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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

SUPPLEMENTARY BUDGET ESTIMATES FOR 1979

Report of the Administrator

Summary

The final runs closing the 1979 accounts, which covered all adjustments and increased costs during the latter part of the year including final expenditures for the field, show that 1979 full-year expenditures exceeded revised appropriations by some \$2.4 million. Accordingly, the submission of this supplementary estimate is required. From this amount, the \$485,000 conditionally approved by the Governing Council for ISIP is deductible, in that additional resources to cover these costs did not become available to the Administrator from special voluntary contributions or from savings. As directed, the Administrator is seeking the comments of the Advisory Committee before exercising this authority, after which the net deficit will be reduced to \$1.9 million, the amount which appears in the tables which follow.

The additional requirements for 1979, which resulted in the deficit, are attributable to unanticipated increases in the cost of items beyond the Administrator's control and are detailed in this report. Overexpenditure on 19 object of expenditure categories totalled \$5,215,546 and underexpenditure on 14 categories totalled \$3,347,666 for an overexpenditure of \$1,867,880 (gross). When combined with an income shortfall of \$80,151, this resulted in a total overexpenditure of \$1,948,031 (net).

The Administrator therefore requests the Governing Council to appropriate the supplementary amount of \$1,867,880 (gross) (net appropriations \$1,948,031) for the Programme Support and Administrative Services Budget for 1979.

Background

1. In justifying his submission to the twenty-sixth session of the Governing Council of the 1979 supplementary budget request of \$1.8 million, 1/ the Administrator highlighted in paragraph 3 2/ some of the difficulties in estimating certain categories of expense and projecting them for the year. The raw data for the projections indicated that about \$4.5 million would be needed, mainly because the trend in world-wide costs was greatly exceeding the bases on which costs had been estimated. However, overall economic forecasts at that time indicated that inflation and increased costs should not continue to rise at those levels: some forecasts predicted that they might even level off. Similarly, expenditures recorded for the period January through February 1979 seemed to support those predictions. Accordingly, the Administrator decided to use the most conservative assumptions in estimating the additional requirements and reduced the request by \$2.7 million: i.e., from \$4.5 million to \$1.8 million. In other words, it was believed that the \$2.7 million reduction from the \$4.5 million in additional cost projections either would not materialize or, if it did, the increases might be absorbed through savings in other categories of expense. Neither of these assumptions proved to be true: inflationary costs continued to spiral and affected nearly all categories of expense.

Analysis of the 1979 expenditures against appropriations

2. The 1979 net expenditure figure of \$76,083,892 exceeds the revised appropriation of \$74,135,861 by \$1,948,031. While this overexpenditure (\$1.9 million), added to the supplementary appropriation for this purpose for 1979 (\$1.8 million), is still some \$800,000 less than original additional cost projections (\$4.5 million), it exceeds the net appropriated amount by 2.6 per cent. The table below summarizes the overexpenditures and underexpenditures by major category of expenditure. 3/ Explanations by category of expense follow the table.

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1/ DP/417. The appropriation request was increased from \$1.8 million to \$2.0 million by the Governing Council to cover a new item, separately requested.

2/ Ibid.

3/ See Appendix 2 for further detail.

Table 1

Category of expenditure	Appropriation		Expenditure		Expenditure (over) under appropriation	
	thousands \$US	Per cent	thousands \$US	Per cent	thousands \$US	Per cent
Salaries and wages	54 723.7	57.1	55 569.3	56.9	(845.6)	(1.5)
Common staff costs	20 551.7	21.4	22 541.6	23.1	(1 989.9)	(9.7)
Travel on official business	1 887.4	2.0	2 093.1	2.1	(205.7)	(10.9)
Contractual services	923.1	1.0	968.0	1.0	(44.9)	(4.9)
General operating expenses	11 361.1	11.9	10 927.6	11.2	433.5	3.8
Supplies and materials	1 673.1	1.7	1 560.3	1.6	112.8	6.7
Furniture and equipment	1 136.4	1.2	1 479.5	1.5	(343.1)	(30.2)
Other expenditure	3 594.1	3.7	2 579.1	2.6	1 015.0	28.2
Total gross	95 850.6	100.0	97 718.5	100.0	(1 867.9)	
Income	(21 714.8)		(21 634.7)		(80.1)	
Total net	74 135.8		76 083.8		(1 948.0)	

