

Explanatory Notes on the Programme and Budget for 2002–2003

Budget currency and rate of exchange

1. The budget estimates for the biennium 2002–2003 were based, in the first instance, on an exchange rate of AS12.70 to one United States dollar, the same as used for the 2001 approved programme and budget. The US dollar is used — despite the split appropriation and assessment system — to enable the estimates to be presented in a single currency. Presenting the budget estimates at the same US dollar/Austrian schilling rate of exchange for a number of consecutive years facilitates comparison of estimates with the budgets for previous years. With the introduction of the euro as the legal tender of twelve European Union Member States from January 2002, and the planned phasing out of the relevant national currencies, including the Austrian schilling, however, it is necessary now and for the future to express the US dollar/Austrian schilling exchange rate of the budget in terms of a dollar/euro exchange rate. To preserve the comparability of the budget figures with those of 2001, it is proposed to replace the Austrian schilling with the euro in the split appropriation and assessment system and to do so at the euro equivalent of AS12.70 in the budget exchange rate. The new exchange rate is 0.9229 euro to one United States dollar. The split assessment part of the appropriation resolution therefore shows the split in terms of euro and US dollars. The approval of the Board of Governors has been obtained for the amendment to the Financial Regulations (Regulations 5.02 and 5.06) necessary for this purpose.
2. The total regular budget by appropriation section for 2002 and 2003 adjusted to reflect the price levels applicable for 2002, as shown in Table 1 at the end of the Overview to this document, is estimated at \$245 107 000 for 2002 and \$243 240 000 for 2003 at 2002 price levels — see Table 1. Of these totals, the resources for *Agency programmes* for the two years amount to \$240 555 000 (including the special appropriation for safeguards equipment — \$1 847 000) and \$238 688 000 respectively, while the remainder in each case, \$4 552 000 per year for 2002 and 2003, is for reimbursable work to be performed for others. The amounts shown for this reimbursable work will, as usual, be offset completely by income from the services provided to the other international organizations or other funds concerned.

Budgetary comparisons with 2001

3. Comparisons are made between the financial resources sought for major programmes, programme and subprogrammes in 2002 and 2003 and the corresponding approved resources in the 2001 budget. These are shown in the budgetary tables and explained at the subprogramme level in the texts describing resources changes and trends. Since the results based structure represents a very different approach to programming and budgeting and its implementation has involved extensive restructuring of projects, however, the activities of the two programme periods are not always fully comparable.
4. To facilitate comparison, the proposed resource levels for 2002–2003 are stated in real terms, i.e. at 2001 prices, in the paragraphs describing resource changes and trends and financial resources for the individual programmes. In the pie charts, however, regular budget resources are given at 2002 prices. In view of the significant differences between the 2002–2003 programme and that for 2001 due to restructuring, it has also been necessary to adjust the approved budget resources for 2001 to show the resource allocations in a way which correspond to the draft programme and budget for 2002–2003. It has also been necessary to make adjustments in the 2001 figures to reflect budgetary changes made in 2002 and 2003 which were intended to increase transparency

or to present more accurately the programmatic costs of the activities concerned. Unless account is taken in the 2001 budget of all of these resource shifts, valid comparisons cannot be made between the two budgetary periods. The actual figures for 2000 are not identical either with those for actual expenditure which appear in the Accounts, and the Programme and Budgetary Performance Report (PBPR) for 2000, for which, moreover, different exchange rates were applied. In those documents, in accordance with established procedures, the disbursements are recorded at the United Nations exchange rate for the month in which they were incurred and unliquidated obligations are reported at the exchange rate for December of the year in question.

