



General Assembly

Distr.
GENERAL

A/AC.96/1026/Add.1
25 September 2006

ENGLISH
Original: ENGLISH AND FRENCH

EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

Fifty-seventh session
Geneva, 2-6 October 2006
Item 7 of the provisional agenda

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES'
ANNUAL PROGRAMME BUDGET 2007

Submitted by the High Commissioner*

Addendum

Report of the Advisory Committee on Administrative and Budgetary Questions
on biennial budget estimates 2006-2007

* Late submission due to timing of meeting ACABQ on 7 September 2006 and submission of report to UNHCR only on 19 September 2006.

I. GENERAL

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations High Commissioner for Refugees entitled “UNHCR’s Annual Programme Budget 2007” (A/AC.96/1026). The Committee also had before it the following documents:

(a) *Comprehensive policy guidelines for consultants in the Office of the United Nations High Commissioner for Refugees* (A/61/201)

(b) *Financial report and audited financial statements for the year ended 31 December 2005 and Report of the Board of Auditors, United Nations High Commissioner for Refugees* (A/61/5/Add.5)

(c) Report on the implementation of the recommendations of the Board of Auditors on the financial statements of the United Nations funds and programmes for the financial period ended 31 December 2005 (A/61/214/Add.1)

2. During its consideration of the report, the Advisory Committee met with representatives of the High Commissioner, who provided additional information and clarification and exchanged views in connection with the findings and recommendations included in the report of the Board of Auditors (A/61/5/Add.5). The Committee makes further comments and observations in this regard in the context of its report to the General Assembly on the financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2005 (A/61/350).

3. The estimated budgetary requirements for the 2007 Annual Programme Budget amount to \$1,042,926,300, broken down as follows:

Area	Amount (United States dollars)	Percentage
Programmes	550,599,500	53%
Programme support, both field and headquarters	255,982,500	25%
Management and administration, including United Nations regular budget contribution of \$34,431,700	86,987,400	8%
Operational Reserve *	89,356,900	9%
New or additional activities -mandate related *	50,000,000	5%
Junior Professional Officers	10,000,000	1%
Total	1,042,926,300	100%

* see paragraph 17 below

4. The resources proposed for 2007 represent a decrease of 9 per cent as compared to the Executive Committee's approved 2006 Annual Budget of \$1,145,297,000 (further revised to \$1,146,796,900). The budget parameters are indicated in paragraphs 37-40 of the budget document. The Committee notes that the revised Supplementary Programme Budget for 2006 amounts to \$288,007,800, compared to expenditure of \$258,475,300 for 2005 (A/AC.96/1026, tables I.3 and I.4). The Committee recalls that supplementary programmes are funded through contributions in reply to special appeals. The supplementary programmes anticipated for 2007, at this stage, are indicated in paragraph 44 of the budget report.

II. GAP BETWEEN BUDGETS AND FUNDS AVAILABLE

5. Paragraphs 21-31 of the budget document summarize the situation regarding resources and expenditures in 2005 and 2006. The Committee notes that the gap between budget and funds available has widened in 2005 and 2006, becoming a recurrent theme of the annual programme. The Board of Auditors' comments and recommendations on this issue are contained in the financial highlights and paragraphs 31-46 of its report (A/61/5/Add.5). The Committee shares the Board's concern regarding UNHCR's sustainability of expenditures in view of the income evolution, as for the past six years expenditures have been higher than income, thus leading to stagnating reserve and fund balances at the end of the year. The Committee further requested information summarizing UNHCR fund balances from 2000 to 2006, which is attached as an annex.

6. As indicated in the budget document, the funding gap between total available funds and the budget approved by the Executive Committee for 2005 amounted to \$102.2 million, compared to \$28.9 million in 2004, forcing UNHCR to impose a number of "caps" on programme budgets and non-staff administrative costs during the year (i.e., reduction in spending authority). Factors cited as contributing to the situation included the fact that the contributions received did not keep up with the budgetary increase in the Annual Programme, good portion of the contributions received went towards the Supplementary Programme and the vulnerability in terms of foreign currency fluctuations which led to high exchange rate losses – \$36 million in foreign exchange losses in 2005 compared to gains of \$6.9 million in 2004 (A/AC.96/1026, para. 25). UNHCR ended 2005 having to borrow \$12.2 million from the Working Capital and Guarantee Fund.