3. The overexpenditure is due to cost increases in categories of expenditure which are beyond the control of the Administrator:

- (a) Increases in the salary scales for the same number of locally recruited field staff in existing field offices;
- (b) Increases in the costs of travel on appointment, reassignment, installation and separation;
- (c) Increases in the amounts required for the reimbursement of income tax; and
- (d) Increases in transportation and other costs of official travel.

These cost increases, as well as expenditures for other unforeseen and necessary items, are commented on in more detail below.

Increases in the salary scales for the same number of locally recruited field staff in existing field offices

4. Actual expenditures for salaries for locally recruited field staff for the two previous years were: 1977, \$12.5 million; and 1978, \$13.5 million, or an increase of 8 per cent. At the time the supplementary request was prepared, it seemed reasonable, based on the trend observed from 1977, to estimate that total expenditure for this item might not exceed \$15.1 million in 1979. This amount provided for a 12 per cent increase for 1979 over 1978, which in itself appeared to be on the high side. Accordingly, in preparing the supplementary request during March/April 1979, the full-year expenditure for locally recruited staff was reduced from \$16.0 million to \$15.1 million, a decrease of \$0.9 million, and the lower amount was included in the revised appropriation request.

5. Because of much greater inflationary pressure during the balance of 1979, the number of salary revisions approved by the Secretary-General during 1979 turned out to be 113, whereas the number for 1978 had been 94. There were also 36 countries in which the 1979 increase was made retroactive to 1978, which meant that the costs were in effect for the entire year 1979, whereas in 1978 the comparable figure for retroactive raises was 28. In 46 countries, the actual expenditure was within the original budget estimates; in 60 countries expenditures were in excess of the original budget; and in one country expenditures were at budget level. In addition, several offices--Bangladesh, Ethiopia, Yemen and Zaire (which have large staffs) and Argentina, Algeria, Central African Republic, Paraguay and Switzerland (where the cost is high)--had disproportionate impacts on the over-all result. Also included in the expenditure figures are the salary costs of four new field offices, which had not been budgeted for in 1979. The result was that the actual expenditures were \$16.0 million (the amount originally budgeted), for a 1979 over 1978 rate of increase of 19 per cent.

Increases in the costs of travel on appointment, reassignment, installation and separation

6. The overexpenditure in this category amounts to \$0.9 million and is attributable to abnormal increases in costs for all of these types of travel. These increases appeared in each of the individual objects of expenditure within the category. The increases also include some \$0.2 million relating to the reassignment of staff for the establishment of four new field offices and for the strengthening of another. The major factors in the overexpenditure are higher air fares, air freight costs and daily subsistence allowance rates. The same phenomena occurred as illustrated in the explanation given in paragraph 8 below.

Increases in the amounts required for the reimbursement of income taxes

7. The incidence and amount of tax reimbursement are largely beyond the control of the Administrator. Moreover, it has not proven possible to secure even reasonably accurate forecasts for a given year, since external factors cause these amounts to vary widely. The reimbursement calculations, which involve considerable and painstaking work, are handled for UNDP by the United Nations payroll section. The charges are then passed on to UNDP and charged to its appropriations. The number of

staff members for whom tax payments are required to be made has increased and there have been increases in tax rates as well as increases in the average remuneration. A further attempt is being made, utilizing the experience record since 1977, to provide a more reliable basis for making future estimates.

