



**United Nations
Development Programme**

Distr.
GENERAL

DP/1982/93
26 April 1982

ORIGINAL: ENGLISH

GOVERNING COUNCIL
Twenty-ninth session
June 1982, Geneva
Agenda item 7(e)

POLICY

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

AGENCY SUPPORT COSTS

Support cost flexibility arrangements

Report of the Administrator

Summary

In this report, the Administrator informs the Governing Council of the revised support cost flexibility arrangements, effective in 1982, which were established in accordance with criteria approved by the Council in decision 81/40 adopted at its twenty-eighth session in June 1981. The Council is also requested to take note of the amounts requested by agencies for 1982 under this provision, as well as the support costs paid to eligible executing agencies in 1980 and 1981 under the flexibility arrangements in effect up to the end of 1981.

Introduction

1. The Governing Council, in decision 81/40, adopted at its twenty-eighth session in June 1981, approved the principles governing the support cost flexibility arrangements for executing agencies whose levels of annual delivery from 1982 onwards do not exceed \$15 million. Subsequently, the Administrator issued detailed guidelines to agencies on the subject. These are appended as an annex to this report for the information of the Council. These guidelines were used in the review of executing agency requests for flexibility in respect of 1982. The criteria for the reimbursement of support cost flexibility up to the end of 1981 were those submitted to the Council in DP/200 at its twenty-second session^{1/} under the authority granted by the Council to the Administrator at its nineteenth session^{2/} to negotiate additional lump-sum support cost reimbursements to agencies with programme delivery under \$10 million.

A. Support cost flexibility in 1980

2. The amounts of support cost payments, including flexibility, actually paid to smaller agencies for 1980 on the basis of their actual delivery for that year are shown in Table 1. These vary slightly from the 1980 provisional figures contained in the Administrator's report (DP/556/Add.2) to the twenty-eighth session of the Governing Council.

1/ Official Records of the Economic and Social Council, Sixty-first Session, Supplement No. 2A, (E/5846/Rev. 1), para 434.

2/ Ibid, Fifty-ninth Session, Supplement No. 2, (E/5646), para. 353.

Table 1

<u>Agency</u>	<u>Actual project expenditure in 1980</u>	<u>Support cost at 14 per cent</u>	<u>Flexibility</u>	<u>Total support costs</u>	<u>Per cent of total support costs to project expenditure</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
UPU	3 498 700	489 800	46 200	536 000	15.3
WMO	9 957 600	1 394 100	747 100	2 141 200	21.5
IMCO	6 078 700	819 600	-	819 600	13.5
IAEA	5 017 900	702 500	346 900	1 049 400	20.9
WIPO	<u>405 000</u>	<u>56 700</u>	<u>42 300</u>	<u>99 000</u>	<u>24.4</u>
Total	<u>24 957 900</u>	<u>3 462 700</u>	<u>1 182 500</u>	<u>4 645 200^{a/}</u>	<u>18.6</u>

a/ UNDP Financial Report and Audited Financial Statements for the year ended 1980 and Report of the Board of Auditors, General Assembly Official Records: Thirty-sixth Session, Supplement No. 5A, (A/36/5/Add.1).

B. Support cost flexibility in 1981

3. On the basis of detailed support cost flexibility estimates provided by agencies for 1981, the Administrator initially approved the amounts indicated in Table 2 below. The flexibility allowance shown for WMO was based on a projected delivery of \$11 million computed according to the revised flexibility criteria effective in 1982. It will be recalled that the Governing Council, at its twenty-eighth session, authorized the Administrator to apply these criteria to the delivery in 1981 of WMO.

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Table 2

<u>Agency</u>	<u>Project expenditure forecast in 1981</u>	<u>Support cost at 14 per cent</u>	<u>Flexibility</u>	<u>Total support costs</u>	<u>Per cent of total support costs to project expenditure</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
UPU	3 200 000	448 000	200 000	648 000	20.3
WMO	11 000 000	1 430 000 ^{a/}	440 000	1 870 000	17
IMCO	4 000 000	560 000	242 500	802 500	20.1
IAEA	5 500 000	770 000	440 000	1 210 000	22
WIPO	<u>618 600</u>	<u>86 600</u>	<u>63 400</u>	<u>150 000</u>	<u>24.2</u>
Total	<u>24 318 600</u>	<u>3 294 600</u>	<u>1 385 900</u>	<u>4 680 500</u>	<u>19.2</u>

^{a/} Under the revised flexibility formula effective 1982, the standard support cost rate is at 13 per cent of delivery. Under this formula, the total maximum reimbursement for a delivery level of \$11 million could not exceed 17 per cent of delivery.

