

Explanatory Notes on the Agency's Programme and Budget for 2004–2005

Budget currency and rate of exchange

1. The budget estimates for the biennium 2004–2005 have been based on an exchange rate of 0.9229 euro to one United States dollar, the same as used for the 2003 approved budget. The US dollar is used — notwithstanding 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/euro rate of exchange for a number of consecutive years facilitates comparison of estimates with the budgets for previous years.
2. The total regular budget is estimated at \$268 534 000 for 2004 and \$272 899 000 for 2005 at 2004 price levels — see Table 1. Of these totals, the resources for *Agency programmes* for the two years amount to \$265 697 000 and \$270 062 000 respectively, while the remainder in each case, \$2 837 000 per year for 2004 and 2005, 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 2003

3. Comparisons are made between the financial resources sought for major programmes, programme and subprogrammes in 2004 and 2005 and the corresponding approved resources in the 2003 adjusted budget. These are shown in the budgetary tables and explained at the subprogramme level in the texts describing resources changes and trends. The programme structure shows a significant change compared to 2003 in that the Nuclear Security programme has been moved from Major Programme 4 to Major Programme 3. In addition, former Subprogramme R.1 (INIS) has been transferred from Major Programme 5 to Major Programme 1, where it is shown mainly as Subprogramme C.4 (INIS) but with some related elements under Subprogramme C.3 (Nuclear Knowledge Management). There have also been other changes at subprogramme level and extensive restructuring of projects.
4. To facilitate comparison, the proposed resource levels for 2004–2005 are stated in real terms, i.e. at 2003 prices. Moreover, in view of the differences between the 2004–2005 programme and that for 2002–2003 due to restructuring, it has also been necessary to adjust the approved budget resources for 2003 to show the resource allocations in a way which corresponds to the programme and budget for 2004–2005. It has also been necessary to make adjustments in the 2003 figures to reflect budgetary changes made in 2004 and 2005 which were intended to increase transparency or to present more accurately the programmatic costs of the activities concerned. Unless account is taken in the 2003 budget of all of these resource shifts, valid comparisons cannot be made between the two budgetary periods.

Technical adjustments

5. In addition to the programme adjustments described under Programme and Resource Highlights in the Overview (paragraphs 39 to 76), the main technical adjustments reflected in the 2003 budget figures to make them comparable with the draft programme and budget for 2004–2005 are as follows:

- Financial resources amounting to \$1.215 million, previously included in the shared services Printing and Translation in the 2003 budget have been transferred to Subprogramme S.1 (Direction and Co-ordination) of Major Programme 5 (Information Support Services). The change arises from a reorganization of staffing resources dedicated to co-ordination of printing and translation. It has been decided that the funding for this co-ordination function should be budgeted as part of Major Programme 5 rather than as in previous years as part of the shared services (when the funding was provided by the users of the particular services). The financial provisions take into account the transfer of the cost of the staffing resources needed for the co-ordination function. While nominally increasing the level of resources for Major Programme 5, the transfer has, nevertheless, enabled the substantial savings referred to in paragraphs 23–24 of the Overview to be achieved. Since this transfer does not represent a real increase in the resources of Major Programme 5, a corresponding technical adjustment has been made to the 2003 budget.
 - Because of the convergence of information technology and telecommunications and the similarity in related planning and operations, activities related to telecommunications were transferred from Subprogramme V.3 (General Services) to Programme Q. (Information and Communications Technology). A corresponding transfer of financial resources amounting to \$836 000 has also been effected to reflect this change.
 - Financial resources totalling \$33 000 were transferred from Common Staff Costs to Subprogramme U.1 (Executive Management) and Subprogramme V.2 (Personnel Management) respectively. This transfer represents the Agency's share of costs of the two activities at a) and b) below, and since they arise from decisions by the relevant United Nations co-ordinating bodies, they effectively represent mandatory obligations for the Agency:
 - a) Funding (\$12 000) for the UN Security Co-ordinator (UNSECOORD), representing the Agency's share of the cost of management of security for United Nations staff in the field decided by the High Level Committee on Management (HLCM). Transfer of the funds required from the Common Staff Costs (CSC) is consistent with the decision made for the previous programme and budget cycle (2002–2003) that the Agency's share of cost of participation in joint United Nations activities should be removed from the CSC in 2002 and transferred to the programmes most directly concerned.
 - b) Funding related to the United Nations System Staff College (\$21 000) based on decisions taken by the Board of Governors of the College on its budget and by the CCAQ concerning the apportionment of such costs among the participating organizations.
6. Finally, a technical adjustment has been made concerning activities relating to technical co-operation planning and co-ordination. This relates to the transfer of two posts from Project W.2.02 (Thematic evaluation) (Project W.3.01 in 2003) concerning thematic evaluation in Major Programme 7 to Major Programme 6 (Management of Technical Co-operation for Development). The amount involved is \$187 000.