Increases in transportation and other costs of official travel

8. The overexpenditure of \$0.2 million, or 11 per cent, resulted from the ever-upward trend in the cost of international air tickets and higher daily subsistence allowance rates. For example, the average round-trip air ticket fare to the main European locations increased by 12 per cent: from \$723 at the beginning of 1979 to \$813 at year-end. For these same locations the average daily subsistence allowance rate increased by 10 per cent: from \$63 to \$69. In locations in Africa, Asia and the Pacific area, the increase in transportation costs was even greater: e.g., New York/New Delhi round-trip tickets increased by 18 per cent from \$1800 to \$2120; Bangkok, by 21 per cent from \$1992 to \$2410; Nairobi, by 21 per cent from \$1626 to \$1968; Abidjan, by 21 per cent from \$1228 to \$1486; Suva, by 14 per cent from \$1624 to \$1850. The average daily subsistence rate for these same locations increased by 10 per cent from \$50 to \$55. An analysis of world-wide daily subsistence rates showed an increase of 14 per cent for 1979.

9. Although restrictive steps were taken in the second half of 1979, it was not possible to offset fully these increased costs for transportation and subsistence by reducing even more the travel to and from the countries throughout the world where the programme operates. To have done so would have adversely affected the accelerated delivery needed as well as adequate planning for the future. Additionally, the evacuation of staff and dependents from their duty stations which occurred several times in 1979 resulted in abnormal expenditure on travel. The urgent and unscheduled travel of staff for programme discussions with the national authorities was also required to respond to programme-related emergency situations.

Other increases

10. In addition to overexpenditure in the four categories discussed above, there were necessary, but unbudgeted, expenditures for office furniture and equipment and for vehicles for the new field offices ^{4/} which were opened during 1979. Of the overexpenditure of \$0.3 million on office furniture and equipment and vehicles, \$0.2 million was for purchases made for the new field offices in Bhutan, China, Djibouti and Samoa. Unforeseen urgently required security-related equipment was also provided for certain field offices which, when taken together with cost increases for this category of items, accounts for the remaining \$0.1 million.

Income

11. When submitting the supplementary estimates for 1979 (DP/417), the Administrator in paragraph 7 set out the problems associated with updating the estimate of income and pointed out that the major uncertainty was the amount which would be contributed by Governments for local office costs. In fact, the amount contributed was some \$51,200 below expectations. There was also a shortfall of some \$209,000 in respect

^{4/} See DP/396 para. 10.

of funds from the United Nations Joint Staff Pension Fund, a difficult item to estimate because of the wide year-to-year fluctuations. Sales of surveyed equipment were, however, higher than estimated by \$171,000. The total for income over-all was below the estimate by some \$80,100. This means that the net charge to UNDP resources had to be increased by \$80,100.

Other information bearing on appropriations,
expenditures and resources

Improved systems

12. The main effort in the financial area under the Integrated Systems Improvement Project (ISIP) has been to design data processing systems which will permit the faster and more accurate input of data, the integration of data flowing from and to various sub-systems and users, the symmetrical alignment and regrouping of this data into forms readily usable by various managers at various levels, which, in turn, will result in the production of appropriate, tailored reports with which management can exercise positive and timely control.

13. One of the systems which have been designed, for which programmes are being written and which should be in operation in 1980 (with retroactive effect to 1 January 1980) should provide both positive control and early warning in the appropriations/allotment/expenditure fields. This system is called the "Appropriations and Allotment Control and Expenditure Projection System". It has been designed to assist in preventing just the type of appropriation overexpenditure--without advance warning--which occurred in 1979.