4. Table 3 below shows the actual project delivery (expenditure) of those executing agencies which requested and were granted, additional support cost under the flexibility provision in 1981. It is noted that for most of these agencies actual delivery in 1981 exceeded the estimates they had provided at the beginning of the year (Table 2), and on the basis of which the amount of their support cost flexibility had been estimated. As a result of the higher actual delivery experienced by most of these agencies, the flexibility paid out was approximately 42 per cent less than the level anticipated at the beginning of the year: i.e., down from \$1,385,900 to \$808,400. This reduction resulted from guidelines according to which agency support cost earnings for the year (14 per cent plus flexibility) could not exceed the amount

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approved at the beginning of the year, unless the reimbursement relating to 14 per cent of delivery would yield a higher amount. It is also to be noted that total support costs paid to these agencies as a group represent 16.3 per cent of their actual delivery in 1981, as compared with the estimated level of 19.2 per cent. In the case of WMO, the application of the revised 1982 flexibility criteria to its actual delivery in 1981 resulted in a total support cost reimbursement below the maximum reimbursable rate provided under the guidelines of 16 per cent for a delivery level between \$12 million and \$13 million.

Table 3

<u>Agency</u>	<u>Actual project expenditure in 1981</u>	<u>Support cost at 14 per cent</u>	<u>Flexibility</u>	<u>Total support costs</u>	<u>Per cent of total support costs to project expenditure</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
UPU	3 345 100	468 300	179 700	648 000	19.4
WMO	12 380 700	1 609 500 ^{a/}	272 700	1 882 200	15.2
IMCO	7 066 000	989 200	-	989 200	13.9
IAEA	5 068 300	692 400	300 000	992 400	19.6
WIPO	<u>509 400</u>	<u>71 300</u>	<u>56 000</u>	<u>127 300</u>	<u>24.9</u>
Total	<u>28 369 500</u>	<u>3 830 700</u>	<u>808 400</u>	<u>4 639 100</u>	<u>16.3</u>

^{a/} See footnote, Table 2

C. Support cost flexibility for 1982

5. The Administrator requested eligible executing agencies to submit requests for support cost flexibility for 1982 on the basis of the revised criteria approved by the Council in its decision 81/40,

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paragraph 4, and according to the guidelines issued by him. These amounts are noted in Table 4 below. At the time of the preparation of this report, the Administrator had not yet granted approval to all the requests, and was in the process of negotiating the particular amounts requested by some agencies. The Administrator wishes to bring to the Council's attention the fact that one agency benefiting from the flexibility provisions, IAEA, is unable to segregate its support cost requirement for the UNDP programme from its total support cost expenditure. As a result, it has provided only a proration of the UNDP share of its support cost expenditure based on estimates. Furthermore, the agency explained that since UNDP support cost reimbursements are treated as miscellaneous income and pooled with its assessments on Member States, and because the handling of UNDP projects is fully integrated with that of the agency's technical assistance projects, it could not identify separately all posts directly financed from UNDP reimbursements. Therefore, while it could identify one staff member devoting full time to UNDP activities, it has indicated that other staff spend varying amounts of time on UNDP-funded activities.

Table 4

<u>Agency</u>	<u>Project expenditure forecast in 1982</u>	<u>Support cost at 13 per cent</u>	<u>Flexibility</u>	<u>Total support costs</u>	<u>Per cent of total support costs to project expenditure</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
UPU	2 600 000	338 000	234 000	572 000	22
WMO	11 800 000	1 534 000	350 000	1 884 000	15.9
IMCO	5 000 000	650 000	450 000	1 100 000	22
IAEA	5 500 000	715 000	330 000	1 045 000	19
WIPO	<u>1 150 000</u>	<u>149 500</u>	<u>103 500</u>	<u>253 000</u>	<u>22</u>
Total	<u>26 050 000</u>	<u>3 386 500</u>	<u>1 467 500</u>	<u>4 854 000</u>	<u>18.6</u>

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6. The details provided by agencies on their estimated support cost requirements for 1982 are summarized by category of expenditure in Table 5.

