



UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
GENERAL

A/33/7/Add.8
3 November 1978

ORIGINAL: ENGLISH

Thirty-third session
Agenda item 100

PROGRAMME BUDGET FOR THE BIENNIUM 1978-1979

Presentation of the United Nations budget

Ninth report of the Advisory Committee on Administrative
and Budgetary Questions

I. INTRODUCTION

1. The Advisory Committee on Administrative and Budgetary Questions has considered two reports submitted by the Secretary-General on presentation of the United Nations budget. They are: (a) advantages and disadvantages of "semi-full budgeting" (A/C.5/33/10), and (b) implementation of the budget (A/C.5/33/11). The Advisory Committee understands that the Secretary-General intends to submit additional reports on the subject of presentation of the United Nations budget for consideration during the current session of the General Assembly. The Advisory Committee will consider those reports as and when they are received.

II. ADVANTAGES AND DISADVANTAGES OF "SEMI-FULL BUDGETING"

2. The report of the Secretary-General on the advantages and disadvantages of semi-full budgeting (A/C.5/33/10) has been submitted pursuant to paragraph 2 (c) of General Assembly resolution 32/211.

3. The Advisory Committee notes that at the present time the United Nations and the specialized agencies apply full budgeting, the sole exception being the United Nations Educational, Scientific and Cultural Organization (UNESCO) which calls its practice "semi-full budgeting".

4. The purpose of full budgeting is to anticipate, to the extent possible, in the initial budget estimates being prepared, all cost and price increases or decreases that can be foreseen for the budget period under consideration, thereby minimizing the need for supplementary appropriations. Under full budgeting, as practised in the United Nations, the budget base is calculated at average prices prevailing during the year preceding the new biennium; anticipated inflation costs for the first and the second years of the new biennium are then added to the base.

5. Under semi-full budgeting as practised by UNESCO the initial estimates for the biennium include the cost increases which are expected to arise in the first year, but exclude the further increases over the first-year level which may occur in the second year. The first-year-level increases are over a base calculated at prices expected to prevail on the last day (31 December) of the year preceding the new biennium.

6. As the Secretary-General indicates in paragraph 12 of his report, the main difference between semi-full budgeting and full budgeting as practised by UNESCO and the United Nations respectively lies in their different methods of computing base costs and in UNESCO's non-provision for further inflation in the second year of its budget. The base of the UNESCO budget is higher than the United Nations base, thereby providing the Director-General with somewhat greater resources in the first year of the biennium than would have been the case under United Nations practice, and diminishing the full impact of omitting provision for further inflation during the second year.

7. The Advisory Committee recalls that at the time UNESCO and the United Nations adopted their respective practices of semi-full and full budgeting, the inflationary pressures in the world were not of the magnitude existing today, and that currency rates were relatively stable. In those circumstances both organizations - and, before them, the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies - could strive for a system of budgeting which would eliminate, or at least substantially reduce, recourse to supplementary appropriations, and would lay stress on the desirability of meeting extra costs through transfers within the approved level of the budget. The present situation of high inflation and currency fluctuations militates against the ability of organizations to forecast accurately their budgetary requirements. In practice, both UNESCO and the United Nations have had to seek supplementary appropriations in order to make up for unforeseen shortfalls resulting from inflation and currency movements.

8. The Advisory Committee concludes, therefore, that in the present circumstances there is no obvious advantage to be gained by the United Nations in abandoning full budgeting for semi-full budgeting. Should circumstances change, and greater stability return, the question of semi-full budgeting might usefully be given further consideration.

III. IMPLEMENTATION OF THE BUDGET

9. In his report (A/C.5/33/11), the Secretary-General addresses himself principally to the question of allotment control, which was the subject of specific observations of the Board of Auditors in paragraphs 51 to 55 of the special report annexed to the Board's report on the accounts for the biennium 1976-1977. 1/

1/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 5 (A/33/5), vol. I.

10. The Secretary-General explains that at present, after the General Assembly has voted the budget appropriations by section, the Controller issues allotment advices to the programme managers in accordance with rule 110.1 (a) of the Financial Rules of the United Nations, which reads:

"The Controller is responsible to the Secretary-General for ensuring that the expenditure of the Organization remains within the appropriations as voted and is incurred only for the purposes as approved by the General Assembly."

These allotment advices constitute the authorization to programme managers to commit funds, usually for one year at a time, and/or for a specific purpose. The advices are broken down in much greater detail than the appropriations as voted by the Assembly.

11. Within the limits of the allotment advice issued to him a programme manager has been allowed to shift resources within the organizational unit for which he is responsible, provided such shifts do not involve transfers between objects of expenditure. Transfers between objects of expenditure require the prior concurrence of the Controller.