The conditionally approved appropriation for ISIP

14. As indicated in the summary on page 1, and under the Appropriation Summary, paragraph 18, \$485,000 may properly be deducted from the \$2.4 million deficit. This amount was conditionally approved for ISIP for 1979 by the Governing Council in its decision 79/42, paragraphs 4 and 5. These additional resources, to cover ISIP costs if required, did not become available to the Administrator from special voluntary contributions (paragraph 4(ii)), nor from savings under the 1979 Administrative and Programme Support Budget (paragraph 4(iii)). However, the actual expenditure for ISIP in 1979 equalled the full amount approved for expenditure: i.e., \$1,080,000, which includes the \$595,000 from contributions already available (paragraph 4(i) and the \$485,000 in paragraph 4(iv)). The breakdown, by category, of those 1979 ISIP expenditures is shown in DP/471, Annex II.

15. Accordingly, the Administrator will have sought the comments of the Advisory Committee as directed by the Governing Council, prior to the twenty-seventh session of the Governing Council, and will then add this amount to the appropriations for 1979. It was not possible to consult the Advisory Committee on this item before the end of 1979, because it had not been determined whether this conditional authority would be required.

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Advisory Committee

16. The foregoing explanations and justifications have been presented on the basis of aggregates of expenditure, by categories. They relate to the presentation contained in DP/335, Table N, pages 52-56, on the budget estimates for 1979. However, since the introduction of the programme budget presentation in 1977, appropriations have been approved by the Governing Council on the basis of budget programmes. In this connexion, the Governing Council, in decision 25/19 relating to the budget for 1979, agreed that the Administrator should be authorized to transfer credits between programmes of the 1979 budget, within reasonable limits with the concurrence of the Advisory Committee on Administrative and Budgetary Questions. Therefore, in addition to seeking the comments of the Advisory Committee on the present Supplementary Appropriation Request and forwarding them to the Governing Council, the Administrator is also seeking the concurrence of the Advisory Committee on certain shifts between programmes. The following table summarizes the proposed shifts between programmes.

Table 2

<u>Major programme</u>	<u>Increase (reduction)</u> <u>\$US</u>
Policy making organs	4 780
Executive direction and management	(42 714)
Programme management and support	172 603
Sectoral support services	(559 943)
Administrative and common services	362 066
United Nations Volunteers	181 063
United Nations Capital Development Fund	(117 855)

17. The proposed transfer of credits between programmes is also reflected under the column "programme credits transferred in/transferred out" in Annex I. Assuming that these transfers are approved by the Advisory Committee, when the revised programme amounts are added to the programme amounts in the requested supplementary appropriation estimate, the totals equal the figures which appear in the column "proposed 1979 appropriations" in Annex I. In addition, it will be necessary to adjust the income item discussed in paragraph 11 above by \$80,151 to reflect the actual shortfall in income and therefore the additional amount chargeable for 1979 against UNDP resources.

Appropriation summary

18. Set forth below is the information on the initial appropriations for 1979, the revised appropriations, the ISIP adjustment 5/ and the present supplementary request.

Table 3

	<u>\$US</u>	
	<u>Gross appropriation</u>	<u>Net appropriation</u>
Initial appropriations	93 218 566	71 674 961
June 1979 supplementary appropriation	<u>2 008 400</u>	<u>1 975 900</u>
Revised appropriations	95 226 966	73 650 861
ISIP adjustment	<u>623 700</u>	<u>485 000</u>
Subtotal	95 850 666	74 135 861
Present supplementary	<u>1 867 880</u>	<u>1 948 031</u>
Total appropriations requested for 1979	<u><u>97 718 546</u></u>	<u><u>76 083 892</u></u>

Recommendation of the Administrator

19. The Administrator recommends that the Governing Council give ex post facto approval to these 1979 supplementary estimates, as submitted, in order to cover the expenditure in excess of 1979 appropriations and to record such approval by the adoption of the following draft decision:

The Governing Council,

Having considered the 1979 supplementary budget estimates for the programme support and administrative services budget of the United Nations Development Programme;

1. Notes that the revised gross appropriation for 1979, after taking into account the ISIP adjustment pursuant to the conditionally approved appropriation for 1979, is in the amount of \$95,850,666;

2. Approves additional appropriations in an amount of \$1,867,880 gross to be allocated from the resources of UNDP to finance the 1979 supplementary budget estimates, as follows:

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5/ In the tables and text which follow, the ISIP adjustment has been included. Further information bearing on this appropriation is set forth in paragraphs 14 and 15 under the heading "The conditionally approved appropriation for ISIP".