5. In addition to the programme adjustments described under Programme and Resource Highlights in the Overview (paragraphs 14 to 38 inclusive), the main technical adjustments reflected in the 2001 budget figures to make them comparable with the draft programme and budget for 2002–2003 are as follows:
 - A reduction from \$2.6 million in the 2001 budget to \$1.3 million in each of the years 2002 and 2003 in the level of Information Management and Services charged to Major Programme 4 (Nuclear Verification and Security of Material). This change reflects more accurately the level of information technology infrastructure services actually received from the Agency's central information technology services by the safeguards programme in the light of the development, over recent years, of that programme's own secure information technology infrastructure.
 - Adjustments to Common Staff Costs (which are apportioned to all programmes) as a result of the transfer of resources (totalling \$486 000) relating to participation in United Nations common system co-ordination activities, to the programmes particularly concerned (Subprogramme V.2 (Personnel Management), Subprogramme V.1 (Financial Management) and Subprogramme Q.1 (Information Management)) as a result of the study referred to in the 2001 programme and budget document (GC(44)/6).
 - The transfer of information technology training services and corresponding resources (\$263 000) from Programme Q (Information Technology Infrastructure and Services) and from major programme users of the service to Subprogramme V.2 (Personnel Management) in Programme V (Administration and General Services).

Technical co-operation programme

6. The provision of technical co-operation by the Agency to Member States is financed from the Technical Co-operation Fund (TCF) and extrabudgetary contributions. The TCF is mainly comprised of voluntary contributions for which a target is recommended each year by the Board of Governors and Assessed Programme Costs paid by recipient Member States. The target figure for voluntary contributions to the TCF recommended by the Board of Governors for 2002 and adopted at the 44th General Conference (GC(44)RES/8) amounts to \$73 000 000; the corresponding indicative planning figure for 2003, according to the resolution, shall be no less than \$74 100 000. The Secretariat's proposals in relation to the Technical Co-operation Fund allocation for 2002 are set out in Draft Resolution B in the Annex to this document.
7. The tentative forecast of the resources for the technical co-operation programme for 2002 amounts to \$74 200 000 and comprises: (a) \$65 600 000 for estimated core project funding and \$3 100 000 for other activities (miscellaneous and programme reserve); and (b) \$5 500 000 for the estimated implementation levels of extrabudgetary activities. This amount does not constitute a target for, or limitations on, funds and does not in any way prejudge the technical co-operation programme for 2002. It is too early to forecast what the technical co-operation programme for 2003 might be.

Working Capital Fund

8. The 44th General Conference approved continuation of the Working Capital Fund (WCF) at the \$18 000 000 level for 2001. This is equivalent to approximately one month's expenditure for the regular budget. No change is proposed for 2002 in Draft Resolution C, The Working Capital Fund in 2002, set out in the Annex to this document.

Cost developments for 2002 and 2003

Price adjustments

9. The Agency has, for many years, followed the policy of "semi-full budgeting", a methodology which has been recognized by the United Nations and its various review bodies, e.g. the Joint Inspection Unit. In this methodology, the trends and expectations for salaries and related expenditures, which depend on index movements and forecasts by the International Civil Service Commission (ICSC), are taken into account. For all other items, the actual increases recorded during the last year for which figures are available (in present circumstances the year 2000) and true increases, if any, expected during the budget year are recovered. For the year 2002, the price adjustments for the various items of expenditure, following the described methodology, are as indicated in Table 3, The Regular Budget by Item of Expenditure. As can be seen in this table, the proposed average price adjustment over the 2001 approved budget level is 6%. The adjustments are applied to the budget proposals for 2002 and 2003. Price adjustments will also be necessary for the second year of the biennium. Separate proposals for the 2003 adjustments to be applied to the 2003 budget estimates will be included in the simplified budgetary document for that year (referred to in paragraph 12 of the Overview) to be submitted to the governing bodies in 2002. These proposals will follow the same methodology for price increases as 2002.

Staff Costs

10. The principal cost elements which contribute to the price adjustments are staff costs. Further details of the increases arising under this heading are given below.