7. The Committee notes that UNHCR, since the approval of the Annual Programme Budget for 2006 by the Executive Committee in October 2005, and again anticipating a funding shortfall, introduced further caps on programme budgets in late 2005 on non-staff administrative costs, on the operational reserve, as well as, in the second quarter of 2006, budgetary reductions at headquarters.

8. In his foreword to the 2007 programme budget, the High Commissioner emphasizes increasing financial stability as one of UNHCR's top priorities, further indicating that the 2007 budget is based on the 2006 austerity levels and that, in terms of long term stability, measures have been taken to reverse the trend of increasing staff numbers and administrative costs in relation to the operational budget. The Committee also notes that UNHCR plans to implement,

in 2007, a Treasury Management System, which, among other things, would mitigate foreign exchange exposure by matching cash inflows and outflows in the various currencies (see paragraphs 28 and 31 below).

9. Since 97 per cent of UNHCR's resources in the form of voluntary contributions, the Committee stresses the importance of increasing the level, of ensuring predictability, flexibility and early funding, particularly in the context of the upcoming biennial budget cycle, as well as of expanding the base. In this regard, the Committee notes that unearmarked contributions represented 18 per cent of the total resources for 2005, as compared with UNHCR's target of 25 per cent (A/61/182, para. 61). The Committee welcomes the implementation of centrally managed incentive-based fund raising, at the field level, and encourages further efforts to increase private sector funding. The Committee notes that UNHCR has set a target of \$100 million annually to be raised from private sources by 2010 –an investment of \$8.4 million in the 2007 budget for such activities is expected to generate \$37 million in private sector income in 2008 (A/AC.96/1026, para. 153).

10. In addition to this, paragraphs 121-126 of the budget document provide information on UNHCR's Structural and Management Change Process initiated in early 2006. As indicated therein, this process implies reviewing the organization's structures, processes, implementing arrangements, and workforce composition, with the overall aim of ensuring that UNHCR's delivery systems are more flexible and better aligned with the current challenges facing the Office. The Committee notes that the 2007 budget submission does not include or reflect any possible change initiatives to be identified but that, by the end of 2006, a framework plan and budget would be in place with detailed planning continuing thereafter for implementation over a two to three year period. The Committee expects to see the results of this review along with proposals for changes and improvements in the context of the 2008-2009 biennial budget.

11. The Committee notes the declining share of partners in programme implementation. Upon enquiry, it was informed that the change management process would include an examination of the reasons for this decline and as well as an analysis of the cost of direct implementation compared to working with partners.

III. PRESENTATION

12. The Advisory Committee welcomes the changes and improvements which make the budget presentation more streamlined, concise and reader-friendly, as requested by the Committee in its report (A/AC.96/1011/Add.1). However, the Committee is of the opinion that there is room for further improvement by avoiding repetitions throughout the document and by formulating more precise indicators of achievement and introducing a greater number of performance measures. Moreover, paragraphs 57-113 summarize the 2007-2009 regional and headquarters strategic objectives. While the Committee welcomes the information, it notes that there is no information on the linkage between the objectives set out therein and the resources proposed for this purpose in the 2007 budget. Also missing throughout the submission is performance information. The Committee recommends that information containing an analysis or evaluation of programme implementation be included, in order to better justify the requirements proposed.

13. The Advisory Committee notes that the 2007 programme budget will be the last annual presentation, as UNHCR moves to a biennial programme/budget cycle, effective as of the 2008/2009 biennium. In this connection, the Committee welcomes UNHCR's efforts to harmonize its budget with those of other United Nations funds and programmes as well as its consultations on the implementation of results based budgeting in conjunction with biennialization (A/AC.96/1026, Annex I). The Committee points out that a move to a two-year budget highlights the importance of addressing the challenges in predicting and securing funding for the second year of the biennium.