<u>Programme</u>	<u>\$US</u>
Programme management and support	602 800
Administrative and common services	1 265 080
Total	<u>1 867 880</u>

3. Resolves that the 1979 income estimates be reduced by \$80,151 (from \$21,714,805 to \$21,634,654), resulting in a net supplementary appropriation of \$1,948,031.

Annex I

Programme Support and Administrative Services Budget
1979 appropriations, expenditure, credits transferred and additionally requested appropriations
 (in thousands of US dollars)

<u>Major programme</u>	<u>1979 approp.</u>	<u>Expend.</u>	<u>Expend. over/under approp.</u>	<u>Programme credits transf. in (out)</u>	<u>Revised programme amounts</u>	<u>Add'lly requested approp.</u>	<u>Proposed 1979 approp.</u>
Policy making organs	1 068.5	1 073.3	(4.8)	4.8	1 073.3	-	1 073.3
Executive direction and management	1 202.5	1 159.8	42.7	(42.7)	1 159.8	-	1 159.8
Programme management and support	42 902.1	43 677.5	(775.4)	172.6	43 074.7	602.8	43 677.5
Sectoral support services	6 482.4	5 922.4	560.0	(560.0)	5 922.4	-	5 922.4
Administrative and common services	42 017.1	43 644.3	(1 627.2)	362.1	42 379.2	1 265.1	43 644.3
United Nations Volunteers	1 459.6	1 640.7	(181.1)	181.1	1 640.7	-	1 640.7
United Nations Capital Development Fund	718.4	600.5	117.9	(117.9)	600.5	-	600.5
Total gross	95 850.6 ^{1/}	97 718.5	(1 867.9)	-	95 850.6	1 867.9	97 718.5
Income	(21 714.8)	(21 634.7)	(80.1)	-	(21 714.8)	80.1	(21 634.7)
Total net	74 135.8	76 083.8	(1 948.0)	-	74 135.8	1 948.0	76 083.8

^{1/} Includes initial appropriations of \$93,218,566; supplementary appropriations (June 1979) \$2,008,400; and ISIP adjustment \$623,700.

Annex II
Programme Support and Administrative Services Budget
1979 appropriations and expenditure over/under appropriations
by category of expenditure

<u>Category of expenditure</u>	<u>1979</u> <u>appropriations</u>	<u>Expenditure</u>	<u>Expenditure</u> <u>(over) under</u> <u>appropriations</u>
<u>Category 000 - Salaries and wages</u>			
010 Established posts - internationally recruited and general service staff	37 554.9	36 951.2	603.7
Established posts - locally recruited staff	15 100.0	15 999.0	(899.0)
030 Temporary assistance	779.2	1 046.5	(267.3)
040 Consultants	461.3	650.7	(189.4)
050 Overtime	<u>828.3</u>	<u>921.9</u>	<u>(93.6)</u>
Total: Salaries and wages	<u>54 723.7</u>	<u>55 569.3</u>	<u>(845.6)</u>
<u>Category 100 - Common staff costs</u>			
110 Staff allowances	2 696.8	2 967.1	(270.3)
120 Social security payments	9 599.6	9 091.5	508.1
130 Education grant and travel	1 139.8	1 247.4	(107.6)
140 Home leave	1 066.4	1 005.1	61.3
150 Travel on appointment, transfer and separation	2 713.9	3 618.4	(904.5)
160 Reimbursement of income tax	1 542.1	2 499.6	(957.5)
170 Training	493.1	591.2	(98.1)
180			
190 Other common staff costs	<u>1 300.0</u>	<u>1 521.3</u>	<u>(221.3)</u>
	<u>20 551.7</u>	<u>22 541.6</u>	<u>(1 989.9)</u>
<u>Category 200 - Travel on official business</u>			
220			
240 Travel on official business	<u>1 887.4</u>	<u>2 093.1</u>	<u>(205.7)</u>