Salaries

11. In estimating future price adjustments for salaries, the actual movement of salaries in the past year is compared with the increases that had been assumed in the budget for that year and differences are taken into account, together with the forecast of the ICSC for the following year. The methodology differs for Professional category and General Service category salaries.
12. For year **2002** Professional salaries, an adjustment of 10.2% over the 2001 budget has been applied based on the following three factors (in accordance with the detailed methodology developed by the ICSC, which the Agency is obliged to follow):
 - a) The increase that was *assumed* for year **2000** in the programme and budget for 2001 was 1.4%; the *actual* increase for 2000 proved to be 1.826%; consequently, an increase of **0.426%** is applied in 2002 to adjust for what actually occurred in 2000.
 - b) In October 2000 the International Civil Service Commission (ICSC), as part of its statutory work, carried out a cost-of-living survey at all UN system Headquarters duty stations (as it does every five years) to re-establish proper purchasing power relativities between the base of the system, i.e. New York, and the other Headquarters duty stations. In late June, the survey results for Vienna were approved by the ICSC for implementation as from 1 July **2001**. The ICSC then provided a projection according to which the corresponding increase for 2002 would be 9.91%. Since an *assumed* increase of 1% for 2001 was included in the 2001 budget, for 2002 the remaining **8.91%** (9.91% minus 1%) of the increase should be included in the price adjustments. However, as explained below, on the basis of the estimates then available from the ICSC, only 8.73% of this was included in the budget

proposals considered by the Board of Governors at its meeting in June; the small additional cost above this will be absorbed in 2002.

- c) The ICSC forecast that was available at the time the price adjustments were made in the 2002 budget proposals projected an additional increase of 2.2% as from 1 July 2002 pursuant to the normal operation of the post adjustment system (i.e. based on the projected movements of the Austrian consumer price index and the other indices of which the post adjustment index is composed). Consequently, an increase of **1.1%**, representing the costs of this increase for half a year, is applied for 2002.

The sum of the factors listed in (a)–(c) above (**0.426%+8.91%+1.1%**) is 10.4%. At the time the price adjustments for 2002 were calculated for consideration by the Programme and Budget Committee and thereafter by the June Board, however, the best estimate available for the overall price adjustment for Professional salaries was 10.2% (see table beneath). Any variation on this figure will be taken into account in compiling the price adjustment for the 2003 budget.

	2000	2001	2002
Forecast increases included in 2001 budget	1.4	1.0	-
Actual increase (2000)/revised forecasts	1.826	9.73*	2.2
Requisite additional increase included in 2002 price adjustments	0.426	8.73*	1.1

13. General Service staff salaries are based on the Consumer Price Index (CPI) in Austria and “Tariflohn” (the Austrian minimum salary scale adjustment factor). In 2000, General Service salaries increased by 1.9% and, since only 1.7% was assumed in the 2001 budget, the residual 0.2% is now due. For 2001, an increase of 1.6% was assumed. Based on the Tariflohn and the CPI, this is more likely to be 2.5%; hence an adjustment of 0.9% is assumed for 2001. In the absence of any data for 2002, an increase of 1.6% (similar to the original proposal for 2001) is assumed, giving a total of 2.7%.

Common Staff Costs (CSC)

14. A range of items is included under the heading CSC, including:

Pensions — Agency share of pension contributions on behalf of Professional and General Service staff;

Insurance — Agency contribution towards health, accident and unemployment insurance of Professional and General Service staff;

Allowances — dependency, end of service, housing;

Grants — assignment, repatriation, education;

Travel — recruitment, repatriation, education, home leave;

Removal of Household Effects — recruitment, repatriation, education, home leave;

Commutation of Accrued Annual Leave — Professional and General Service staff;

Other Common Staff Costs — maternity and sick leave replacements, language training.