12. In paragraph 11 of its report, the Board of Auditors states that in a meeting with the Administration it emphasized its concern that the high degree of decentralization of programme management which had become essential because of the growth in activities and financial resources administered had not been accompanied by central procedures capable of coping adequately with this decentralization and growth. 2/

13. In paragraph 14 (a) to (f) of his report (A/C.5/33/11), the Secretary-General outlines the main features of his revised allotment policy. In particular, programme managers will no longer be allowed to exceed the sums allotted in allotment advices issued to them, or to transfer funds between programmes within a given section even when such transfers do not involve transfers between objects of expenditure. Thus all changes in resource allocations will require issuance of revised allotment advices, subject to the Controller's approval.

14. Flexibility in implementation of allotments will now take the following forms:

(a) Departmental heads will be permitted to redeploy, on their own authority, posts between programmes within a section for a period up to six months within a biennium (proposals for permanent redeployment will require the prior approval of the Controller);

(b) For certain objects of expenditure, the allotments to programmes will be reduced by a total of 10 per cent and the balance will be allotted to the departmental head who will be authorized to reapportion it to programmes as required.

2/ Ibid., sect. IV.

Observations of the Advisory Committee

15. Financial regulation 4.1 states that:

"The appropriations voted by the General Assembly shall constitute an authorization to the Secretary-General to incur obligations and make payments for the purposes for which the appropriations were voted and up to the amounts so voted."

16. The intent of this regulation may be interpreted in several ways. At one extreme, it can be argued that the regulation permits maximum flexibility in the transfer of funds between objects of expenditure, programmes and subprogrammes within a section so long as the approved appropriation for the section as a whole is not exceeded and the purposes for which the appropriation has been voted are not changed. At the other extreme it can be argued that since consideration of the budget proposals by the General Assembly is based on detailed estimates by programme, subprogramme and object of expenditure, those details determine the "purposes" for which funds are appropriated.

17. The Advisory Committee recalls that the General Assembly has from time to time imposed limitations on certain expenditures such as those for consultants and travel. The Assembly also approves the manning table of the Organization. The effect of these decisions is to circumscribe the flexibility within appropriation lines allowed the Secretary-General in spending resources approved for such items as consultants, travel and personnel services. Where such limitations do not exist, the Advisory Committee recognizes that there may be deviations in spending the approved resources but these deviations should not be of such a nature and magnitude as to cast doubt on the validity of the justifications given by the Secretary-General for his request for resources.

18. The Advisory Committee notes that it is proposed that allotments will continue to be issued and controlled along both programme and object of expenditure lines. While the Advisory Committee agrees with the underlying objectives of the proposed allotment system, which is to ensure discipline in the way money is spent, it cautions that if allotments were broken down into amounts of only a few thousand dollars each, there would be need for a great number of adjustments and much additional paperwork would be generated. The Advisory Committee is concerned also that if the proposed allotment system is too rigid, programme managers, in their efforts to avoid having to justify and to request the issuance of revised allotment advices by the Controller, may seek to secure larger appropriations. That would result in larger total budget requests being submitted to the General Assembly. The Board of Auditors, in paragraph 56 of the annex to its report on the accounts for the biennium 1976-1977, has also cautioned against the possible creation of rigidities by putting too much detail into allotments.

19. Furthermore, the Advisory Committee is of the view that care must be taken to ensure that the accounting system is responsive to the demands placed upon it by the allotment control procedures. Otherwise, the procedures will tend to be disregarded.

20. The Advisory Committee notes that it is the intention of the Secretary-General to consult with other agencies in order to benefit from their experience. At its spring 1978 session the Advisory Committee invited the agencies to provide to it details of their allotment procedures. The information provided by the ILO, FAO, UNESCO and WHO is summarized in the annex to this report; in the Committee's view the practices of the smaller and highly centralized agencies are less relevant to the needs of the United Nations.

21. The Advisory Committee notes that full implementation of the revised allotment system is planned for 1 January 1980. The Committee intends to return to the question in the context of the Secretary-General's programme budget proposals for the biennium 1980-1981, once the detailed administrative measures have been worked out by the Secretary-General in consultation with other agencies.

ANNEX

Allotment procedures of the International Labour Organisation,
the Food and Agriculture Organization of the United Nations,
the United Nations Educational, Scientific and Cultural
Organization and the World Health Organization