Table 5

	<u>UPU</u> <u>\$</u>	<u>WMO</u> <u>\$</u>	<u>IMCO</u> <u>\$</u>	<u>IAEA</u> <u>\$</u>	<u>WIPO</u> <u>\$</u>
Salaries and wages	866 200	1 723 700	906 500	1 163 800	235 000
Common staff costs	120 700	627 300	325 800	315 900	3 000
Travel on official business	58 500	50 000	38 300	18 100	25 000
Contractual services	-	-	-	14 400	6 000
General operating expenses	17 900	66 600	50 900	132 200	65 000
Supplies and materials	34 000	40 000	5 900	19 700	7 000
Acquisition of furniture and equipment	-	30 000	22 600	9 900	4 000
Total	<u>1 097 300</u>	<u>2 537 600</u>	<u>1 350 000</u>	<u>1 674 000</u>	<u>345 000</u>
Support costs to be financed from other than UNDP reimbursements ^{a/}	525 300	653 600	250 000	629 000	92 000

^{a/} These amounts are financed either from the agency's regular budget or from support cost earnings on non-UNDP funded activities.

7. Table 6 below shows the distribution of staff by grade and by function in support of UNDP-funded projects.

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Table 6

<u>(a) Staff by grade</u>	<u>UPU</u>	<u>WMO</u>	<u>IMCO</u>	<u>IAEA^{a/}</u>	<u>WIPO^{b/}</u>
D-2	-	-	1	-	-
D-1	1	1	1	-	-
P-5	1	5	6	-	-
P-4	2	6	1	-	2
P-3	4	8	-	-	1
P-2/1	<u>3</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total Professional	11	21	10	-	3
Total General Service	<u>5</u>	<u>24</u>	<u>22</u>	<u>-</u>	<u>3</u>
Total All staff	16	45	32	-	6
 <u>(b) Professional posts by function</u>					
Administrative	3	8	-	-	1
Financial	1	3	-	-	-
Programme	<u>7</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total Professional posts	11	21	-	-	3

a/ The Agency informs that it is unable to segregate UNDP support costs, and to separately identify posts financed from UNDP reimbursements, but has indicated that a number of staff spend varying amounts of time on UNDP-financed projects.

b/ The number of staff indicated was derived from man-month information by grade provided by the Agency.

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Recommendation

8. The Administrator recommends that the Governing Council take note of the information provided in this report on the support cost flexibility arrangements in 1980 and 1981, and the new criteria applicable from 1982 onwards, in respect of agencies entitled to receive such compensation.

Annex

Revised agency support cost flexibility arrangements

1. The purpose of this note is to advise agencies of the revised procedures for support cost flexibility arrangements resulting from the new criteria for this provision approved by the Governing Council in its decision 81/40 adopted at its 28th session in June 1981. The revised flexibility arrangements will apply to eligible executing agencies during the period 1982 through 1986.

2. Definition

Support cost flexibility is that portion of support cost reimbursement payable to eligible executing agencies in excess of the standard support cost rate.

3. Eligibility

Autonomous organizations within the United Nations system whose annual delivery does not exceed \$15 million are eligible to benefit from support cost flexibility arrangements.

4. Criteria

The Administrator will review agency requests for support cost flexibility on the basis of the particular conditions of each agency, and will negotiate the support cost flexibility amounts with each agency within the maximum total reimbursement set by the Governing Council within the appropriate level of delivery. Paragraph 4, items (a) through (c) of decision 81/40 sets out the maximum rates allowable for levels of delivery under the revised flexibility formula, as follows:

"(a) Delivery level of \$5 million or less: Reimbursement of support costs provided that the total reimbursement to the agency, consisting of 13 per cent of delivery plus the amount granted under flexibility arrangements, does not exceed 22 per cent of delivery;

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"(b) Delivery level between \$5 million and \$10 million: Reimbursement of support costs provided that the total reimbursement to the agency, as defined in (a) above, does not exceed 19 per cent of delivery;

"(c) Delivery level between \$10 million and \$15 million: Reimbursement of support costs provided that the total reimbursement to the agency, as defined in (a) above, shall decrease by 1 per cent of delivery, from 18 per cent to 13 per cent for every increase of \$1 million in delivery from \$10 million to \$15 million."