Technical co-operation programme

7. 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 2004 noted in the 46th General Conference Resolution (GC(46/RES/6) amounts to \$74 750 000; the corresponding indicative planning figure for 2005, also noted in the Resolution, "shall be no less than \$75 000 000".

8. The forecast of the resources required for the technical co-operation programme for 2004 amounts to \$78 731 000 and comprises: (a) \$68 631 000 for estimated core project funding; b) \$2 100 000 for other activities (miscellaneous and programme reserve); and (c) \$8 000 000 for the estimated implementation levels of extrabudgetary activities. It is too early to make a firm forecast of what the technical co-operation programme for 2005 might be but subject to the outcome of negotiations between Member States on the issue a tentative estimate would be \$82 706 000 based on a slightly increased target for 2005 compared to 2004 and an increase in the rate of attainment to 95%.

Working Capital Fund

9. The 46th General Conference approved continuation of the Working Capital Fund (WCF) at the \$18 000 000 level for 2003. This represents somewhat less than one month's expenditure for the regular budget. However, no change for 2004 is proposed in Draft Resolution C, The Working Capital Fund in 2004, set out in the Annex to this document.

Cost developments for 2004 and 2005

Price adjustments

10. 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 other items, the actual increases recorded during the last year for which figures are available (in present circumstances the year 2002), and true increases, if any, expected during the budget year are recovered.
11. For the year 2004, the price adjustments for the various items of expenditure, following the described methodology, are as indicated in Table 4, The Regular Budget by Item of Expenditure. As can be seen in this table, the proposed average price adjustment over the 2003 approved budget level is 2.2%. The adjustments are applied to the budget proposals for 2004 and 2005. A further price adjustment will also be necessary for the second year of the biennium. This adjustment will be included as usual in the simplified budget document for 2005 to be submitted to the governing bodies in 2004. These proposals will follow the same methodology for price increases as in 2004.

Staff costs

12. The principal cost elements which contribute to the price adjustments are staff costs. Details of the increases arising under this heading are given below. It should be noted that staff costs as shown in Table 4 do not represent the full staff costs of the Agency since a substantial proportion of these costs are included in the one line items in this table relating to the Laboratory Activities and Shared Services. To provide more clarity in relation to such costs, additional tables have been added showing the distribution by item of expenditure of the Laboratory Activities (Table 5) and Shared Services (Table 6). The total staff costs are then summarized in Table 7.

Salaries

13. For year 2004 Professional salaries, the price adjustment is based on cost developments over a three year time span. An adjustment of 1.2% over the 2003 budget has been applied based on

the net sum of the factors listed in (a)–(c) below which are derived from UN Common System methodology:

- a) The increase that was assumed for year **2002** in the Agency’s Budget Update for 2003 was 1.0%, based on the forecast of the International Civil Service Commission (ICSC) of the increase in post adjustment. The actual increase for 2002 proved to be 0%; consequently, a reduction of 1.0% is required in 2003 to adjust for what actually occurred in 2002.
 - b) Based on the ICSC forecast that was then available, an increase of 1.7% was applied in the Agency’s budget update for 2003 in respect of the *post adjustment* increase for **2003**. No post adjustment increase is now assumed for 2003. However, an increase in *net base salary* for some Professional and higher grades from 1 January 2003 was approved by the United Nations General Assembly in December 2002 in order to re-establish the appropriate balance (“margin”) between Professional salaries and US Federal Civil Service pay, on which Professional salaries are based. This increase, which was approved by the Board of Governors in March 2003 (GOV/2003/11), is equivalent to an overall increase of 2.2% in Professional salaries. Consequently an upwards adjustment of an additional 0.5% is appropriate for 2003.
 - c) Based on the most recent information supplied by the ICSC, an increase in post adjustment equivalent to an overall increase of 1.7% is forecast for **2004**.
14. In the case of **General Service (GS)** staff salaries an increase of 2.6% over the 2003 budget has been applied in the price adjustment. Pay developments and projections for the same three years (2002–2004) are also taken into account but based on the Consumer Price Index (CPI) in Austria and the “Tariflohn” (the Austrian minimum salary scale adjustment factor). For **2002**, an increase of 2.0% was assumed in the 2002 budget; the actual increase was around 3%, requiring a net upwards adjustment of 1.0% for that year. In the absence of definite data at the time concerning **2003**, an increase of 1.5% in GS salaries was assumed (which was a reasonable prediction based on experience); an increase of 1.7% is now expected, requiring a net upward adjustment of 0.2% for that year. For **2004**, no forecast is yet available and an increase of 1.3% is assumed, giving a total of 2.5%. In addition to this adjustment, revised salary scales retroactive to 1997 were implemented for the small number of GS staff at the Monaco Laboratory, following their retroactive introduction by UNESCO, whose GS salary scale is utilized for GS staff in Monaco. The inclusion of this increase brings the total adjustment for General Service grades to 2.6%.

Common Staff Costs (CSC)

15. The heading CSC includes a range of items:

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.

16. No change is proposed in the basis for estimating CSC — 39.6% of salary costs as in other recent budgets. This proposal, of course, is linked to the increased salary costs included in the draft budget.

Other items of expenditure

17. For items of expenditure other than staff costs, the actual increases experienced in 2002 and true increases expected during the budget year are used to calculate the price increase for 2004. The increases which have been so applied are as follows:
- a) For *staff travel* and *non-staff travel*, a review of the relevant price movements suggests that price increases of 3.4% and 4.4% respectively, are required.
 - b) Since 1991, *interpretation services* have been provided by UNOV to the Agency, which is charged with actual costs. The most recent data concerning charges for interpretation services indicate that no increase for these services is necessary for 2004.
 - c) There has been no change in ceiling rates for *hospitality*, but an increase of 1.75% in *representation allowance*, based on movements in the Austrian Consumer Price Index, will result in a net increase of 0.5% in representation and hospitality combined.
 - d) For external *training*, based on Professional salary adjustments (as outlined above) and increases in fees payable as shown by a relevant Austrian index ("courses for vocational advanced training"), an increase of 2.7% would be appropriate for the item of expenditure 'training'.
 - e) For *equipment (leased or rented and purchased)* and *supplies and materials*, actual price movements indicate that increases of 2.6%, 1.0% and 4.4% respectively are appropriate.
 - f) Based on a comparison of the average cost per *research contract* in 2002 with that for 2001 no increase is called for under this heading.
 - g) *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. In addition, changes in the cost sharing formulae for both the Major Repairs and Replacement Fund (from 1 January 2004) and Buildings Management Services (from April 2003) among Vienna based UN bodies sharing the Vienna International Centre will further increase costs under this heading. A weighted inflation factor of 5.1% is, therefore, appropriate, based on the price adjustments in the different areas concerned.
 - h) 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 resulting from a review of the various indices used is 3.0%.
 - i) The heading *miscellaneous* comprises a wide variety of elements including the Agency's contribution to the Abdus Salam International Centre for Theoretical Physics (ICTP) at Trieste, Italy, membership fees, films, photos, copyright and advertisements. Price adjustments are based on individual items and in the case of ICTP, the Italian CPI. The adjustments for the individual items translates into an overall weighted average increase of 2.2% for this heading.