14. The Committee notes that UNHCR remains committed to the implementation of results based management (RBM) with the aim of increasing the accountability of the Organization and of its managers. To this end, UNHCR embarked in the development of an RBM software, to be fully integrated with the Management Systems Renewal Project (MSRP) database and Project Profile software, allowing registration data to serve as the basis for programme planning. The software, built in 2006, is to be piloted and refined in 2007, and rolled out globally in 2008. The Committee expects this to improve the quality of programmes, resource management and assessment and analysis of results. Paragraphs 127-132 of the budget document provide information in this regard, indicating other initiatives, as well such as the introduction of a multi-year Corporate Plan to serve as the basis of annual work plans, the strengthening of performance management and of policy development and evaluation functions.

IV. REFUGEES AND OTHER PERSONS OF CONCERN

15. As shown in Annex II of the budget document, the total population of concern to UNHCR has increased from 19.5 million at the beginning of 2005 to 20.8 million by the end of 2005, on the basis of figures provided by governments and/or derived from UNHCR supported census operations (not including Palestinian refugees who fall under the mandate of the United Nations Relief and Works Agency for Palestine Refugees (UNRWA)). However, as indicated in paragraph 10 and shown in figure A, the proportion of refugees, among the total population of concern, has begun to decline, accounting for 40 per cent by the end of 2005, while the internally displaced persons (IDPs) has increased accounting for 32 per cent.

16. UNHCR's role in a "cluster approach" endorsed by the Inter-Agency Standing Committee (IASC) in December 2005 dealing with the need to protect and assist IDPs is to focus on three of nine identified clusters: protection, emergency shelter, and camp coordination and management (paras 5-6, A/AC.96.1026). The Committee notes, however, that this presents new challenges to UNHCR in ensuring the availability of resources for financing these responsibilities without diverting those made available for refugee purposes. The Committee further notes UNHCR's intention to participate actively in the inter-agency processes and related pooling mechanisms such as the Central Emergency Response Fund.

V. OPERATIONAL RESERVE

17. The Committee recalls that UNHCR's Operational Reserve had two components: (a) Category I, corresponding to the traditional purposes of the Operational Reserve as defined in Financial Rule 6.5, set at the level of 7.5 per cent of the proposed programme activities and (b)

Category II, introduced in 2004 on a pilot basis to accommodate additional contributions for expanded or new activities falling within the mandate of the Office but not included in the Annual Programme Budget. As indicated in paragraphs 49-51 of the budget report (A/AC.96/1026), following an independent evaluation, the Standing Committee at its 36th meeting in June 2006 decided to recommend that the Executive Committee take a decision at its 57th annual plenary session (October 2006) to incorporate the former Category II, now entitled "New or additional activities - mandate related", outside the Operational Reserve, with an appropriation level up to \$50 million, further authorizing UNHCR to charge an overhead charge of 7 per cent to be deducted from contributions to the proposed budget category. The Operational Reserve (Category I), serving its same previous purpose, is maintained but its level is reverted from 7.5 per cent to 10 per cent.

VI. UNITED NATIONS REGULAR BUDGET

18. Information concerning the United Nations contribution from the Regular Budget to cover UNHCR's administrative expenditures is presented in paragraphs 18-20 (A/AC.96/1026). The contribution, submitted in the form of a grant, amounts to \$34.4 million for 2007, compared to \$32.8 in 2006 and \$38.5 in 2005. The contribution covers the costs of 220 posts financed from the United Nations Regular Budget and their related non-staff costs (see table II.9 for the distribution of these posts). The Committee notes that in 2004, resources from the regular budget met 37 per cent of management and administration costs and 8 per cent of programme support costs whereas, for 2005, they met 45 per cent and 14.9 per cent, respectively. The increase for 2005, however, was mostly due to an amount of \$5.13 million provided by the regular budget to cover costs related to the enhancement of security measures at Headquarters. UNHCR hopes that these United Nations regular budget contributions will continue to increase by some \$2-\$2.5 million per biennium, contributing to the progressive implementation of Article 20 of the Statute of the Office (A/AC.96/1026, para 19).