A. International Labour Organisation

1. The appropriation line in the ILO budget is the "item" which corresponds on the programme side to a major programme. The ordinary budget of the Organisation for 1978-1979 contains 29 items, of which the smallest is \$764,000 and the largest \$20.4 million. a/ Transfers between items require special resolutions of the Governing Body.
2. Funds are allocated to the managers of major programmes (most of whom are at the D-2 level). Allocations of funds "express in the necessary detail the financial authorizations required for accounting and financial control" (Financial rule 4.30 (a)). The managers of major programmes may decide programme changes which:
 - (i) Transfer resources among programme elements and objects of expenditure within the major programme;
 - (ii) Transfer programme elements among programmes comprising the major programme;
 - (iii) Add work to or delete work from the approved programme, providing such additions or deletions do not exceed \$20,000 in any one instance or \$50,000 for the year and providing any additions can be accommodated within existing resource levels for the major programme concerned. Additions and deletions must be reported as they occur to the responsible Deputy Director-General.
3. Transfers of resources between major programmes within the same programme sector and transfers of savings of up to \$25,000 between programme sectors require the approval of the Deputy Director-General concerned.
4. Transfers, the net effect of which is to increase or decrease by more than \$50,000 the resources available to a major programme in any one year must be referred to the Director-General. A decision by the Director-General is also required in the case of proposed programme changes which:

a/ Of the 29 items, five are below \$1 million, two \$1-2 million, two \$2-3 million, three \$3-4 million, two \$4-5 million, two \$5-6 million, three \$6-7 million, five \$7-8 million, one \$8-9 million, two \$9-10 million and two over \$10 million.

- (i) Imply change in existing policies governing the use of the Organisation's resources or in the organizational terms of reference of departments and bureaux;
- (ii) Add, delete or significantly change a meeting financed under the regular budget;
- (iii) Transfer savings of more than \$25,000 from one programme sector to another;
- (iv) Add work to or delete work from the approved programme which is beyond the authority of a major programme manager to decide;
- (v) Increase or decrease the approved resources of a major programme by more than \$50,000 in any one year;
- (vi) Involve requests for supplementary allocations which cannot be financed within the allocations of the programme sector concerned;
- (vii) Significantly change the purpose, scope or level of service of a programme element if in the opinion of the Deputy Director-General responsible for a programme sector the case should be referred to him.

5. Programme changes which may be decided by the managers of major programmes under paragraph 2 (i) and (ii) above must be reported to the Budget and Finance Branch ex post facto (which, in turn, informs the programme service). Programme changes under paragraph 2 (iii) above must be reported as they occur to the programme services.

6. A transfer of resources between objects of expenditure within a programme element where there is no change in the purpose or scope of the latter is called an "allocation change". Other transfers are called "programme changes". Transfers of resources may include staffing changes (including transfers within and between categories).

7. Responsibility for ensuring that expenditure under the regular budget remains within the appropriations as voted and that such appropriations are used only for the purposes approved by the General Conference is vested in the Treasurer (Financial rule 4.10).

B. Food and Agriculture Organization of the United Nations

8. The appropriation line in the FAO budget is the "chapter". The budgetary appropriations for 1978-1979 are divided into eight chapters. Leaving aside the contingency reserve chapter, chapters vary in size between \$10.9 million and \$95.5 million. Chapters are divided into major programmes. The 1978-1979 budget contains 17 major programmes (counting the Technical Co-operation Programme and Common Services as one major programme each, and excluding the contingencies

/...

chapter). Over 59 per cent of the regular budget and extrabudgetary resources is accounted for by one major programme (Agriculture).

9. Pursuant to financial regulation 4.5 (a), the Director-General has the authority to make transfers within the same chapter. In instances where funds are moved from one Division (or equivalent unit) to another, and where, in addition, the amount involved in each such transfer exceeds a specific sum (currently set at \$10,000), the Director-General must report the transfer ex post facto to the Finance Committee. Financial regulation 4.5 (c) vests in the Director-General the authority to make expenditures from the contingency provision.

10. Transfers between chapters which do not involve current or future additional financial obligations for the membership require the prior approval of the Finance Committee (or of the Council between sessions of the Finance Committee); all other transfers between chapters require the prior approval of the Council (Financial regulation 4.5 (b)).

11. Allotments are broken down along programme lines and also by object of expenditure. Allotments are issued at the Division level. Programme managers may transfer resources between programme elements provided their over-all allotments by object of expenditure are not exceeded. Transfers between subprogrammes within the same programme may be made on the authority of the Assistant Secretary-General in charge of the programme concerned, if the transfers do not involve over-expenditure for the programme as a whole. Transfers between programmes and all proposed over-expenditure requires the prior approval of the Director-General.

12. All transfers between objects of expenditure, and all changes in travel schedules and consultancy arrangements, must be reported to the Assistant Secretary-General for Programme, Budget and Evaluation. Expenditures and obligations are monitored with the help of two monthly reports which provide breakdowns by programme, organizational unit and object of expenditure.