5. The maximum levels of reimbursement set forth above are absolute in US dollar terms and include any adjustment in respect of exchange rate fluctuations. Therefore, agencies benefitting from support cost flexibility cannot also avail themselves of the provisions of paragraph 5 of decision 81/40 dealing with exchange rate fluctuations.

6. In keeping with Governing Council decision 80/44 (paragraph 2(d)), in cases where actual support costs can be identified, no agency will be reimbursed an amount in excess of the actual support costs related to the execution of UNDP-funded projects.

7. The Table in Attachment 1 provides illustrative reimbursement figures for delivery levels under \$15 million at increments of \$1 million. As provided in paragraph 4 of decision 81/40, in reviewing requests for flexibility, the Administrator will ensure that in no instance will an executing agency receive less in total support cost reimbursement for delivering a higher programme level than it had received for delivering a lower programme level, subject to the provisions of paragraph 6 above. It should be emphasized that this condition will apply to reimbursements to the same agency as its delivery increases, and will not serve for comparison between agencies with similar delivery levels since the conditions in each agency under which flexibility is negotiated, including considerations for currency conditions, will differ.

8. Procedures

(a) Agencies should submit requests for flexibility according to the guidelines established below, and in the format appended as Attachment 2. The information in this format should be sent by 10 December of each year, in respect of the next year.* For purposes of comparison, a column is provided for similar updated information to be included for the current year.

* Information requirements in respect of 1982 support costs have been separately communicated to agencies likely to request support cost flexibility.

(b) Item A of the format should identify total support costs incurred on UNDP-financed projects less support cost income earned on the same projects, including flexibility. Support cost expenditures financed from other sources should also be identified, as well as the total programme delivery associated with these sources of funds. Additionally, the agency should provide a breakdown of total support costs as between those expected to be spent in US dollars and those in other currencies. Agencies should also state the exchange rates assumed for each year at which the estimates have been costed.

(c) Under Item B, project data as requested should be provided for the years in question.

(d) Under Item C, details are required on support cost expenditure components broken down by object of expenditure, as indicated. Flexibility arrangements will be authorized only where related support costs can be identified. It is, therefore, important that these figures be given in as much detail as possible.

(e) Under Item D, a staffing table by grade required for support of UNDP-funded projects should be provided, as indicated. Increases in expenditure and staffing levels over the previous year should be fully substantiated. Professional posts by function should also be listed.

(f) Under item E, agencies are requested to explain changes in their requirements and, in cases of increase, justify the additional support cost requirements over the current year on the basis of such considerations as inflationary pressures, currency fluctuations, staffing, and other factors.

(g) Total support cost estimates for the next year provided by agencies will be considered as the maximum level of their support cost requirements for that year. At the end of the year for which support cost is requested, agencies will submit a report showing the actual support costs incurred. UNDP would at that time determine the flexibility entitlement based on criteria mentioned above, and may make adjustments (upward or downward) to take into account any differential at year end between the assumed rate at which the estimates were costed and the average actual exchange rate for expenditures in other than US dollars, provided such adjustments can be accommodated within the total maximum level of reimbursement prescribed by the Governing Council for the delivery level in question. However, no additional inputs would be considered at that time.

Any questions in connection with the above guidelines should be addressed to the Director, Division of Finance.