<u>Category of expenditure</u>	<u>1979 appropriations</u>	<u>Expenditure</u>	<u>Expenditure (over) under appropriations</u>
<u>Category 300 - Contractual services</u>			
330 External translation contracts	105.0	66.9	38.1
340 External printing and binding	579.9	602.0	(22.1)
370 390 Other specialized services	<u>238.2</u>	<u>299.1</u>	<u>(60.9)</u>
Total: Contractual services	<u>923.1</u>	<u>968.0</u>	<u>(44.9)</u>
<u>Category 400 - General operating expenses</u>			
410 Rental and maintenance of premises	4 272.9	3 701.6	571.3
420 Utilities	693.1	417.4	275.7
430 Rental and maintenance of furniture, equipment and vehicles, including maintenance supplies	1 997.6	1 981.9	15.7
440 Communications	3 354.0	3 678.9	(324.9)
450 Hospitality	53.6	44.3	9.3
490 Miscellaneous services	<u>989.9</u>	<u>1 103.5</u>	<u>(113.6)</u>
Total: General operating expenses	<u>11 361.1</u>	<u>10 927.6</u>	<u>433.5</u>
<u>Category 500 - Supplies and materials</u>			
510 Stationery and office supplies	859.5	987.3	(127.8)
520 Internal reproduction supplies	314.5	323.3	(8.8)
530 Library books and supplies	196.5	151.6	44.9
540 Public information supplies and services	<u>302.6</u>	<u>98.1</u>	<u>204.5</u>
Total: Supplies and materials	<u>1 673.1</u>	<u>1 560.3</u>	<u>112.8</u>

<u>Category of expenditure</u>	<u>1979 appropriations</u>	<u>Expenditure</u>	<u>Expenditure (over) under appropriations</u>
<u>Category 600 - Acquisition of furniture and equipment</u>			
610 Office furniture and equipment	450.4	765.0	(314.6)
640 Vehicles	<u>686.0</u>	<u>714.5</u>	<u>(28.5)</u>
Total: Acquisition of furniture and equipment	<u>1 136.4</u>	<u>1 479.5</u>	<u>(343.1)</u>
<u>Category 900 - Other expenditure</u>			
931 UNDP share of operating costs ICC Geneva and NYCC	453.1	275.6	177.5
932 UNDP reimbursement to the United Nations	1 410.0	785.8	624.2
933 Contributions to joint 939 activities	331.0	330.7	0.3
942 Other sectoral support 948 services	<u>1 400.0</u>	<u>1 187.0</u>	<u>213.0</u>
Total: Other expenditure	<u>3 594.1</u>	<u>2 579.1</u>	<u>1 015.0</u>
<u>Total gross budget</u>	<u>95 850.6</u>	<u>97 718.5</u>	<u>(1 867.9)</u>
<u>Income</u>			
Host Government contributions in cash	10 396.8	10 345.6	(51.2)
Income from staff assessment	10 062.2	10 077.0	14.8
Refund by FAO towards the cost of SAA/FAO country representatives	456.0	450.4	(5.6)
Refund of the organization's contributions in respect of participant withdrawals	399.9	190.8	(209.1)
Proceeds of sales of surveyed vehicles and equipment and other sundry receipts	<u>399.9</u>	<u>570.9</u>	<u>171.0</u>
Deduct total income	<u>21 714.8</u>	<u>21 634.7</u>	<u>(80.1)</u>
<u>Net operating budget/ expenditure</u>	<u>74 135.8</u>	<u>76 083.8</u>	<u>(1 948.0)</u>