VII. SUPPORT BUDGET FOR 2007

19. The support budget for 2007, covering programme support (both field and headquarters) and management and administration (headquarters) is estimated at \$342,969,900, as compared with resources of \$362,057,300 approved by the Executive Committee for 2006 (revised at \$389,088,800) (see table II.4). The decrease reflects the reduction in posts which started in 2006 resulting from austerity measures and efforts to reduce administrative costs (see paragraph 7 above).

20. As indicated in paragraphs 155-158 and table I.5 of the budget document, the total number of proposed posts for 2007 is 5,289, reflecting a net decrease of 612 posts over the period 1 January 2006 to 1 January 2007. Of this total, 869 posts are proposed for UNHCR headquarters and global programmes and 4,420 for field activities. In terms of the distribution of posts by category for 2007, programme posts account for 48.4 per cent of the total, programme support posts for 42.3 per cent and management and administration post for 9.3 per cent of the total. The Committee notes that UNHCR also has recourse to United Nations Volunteers (UNVs) and Junior Professional Officers (JPOs) posts. At the end of July 2006, 599 UNVs and 105 JPOs were deployed in various UNHCR operations.

21. The Committee notes instructions were released in early 2005 by UNHCR on the proper use of consultants and individual contractors in response to the audit by the Office of Internal Oversight Services (see paragraph 177, A/AC.96/1026). A total of 212 consultants were employed during the first seven months of 2006, compared to 265 during 2005.

22. The Committee also notes the report on the Comprehensive policy guidelines for consultants in the Office of the United Nations High Commissioner for Refugees (A/61/201), submitted in compliance with General Assembly resolution 59/270 of 23 December 2004 which summarizes the introduction of a new policy consistent with United Nations administrative instruction ST/AI/1999/7 and its Amendment 1 of 15 March 2006 on consultants and individual contractors, introducing, however, a new type of consultancy (Locally Hired International Consultant). The Advisory Committee will make such comments and observations as it may have in this regard in the context of the submission of the Secretary-General's upcoming report on Human Resources Management to the General Assembly.

23. In paragraph 125 of its report A/61/5/Add.5, the Board of Auditors points out that, as of May 2006, UNHCR had not fully implemented the previous Board recommendation that it completely phase out the use of project staff. The Committee notes from the UNHCR's comment in Annex I.7 of the budget document that, for two of the deployment schemes in case of emergency (surge and resettlement), UNHCR has signed agreements with two NGOs, which maintain a roster of individuals for quick mobilization and deployment, thus allowing recruitment under a rapid deployment scheme as additional workforces with clear terms of reference, arguing that this rapid deployment scheme should not be considered "project staff". The representatives of the High Commissioner indicated that the use of project staff, as defined previously, has been eliminated. The Committee was further informed that the fast-track model for the deployment of staff, introduced in 2003 on a trial basis, was also being considered for elimination, as no such procedures were applied in the first seven months of 2006, compared to a total of 12 during the period from July to December 2005 (of which 8 were subsequently withdrawn) (A/AC.96/1026, paras. 169 and 179).

24. The Advisory Committee requested UNHCR to comply with the Board of Auditors recommendations concerning the practice of retaining staff members who have completed a standard assignment in one duty station and being considered for appointment to another, on special leave with pay, in view of the high costs to the Organization (A/60/387, para. 9). The Committee notes from the Board of Auditors report that the number of staff in between assignments (SIBAs) decreased by 40 per cent from 2003 to 2005, or from 187 to 113 (A/61/5/Add.5, table 1). However, as of July 2006, there were 128 staff members in between assignments (A/AC.96/1026, para. 170). The Committee was informed that UNHCR is committed to reduce the number of such staff, which remains a management challenge, through the adoption of new rules of procedure and guidelines with a view towards ensuring full time assignments. The Committee recommends that UNHCR continue to monitor the situation as well as its efforts so as to eliminate recurrence of this problem.