Attachment 1
SUPPORT COST FLEXIBILITY TABLE

<u>(1)</u> <u>Delivery</u> <u>(\$ millions)</u>	<u>(2)</u> <u>13 per cent</u> <u>(\$ thousands)</u>	<u>(3)</u> <u>Flexibility</u> <u>(\$ thousands)</u>	<u>(4)</u> <u>Total</u> <u>reimbursement</u> <u>(cols. 2 + 3)</u> <u>(\$ thousands)</u>	<u>(5)</u> <u>Total</u> <u>reimbursement</u> <u>over</u> <u>delivery</u> <u>(per cent)</u>
1.0	130	90	220	22
2.0	260	180	440	22
3.0	390	270	660	22
4.0 ¹	520	360	880	22
5.0*	650	300	950	19
6.0	780	360	1140	19
7.0	910	420	1330	19
8.0	1040	480	1520	19
9.0	1170	540	1710	19
10.0*	1300	500	1800	18
11.0*	1430	440	1870	17
12.0*	1560	360	1920	16
13.0*	1690	260	1950	15
14.0*	1820	140	1960	14
14.999	1950	150	2100	14

* For simplicity, delivery levels are indicated at increments of \$1 million. However, where the support cost rate changes, the new rate will apply to the delivery level indicated + \$1 (e.g., \$5 million will be \$5,000,001, etc.).

Attachment 2

(AGENCY)
SUPPORT COST FLEXIBILITY REQUEST
for (Year)
(United States Dollars)

	<u>Current Year</u>	<u>Next Year</u>
A. <u>Summary of Support Cost Data</u>		
Estimated Programme Delivery for UNDP-financed projects	xxxx	xxxx
Total Support Cost Requirements on UNDP- financed projects ^{1/}	xxxx ^{2/}	xxxx ^{2/}
Less: Support Cost Income from UNDP 13% of delivery	(xxxx)	(xxxx)
Flexibility requirements	(xxxx)	(xxxx)
Support cost financed from other sources ^{3/}	xxxx	xxxx

^{1/} If support cost requirements for UNDP projects cannot be completely segregated from those of other Trust Fund and similar activities, pro-ration of costs in the same ratio of the programme is acceptable (please identify the pro-rated amounts in footnote).

^{2/} Please indicate the proportion of costs expended in US dollars and local currency, stating also the exchange rate assumed against the US dollar.

^{3/} Amounts financed either from the agency's regular budget or from support cost earnings on non-UNDP-funded activities. Please indicate total programme delivery associated with these sources of funds.

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	<u>Current Year</u>	<u>Next Year</u>
B. <u>Project Data</u>		
No. of Projects under implementation at beginning of year	xxxx	xxxx
No. of projects approved or expected to be approved during the year, including projects in the pipeline	xxxx	xxxx
	<hr/>	<hr/>
	xxxx	xxxx
C. <u>Details on Total Support Cost Requirements</u>		
The following cost components should be detailed by object of expenditure:		
Salaries and Wages	xxxx	xxxx
Common Staff Costs	xxxx	xxxx
Travel and Official Business	xxxx	xxxx
Contractual Services	xxxx	xxxx
General Operating Expenses	xxxx	xxxx
Supplies and Materials	xxxx	xxxx
Acquisition of Furniture and Equipment	xxxx	xxxx
Other costs (please specify)	xxxx	xxxx
	<hr/>	<hr/>
Total	xxxx	xxxx

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	<u>Current Year</u>	<u>Next Year</u>
D. (a) <u>Staff by Grade in support of UNDP-funded projects</u>		
D-2	xx	xx
D-1	xx	xx
P-5	xx	xx
P-4	xx	xx
P-3	xx	xx
P-2/1	xx	xx
	<hr/>	<hr/>
Total Professional	xxxx	xxxx
Total General Service	xxxx	xxxx
	<hr/>	<hr/>
Total All Staff	xxxx	xxxx
(b) <u>Professional posts by function in support of UNDP-funded projects</u>		
--	xxxx	xxxx
--	xxxx	xxxx
--	xxxx	xxxx
	<hr/>	<hr/>
Total All Posts	xxxx	xxxx

E. Analysis

Agencies may wish to highlight the major factors which, in their opinion, contribute to any change (increase or decrease) in support cost requirements in the next year over the current year.

Inflation - Significant inflationary increases envisaged should be explained.

Currency Fluctuation - For expenditures made in other than US dollars, the exchange rates for the current year should be stated. The assumed rate for next year at which the estimates have been costed should similarly be stated, as well as the resulting increase in support costs.

Staff Level Changes - Any change (increase or decrease) indicated in staffing requirements for the next year should be explained in terms of anticipated increases or decreases in workload.

Other Cost Increases - Any anticipated increase in travel, post adjustments and other major items should be explained under this heading.