15. As shown in the table below — which compares budgeted and actual common staff costs over the 5 years 1997 to 2002 (all figures based on the budget rate of exchange 12.70 Austrian schillings (or €0.9229) to US\$1) — the actual amounts expended on CSC have been increasing since 1997 — owing to the increase in US dollar related costs, including higher contributions following increases in the Professional pensionable remuneration scales. The CSC percentage of salary costs has increased correspondingly from 40.9% to 43.3% owing to the fact that total salary costs, which are schilling based, have been decreasing in dollar terms as a result of the strengthening of the US dollar against the Austrian schilling. The figures show an under-

* Since the June Board, the ICSC has updated this projected increase to 9.91%, slightly above the 9.73% taken into account in the price adjustments for 2002.

provision for CSCs from 1997 to 2000. In view of this trend, the provision for CSCs in this draft programme and budget proposals for 2002–2003 needs to be increased by \$2.6 million for this factor alone. The cost of living adjustment for Professional staff, however, is expected to produce the increase required without any change in the CSC percentage compared with 2001 as adjusted.

COMMON STAFF COSTS at AS 12.70

\$000

	1997	1998	1999	2000	2001	2002*
Amounts budgeted	40 725.4	40 802.6	42 779.0	44 065.1	44 665.1	45 073.0
Actual expenditure	42 298.9	43 412.6	45 070.4	46 700.4	N/A	N/A
(Overrun)/ underrun	(1 573.5)	(2 610.0)	(2 291.4)	(2 635.3)	N/A	N/A
% budget	37.8	37.8	38.8	39.5	39.6	39.6
% actuals	40.9	41.0	42.2	43.3	N/A	N/A

*at 2001 prices

(The 39.6% shown for 2001, rather than the 40% referred to in paragraph 28 of the Explanatory Notes of the programme and budget document for 2001 GC(44)/6, reflects the technical adjustment made for 2002 whereby the funds for United Nations interagency activities were transferred from CSC to the programmes concerned).

Other items of expenditure

16. Since, for items other than staff costs, the actual increases experienced in the previous year are applied to the next budget (i.e. with a two year delay), the question of comparing projections with actual increases does not arise. The 1999 actual increases were applied to the 2001 budget and now the 2000 actual increases will be applied to 2002.
17. For staff travel and non-staff travel, a review of the relevant price movements suggests that price increases of 5.1% and 2.7% respectively, or almost \$690 000 in total, are required. It should be noted that for the 2001 programme and budget, the Agency absorbed an increase of 3.3% in respect of travel cost increases while, in the present proposals, cuts of \$248 000 have been made in staff travel (other than inspection travel) base figures in 2002.
18. Increases in equipment (leased and purchased) and supplies and materials are based on price experience over the previous twelve months. Actual prices movements indicate that increases of 3%, 3.9% and 2.9% respectively are appropriate. The resulting increases amount to almost \$450 000.
19. The phasing in of the balance of an increase in ceiling rates for hospitality, as a result of price increases granted from August 1999 (after 8 years of no change), will result in an increase of 8.0% (or \$16 500) in representation and hospitality for 2002.
20. Since 1991, interpretation services have been provided by UNOV to the Agency, which is charged with actual costs. On the basis of the most recent data concerning charges for these services, a price reduction of 6.5% (or \$55 000) is appropriate for this item.
21. The item of expenditure 'contracts' includes contractual consultant services, sample analytical services, and external editing and translation. Various indices are used, e.g. the external wage index. The weighted average increase suggested by these indices is 2.2% (equivalent to (\$91 000) over all contract areas for most programmes under this item.
22. A comparison of the average cost per research contract in 1999 with that for 2000 indicates that an increase of 2.7% (or \$124 000) is appropriate under this heading.
23. General Operating Expenses consist of VIC common services, rental and maintenance of premises, communications, utilities and related services, freight, storage, and transportation and maintenance of equipment. Increases for the constituent items are calculated separately based on information obtained internally and from UNIDO, together with various published indices and actual tariffs which are weighted according to actual expenditure on each item. A weighted inflation factor of 2.2% or almost \$350 000 is appropriate, based on the price adjustments in the different areas mentioned.