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PROGRAMME BUDGET FOR THE BIENNIUM 1980-1981

Property disposal procedures

Report of the Secretary-General

Introduction

1. This report has been prepared in response to General Assembly resolution 34 228, dated 20 December 1979, in which the General Assembly requested a report on procedures governing the disposal of surplus property and equipment, together with recommendations on maximizing income. The report contains an indication of the income received during recent years, a description of property disposed of and its condition, a description of the United Nations property disposal system, an explanation of the factors which affect income and an evaluation of possible methods of increasing income. The text of the relevant part of the resolution, operative paragraph two, is reproduced below:

"2. Further requests the Secretary-General to submit to the General Assembly at its thirty-fifth session a report on current procedures governing the disposal of surplus property and equipment, together with recommendations on how these procedures can be improved in the interest of maximizing income from the sale of surplus property and equipment."

Recent income

2. During the course of the last three years, regular budget income from the disposal of property amounted to \$US 405,700 of which \$132,700 was received in 1977, \$93,000 in 1978 and \$179,700 in 1979. Thus, average income during each of these three years amounted to about \$135,000. While these amounts represent the bulk of the income, a small amount of additional income was obtained from disposal of property originally purchased with extrabudgetary or special account funds. Under the terms of the United Nations Financial Regulations, such income is returned to the relevant fund. Also, some property was disposed of by trade-in for new

replacement property in which case the trade-in value reduced the cost of the new property.

3. Only a small proportion of United Nations expenditure relates to the purchase of equipment (less than 1 per cent in the period 197³-1981) and therefore income from its disposal is comparatively low for this reason alone. But, in addition, most equipment is kept until its useful life is over - in the case of office furniture its age when disposed of generally exceeds 20 years and in the case of office machines, 10 years. Property disposal income is normally limited to whatever can be obtained from worn-out items except when programme activities are cut back sharply or terminated. Such an exception can be found in the liquidation of the United Nations Emergency Force (UNEF-1973). To date about \$4 million has been credited to the UNEF accounts as a result of the disposal of assets during late 1979 and early 1980. When disposal action is completed by the transfer to other peace-keeping missions of materials now in storage, income is expected to reach about \$9 million.

Description of property

4. The largest part of the United Nations property disposal activity relates to office furniture and equipment. A small portion of the programme involves the disposal of vehicles, most of which were purchased for use at the various peace-keeping missions. An insignificant part relates to the disposal of conference servicing, communications, building maintenance and other miscellaneous equipment.

5. Most property when disposed of is worn out beyond repair or otherwise unserviceable and has little or no residual commercial value. In many cases it has been repaired frequently during its useful life span. Much of it could be repaired again only at costs higher than the cost of new replacements (for example, a vehicle severely damaged in an accident or an old typewriter). In many of these cases serviceable parts are cannibalized to provide repair parts for identical property still in service. Some property is disposed of when obsolescent (for example, electro-mechanical calculators, black and white television cameras in New York). Disposal of vehicles usually takes place when its age and condition begin to result in unreliability. This usually occurs at about 50,000 miles (80,000 kilometers) or 5 years of age whichever comes first. Exceptions to this formula are made when a vehicle is subject to light use or to extremely heavy use. Some of the material disposed of, such as used carpet and conference room furniture, is so specialized, or was custom designed to United Nations requirements, that there is little or no resale market for it.

Property management system

6. United Nations property management procedures are set out in financial rules 110.25 through 110.37. The rules require the maintenance of complete and accurate records of property, assign responsibilities for the maintenance of records and provide a system of Property Survey Boards at Headquarters and overseas offices to administer the system of property disposal. Such Boards consist of representatives

of the Office of General Services, the Office of Legal Affairs and the Office of Financial Services (or their equivalents at overseas offices). An observer from the Internal Audit Service (or its equivalent) may also attend. These Boards advise the head of the Office of General Services and the head of the Office of Financial Services on the disposal of property, the cause of inventory shortages, overages and damages and the degree of responsibility, if any, attaching to any officer of the Organization for such shortages, overages or damages. Once property has been declared surplus or unserviceable following the recommendation of the Property Survey Board, it is normally sold by soliciting competitive bids. The competitive bidding requirement can be waived under the following circumstances:

- (a) The estimated sales value is, in the opinion of the Board, less than \$2,500.
- (b) The best interest of the United Nations will be served by sale at fixed unit-prices approved by the Board
- (c) The exchange of property in partial or full payment for replacement equipment or supplies will, in the opinion of the Board, be in the interest of the Organization.
- (d) The destruction of the surplus or unserviceable material will be more economical or is required by law or by the nature of the property.
- (e) The interests of the United Nations will be served by disposal by gift or at nominal prices to an intergovernmental organization, a Government or government agency or some other non-profit organization. (For example, when a charitable organization will take equipment which the United Nations would otherwise have to pay someone to remove.)