25. Paragraphs 104-112 refer to the development of a new workforce strategy for 2007-2009, providing a brief description of UNHCR priorities with regard to human resources management. The Committee recommends that the next budget submission include information on what has been achieved or remains to be achieved with time lines for implementation of such initiatives identified.

26. The Committee enquired as to the cost of termination of staff resulting from the staffing cuts in 2006 and those proposed for 2007 and was informed that an amount of \$4 million had been budgeted for 2006 and the same amount was anticipated for that purpose for 2007. The Committee further notes that, in order to assess possible options for funding liabilities for after-service health insurance, UNHCR is awaiting action by the General Assembly on this issue (see General Assembly resolution 60/255 (part III)).

VIII. FINANCIAL MANAGEMENT AND INFORMATION TECHNOLOGY

27. The Committee notes that UNHCR identifies three areas of focus for 2007-2009 with regard to financial management (A/AC.96/1026, paras. 100-103):

- (i) assuring financial stability;
- (ii) advancing in Business Process Re-engineering (BPR) through the Management Systems Renewal Project (MSRP);
- (iii) improving internal control systems.

28. The elements identified with assuring financial stability include the implementation of the biennial programme budget cycle, starting with the 2008-2009 biennium (see paragraph 13 above); enhancing the capacity to carry out global and regional budget analysis (see paragraph 14 above); preparations for the introduction of the International Public Sector Accounting Standards (IPSAS) from 2010 and implementation, in 2007, of a Treasury Management System (see paragraph 31 below). Although the adoption of IPSAS is planned for 2010 at the latest, some pilot organizations will implement as early as 2008. UNHCR should avail itself of lessons learned and undertake training early. The Committee expects that resources for this purpose will be included in the biennial budget for 2008-2009.

29. The Committee notes that the implementation of PeopleSoft Finance and Supply systems has allowed UNHCR to start carrying out business processes re-engineering (BPR) to be implemented in the areas of budget, finance, supply chain and administration at headquarters and in the field. Furthermore, internal control systems are planned to be further enhanced to improve accountability and transparency, minimizing risks for mismanagement irregularities and waste. In this connection, the Committee was informed that measures taken up to now include strengthening the Inspector General's Office, a training programme for staff called for specific investigations as required, and increased efforts in communication. For example, in February 2006, UNHCR launched the "Accountability Portal" accessible to all staff from the Intranet, serving as repository of information related to human and financial resources and providing links to information such as the Fraud Bulletin. The Committee welcomes the measures taken and recommends UNHCR continue to strengthen controls and mitigate the risk of fraud. However, as indicated in paragraph 25 above, information should be included in the next budget

submission as to the status of the financial management initiatives undertaken, time frames for completion, as well as an indication of what has been accomplished, efficiency gains or even savings achieved.

30. As shown in table II.13 (A/AC.96/1026), the initial resources proposed for information technology for 2007 are estimated at \$38,620,100, compared to an amount of \$43,921,000 approved by the Executive Committee for 2006 (revised to \$43,462,000) (see also paras. 140-148). The focus of the ICT strategy continues to be the completion of the Management Systems Renewal Project (MSRP), including implementation of the new Payroll system to be launched in January 2007, further enhancements to the Finance and Supply Chain modules and a Fleet Management facility developed for global use. The Committee notes that approximately 100 offices will have online access to MSRP by October 2006 and that remaining offices will gain access during 2007. Field roll out and upgrades of the Project Profile is also envisaged.

31. A Treasury Management System with basic treasury and cash management functionalities to automate cash management systems, integrate cash inflows and outflows, treasury risk management and cash and investing accounting is planned to be implemented in 2007 (see A/AC.96/1026, para. 147-148 and paragraph 28 above). Its cost is estimated as a one-time investment of approximately \$1 million in 2007, expected to produce efficiencies and savings in addition to strengthening controls.

