implementation.

Non-recurrent or "extraordinary" expenditures

11. With regard to information systems and technology, the Advisory Committee recalls that in its report contained in document A/1997/28 (para. 16), the Committee had recommended that UNOPS should take into account the systems modules developed by the United Nations/Integrated Management Information System (IMIS) and use these to the extent that they were cost-effective in the operations of UNOPS. As indicated in paragraph 32 of the report of the Executive Director, after considering the various options, UNOPS concluded that "while IMIS did not represent a long-term optimal business solution for UNOPS, it provided an acceptable fit within the available time and current resource constraints". The Advisory Committee believes that there is an urgent need for better overall coordination between all the agencies and funds and programmes on the question of present and future technology requirements, especially with a view to providing viable bridges and interfacing with the various field offices.

12. The Advisory Committee recalls that in table 2 of document DP/1997/29 an amount of $1.5 million had been estimated for the 1996-1997 biennium in respect of systems implementation. The Advisory Committee was, however, informed that since a final decision regarding information systems was not made until the end of 1997, most of that amount was not spent and has been carried forward (see paragraph 17 below).

13. Table 2 of document DP/1997/29 shows an amount of $4,312,000 estimated for the biennium 1998-1999 for systems implementation, not including the amounts under recurrent expenditure for items such as systems development contracts ($600,000) and microcomputer hardware/software ($2,000,000).

14. The Advisory Committee notes from paragraph 34 of document DP/1998/35 containing the Executive Director's revised estimates, that for the biennium 1998-1999 expenditure for the information systems project and year 2000 compliance project has been projected at $7,413,000. In addition, recurrent expenditure of $915,000 for systems development contracts and $2,087,000 for microcomputers hardware/software has been projected.

15. The Advisory Committee was informed that the amount of $4.3 million as previously shown in document DP/1997/29 was based on a preliminary estimate and was derived simply by applying all projected surplus income for the biennium to the IMIS/year 2000 compliance projects; in other words, while it was foreseen that these projects would entail considerable expenditure, the precise level of expenditure was not foreseen. It was anticipated that if the amount proved insufficient to meet the actual needs, the difference would be funded on a short-term basis from the operational reserve. On the other hand, the amount of $7.4 million shown in the revised estimates contained in document DP/1998/35, is based on "bottom-up" projections of actual project costs related to implementing the IMIS and year 2000 compliance strategy.

16. On enquiry, the Advisory Committee was informed that it was quite likely that even after completion of the current IMIS project and the year 2000 compliance project, technology-related expenditure would not significantly decrease because of the need to continue to develop software for UNOPS requirements.

17. The Advisory Committee notes that table 1 of document DP/1998/35 reflects $1.4 million as unexpended resources carried forward (see paragraph 12 above). The Advisory Committee was informed that this amount of unexpended income from the biennium 1996-1997 will be the first applied towards the IMIS/Year 2000 compliance project costs.

18. With regard to another item of non-recurrent and unforeseen expenditure, as indicated in paragraph 35 of the report of the Executive Director, relocation of headquarters premises was neither anticipated in 1997 nor planned for in document DP/1997/29, as non-renewal of its existing lease beyond September 1999 was not expected by UNOPS. It has been estimated that the total cost of relocation would be in the amount of $3,966,000 during the 1998-1999 biennium.

19. While detailed lease negotiations for suitable premises were still under way, the Advisory Committee was informed that this estimate included expenditure for items tailored specifically to UNOPS needs and specifications; items such as general construction ($2.3 million); mechanical/electrical systems ($2.2 million); and other items such as furnishings ($1.7 million); architectural/design/agent costs and fees ($961,000); and included actual moving costs ($166,000) less estimated landlord contribution ($3.3 million). The Advisory Committee trusts that every effort will be made to negotiate favourable rental terms with a view to obtaining optimum benefits for UNOPS. The Advisory Committee notes from paragraph 35 of the report, that the Executive Director has decided to explore the option of amortization of a proportion of the costs over the term of the lease "which may result in a cost reduction in 1999 and in the requirement to budget for a continuing write-off in subsequent years".

20. The Advisory Committee recalls that UNOPS Financial Regulation 8.3 specifies four elements to be covered by the operational reserve as follows: (a) shortfalls in income; (b) uneven cash flows; (c) professional or contractual liabilities associated with UNOPS services; and (d) liabilities associated with UNOPS personnel contracts financed from the UNOPS Account. As indicated in paragraph 2 above, the Advisory Committee is concerned about the rapid depletion of the operational reserve and the consequent vulnerability of UNOPS, especially

vis-à-vis the latter two elements which are to be covered by the operational reserve, in accordance with UNOPS Financial Regulation 8.3.

21. As indicated in paragraph 36 of the report, as of January 1998 the amount in the UNOPS operational reserve totals $20 million; as indicated in paragraph 37, relocation costs and the costs for the IMIS and year 2000 compliance projects would result in bringing the operational reserve down to $11.2 million at the beginning of the biennium 2000-2001 instead of the approximately $25 million it would have reached under normal circumstances (i.e., 4 per cent of the combined expenditure on administrative and project budgets of the prior year, pursuant to Executive Board decision 97/21). In this regard, the Advisory Committee notes the intention of the Executive Director, as indicated in paragraph 38 of his report, of bringing the reserve quickly back to its recommended level. The Advisory Committee requests the Executive Director, in his next budget presentation, to include proposals and specific steps that could be taken, including the time frame, to bring the operational reserve to its recommended level. The Executive Director should also report on his review of the 4 per cent formula for the maintenance of the operational reserve.