7. Normally, sales are on the basis of cash payments on or before delivery. There are four principal reasons for disposing of property. They are.

- (a) Unserviceability due to normal wear and tear;
- (b) Obsolescence;
- (c) Damage;
- (d) Surplus to requirements.

8. Sale of property because it is surplus to United Nations requirements as opposed to being unserviceable, obsolete, or damaged represents a very small portion of the income. During the three-year period, 1977-1979, regular budget income from such disposals amounted to less than \$50,000.

Factors affecting income

9. The main factor affecting the amount of income received from disposal of

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property is its condition. Because, as described above, the bulk of such property is worn out or is obsolescent, there is a limited market for it. Special purpose items and scrap remaining after cannibalization are also in this market category. In such cases, where after advertising no offers are received, it has been necessary to sell items as scrap or even to pay to have them removed. Often the material is in such poor condition that no charitable institution will take it as a gift.

10. General economic conditions at the duty station where property is sold are another important factor affecting the amount of income received. For example, during an economic recession, many firms reduce the size of their operations and dispose of used furniture and equipment. As a result, the local used furniture market is oversupplied with items in relatively good condition. Most United Nations property suffers by comparison because it is not offered for sale until it is worn out or obsolescent.

11. Other problems include a lack of interest on the part of potential purchasers because repair facilities and spare parts are not available locally (for example, for a specialized printing press). Occasionally, unsalable equipment cannot simply be abandoned because local laws prohibit such action. In this case it is necessary to dismantle it and sell the pieces as scrap.

12. In many countries procedures are affected by the fact that most United Nations equipment is brought into the country free of duty under the terms of the Convention on Privileges and Immunities. Local laws generally require that a purchaser who is a national of the country, or who otherwise does not qualify for duty-free privileges, must pay the duty and in many instances, at the rate applicable when the item was new. Additionally, in some countries certain kinds of property, such as communications or reproduction equipment, can be sold only to other organizations having duty-free privileges or to the local authorities. In both cases, the market is limited to government agencies or diplomatic missions, entities which in these circumstances normally have little or no interest in used equipment.

13. A certain amount of equipment is transferred to host Governments or institutions as part of technical co-operation assistance. When such equipment, usually vehicles, is not considered part of the assistance, it is generally transferred to the custody of the United Nations Development Programme resident representative upon completion of the project for use in other technical co-operation projects.

14. Property transferred to other United Nations entities or projects is normally sold at depreciated value. The cost is calculated by dividing the original purchase price by the estimated life-span and charging the receiving organization with the cost applicable to the remaining life-span.

Methods of increasing sales income

15. The procedures for disposal of property which is unserviceable, obsolete,

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damaged or surplus to requirements are designed to balance the need to minimize administrative problems, manpower needs and costs while maximizing income. Nevertheless, some modification of the procedures may result in increased income. Three income-increasing techniques have been identified and are planned to be used more frequently:

(a) The establishment whenever possible of a minimum acceptable price. Under this arrangement, there is a price limit below which no bid is accepted. If the volume of material and number of items is sufficiently large, it may be advantageous to obtain the services of a professional appraiser to set the minimum prices

(b) Sale by public auction. If the volume or value of the material is sufficiently large, it could be desirable to employ an auction house to handle the sale on commission;

(c) Greater emphasis on sale to staff members. An analysis of sales records indicates, for example, that the sale of used typewriters and used furniture produced greater income when sold individually to the staff than when sold in bulk to dealers. It must be appreciated however that the administrative costs of such sales exceeds the cost of the bulk sales procedure.

Conclusion

16. On the basis of this review, the Secretary-General concludes that existing procedures and practices are generally appropriate for meeting the two fold objective of maximizing income while minimizing disposal costs. Because of the nature of the equipment disposed of, its limited volume and frequently poor condition, and the constraints imposed by local laws, revenue from this source will always be relatively small except in the case of a major programme cancellation. Nevertheless, there appears to be some limited scope for increasing revenue through more frequent use of the techniques of setting minimum acceptable sale prices, sale by public auction and sale to staff members.