32. The Board of Auditors, in its report (A/61/5/Add.5, paras. 111-123) points out weaknesses in the monitoring of audit certificates to UNHCR by its implementing partners, as well as inadequacies in the rules for partner audit certification in providing assurance about proper use of funds. The Committee recommends implementation of the Board's recommendations that UNHCR review the mechanisms for the audit of expenditure incurred by its implementing partners, assessing efficiency of the procedures introduced in 2004, enhancing monitoring in this regard, and that it review the timetable for submission of audit certificates.

IX. SECURITY

33. Table II.10 of the budget document shows that an amount of \$38.1 million is proposed for security costs, compared to \$39.9 million budgeted for 2006 and \$41.2 million spent in 2005. The amount proposed for 2007 includes \$8,536,700 for UNHCR's contribution for common system staff safety and security costs, and \$29,524,900 for internal staff safety and security costs. However, as indicated in paragraph 135, the estimated requirements for 2007 may increase due to the contribution UNHCR will have to make to the United Nations cost-shared security management system and needs that may be further identified arising from changes in security phases.

UNHCR - FUND BALANCES FROM 2000 TO 2006
(in thousands of US dollars)

Annual Programme (AB) excluding the Regular Budget	2000	2001	2002	2003	2004	2005	2006 est.
Total funds available	761.1	721.3	729.2	763.3	894.0	843.6	889.6
Total expenditures	707.5	677.6	698.1	714.8	869.7	835.9	883.6
Fund balances	53.6	43.7	31.1	48.5	24.3	7.7	6.0
Supplementary Programmes (SB)	2000	2001	2002	2002	2004	2005	2006 est.
Total funds available	74.5	144.7	218.5	282.1	197.5	317.2	232.8
Total expenditures	67.2	95.8	200.1	232.6	156.8	258.5	174.0
Fund balances	7.3	48.9	18.4	49.5	40.7	58.7	58.8
Other Funds	2000	2001	2002	2002	2004	2005	2006 est.
Regular Budget (RB)							
Total funds available	19.6	20.4	21.0	28.2	27.7	39.3	32.9
Total expenditures	19.6	20.4	21.0	28.2	27.7	38.5	32.9
Fund balances	-	-	-	-	-	0.8	-
Junior Professional Officers (JPO)							
Total funds available	14.0	13.1	13.6	14.6	16.9	16.2	17.0
Total expenditures	7.1	7.1	7.2	7.4	8.3	8.7	9.5
Fund balances	6.9	5.9	6.4	7.2	8.6	7.5	7.5
Working Capital and Guarantee Fund (WCGF)							
Total funds available	50.9	38.9	51.6	51.0	51.0	38.8	38.0
Total expenditures	0.9	0.9	1.6	1.0	1.0	1.1	1.0
Fund balances	50.0	38.0	50.0	50.0	50.0	37.7	37.0
Medical Insurance Plan (MIP)							
Total funds available	10.5	13.6	15.3	17.4	19.9	22.9	24.0
Total expenditures	1.1	1.2	1.4	1.6	1.7	2.0	2.0
Fund balances	9.4	12.4	13.9	15.8	18.2	20.9	22.0
Sub-total Other Funds	2000	2001	2002	2002	2004	2005	2006 est.
Total funds available	95.0	85.9	101.5	111.2	115.5	117.2	111.9
Total expenditures	28.7	29.6	31.2	38.2	38.7	50.3	45.4
Fund balances	66.3	56.3	70.3	73.0	76.8	66.9	66.5
Grand Total	2000	2001	2002	2002	2004	2005	2006 est.
Total funds available	930.6	951.9	1,049.2	1,156.6	1,207.0	1,278.0	1,234.3
Total expenditures	803.4	803.0	929.4	985.6	1,065.2	1,144.7	1,103.0
Fund balances	127.2	148.9	119.8	171.0	141.8	133.3	131.3
Grand Total (without WCGF and MIP)	2000	2001	2002	2002	2004	2005	2006 est.
Total funds available	869.2	899.5	982.3	1,088.2	1,136.1	1,216.3	1,172.3
Total expenditures	801.4	801.0	926.4	983.0	1,062.5	1,141.6	1,100.0
Fund balances	67.8	98.5	55.9	105.2	73.6	74.7	72.3