C. United Nations Educational, Scientific and Cultural Organization

13. The appropriation lines in the UNESCO budget are the parts and chapters. The budget estimates for 1979-1980 are divided into eight parts, and parts I and II are subdivided into a total of 12 chapters. In size the appropriation lines vary from \$0.5 million to \$55.6 million. b/

14. Under the terms of the appropriation resolution the Director-General must seek the prior approval of the Executive Board before he can make transfers between

b/ Three appropriation lines are below \$1 million, four are in the \$2-10 million range, six are between \$10 million and \$20 million, three between \$20 and \$30 million, and two above \$30 million.

appropriation lines. In urgent and exceptional cases prior approval can be dispensed with; in such cases ex post facto notification is sufficient. Ex post facto notification of the Executive Board is also required in the case of transfers between appropriation lines in respect of common staff costs, if the actual needs under these costs in an appropriation line exceed the provision therefor.

15. UNESCO integrates in its regular programme budget the expenses financed from UNDP support costs and donations and special contributions. The Director-General is authorized, with the approval of the Executive Board, to adjust appropriations upwards or downwards depending on whether receipts from UNDP exceed or fall short of the estimate; and to add to the appropriations expenses relating to activities charged to donations and special contributions.

16. The Director-General is authorized to make transfers from part VIII, currency fluctuations, if the French and/or Swiss francs appreciate in relation to the United States dollar. Transfers from part VI, Appropriation reserve, require the prior approval of the Executive Board.

17. The appropriation resolution authorizes the Director-General to exceed the total number of established posts specified in the resolution for each year of the biennium, by establishing additional posts on a temporary basis, if he is satisfied that they are essential for the execution of the programme and for the good administration of the Organization and do not require transfers of funds to be approved by the Executive Board.

18. Allotments are issued to the Assistant Directors-General or Bureau or Office Directors, as appropriate. The Director-General may transfer funds between allotments within an appropriation line (Financial rules 4.1 and 4.3).

19. On the basis of an annual detailed plan approved by the Director-General, allotments are issued by programme and programme element and not by object of expenditure. Staff costs (i.e. salaries and common staff costs) are allocated to each sector, subdivided into divisions, offices or bureaux, but they are centrally controlled by the Bureau of the Budget from the financial point of view.

20. The Assistant Director-General for each sector is allowed a fair degree of flexibility in administering his allotments, e.g. in the choice of the manner of implementation (contract or consultant or temporary assistance). However, any changes in the manning table or substitution of consultants for existing posts, or in programme substance, are subject to the prior approval of the Director-General.

21. UNESCO has a computerized system which automatically rejects requests for which no funds have been allotted. Quarterly budget performance reports are established by the Bureau of the Budget.

D. World Health Organization

22. The appropriation line in the WHO budget is the section. Sections 1-9 constitute the effective working budget. In the 1979 budget the smallest section is \$4.2 million and the largest \$41.9 million.

23. The appropriation resolution authorizes the Director-General to make transfers between sections 1-9 up to an amount not exceeding 10 per cent of the amount appropriated for the section from which the transfer is made. In the case of section 2 (General management, co-ordination and development) the 10 per cent is calculated exclusive of the provision for the Director-General's and regional directors' development programmes (which in the 1979 budget amount to \$3.2 million out of \$15.1 million for section 2). The Director-General is also authorized to apply amounts not exceeding the provision for the Director-General's and regional directors' development programmes to those sections of the effective working budget under which the programme expenditure will be incurred. All other transfers between sections require the prior concurrence of the Executive Board.

24. For information purposes the programme budget document shows separately the provisions for headquarters, for each of the six regions and for global and interregional activities. The internal procedures for the allocation of credits at Headquarters differ from those in the regions.

25. At Headquarters funds allotted in respect of salaries, allowances and common staff costs are administered centrally by the Division of Budget and Finance. Authorized position lists are issued to programme managers who may recruit up to the maximum specified. If posts are not filled, the resultant savings cannot be used for other purposes. Adjustments involving reallocation of funds for salaries, allowances and common staff costs require decision by the Director-General.

26. Funds for travel, consultants, temporary assistance and overtime are allotted to programme managers by object of expenditure at the beginning of the year. Programme managers are not permitted to transfer funds between objects of expenditure until revised allotments have been issued by the Division of Budget and Finance. Some transfers may require approval by the Director-General (e.g. when a new activity is to be financed from savings).

27. Allotments covering funds for all common services at Headquarters are issued by main category to the Chief, Conference and Office Services; the allotment holder has operational flexibility within each main category.

28. Regional directors are issued allocations by appropriation sections; within those allocations they have delegated authority to issue and administer allotments. Transfers between allocations (appropriation lines) require the prior concurrence of the Director-General (after they have been reviewed by the Division of Budget and Finance). Regional directors are also required to submit to the Director-General any request exceeding \$25,000 for new local costs in any country project. Regional offices are required to review at least once a year the status of allotments and to report thereon to the Division of Budget and Finance, which carries out periodic thorough reviews.

29. The Advisory Committee was informed that when WHO introduces biennial budgeting the allotments will be issued to cover the whole biennium.