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Second performance report on the programme budget for the biennium 2016–2017

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the second performance report of the Secretary-General on the programme budget of the United Nations for the biennium 2016–2017 (A/72/606). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 18 December 2017.

2. The anticipated final level of expenditure and income for the biennium 2016–2017 is based on actual expenditure for the first 22 months of the biennium, projected requirements for the last 2 months, changes in inflation and exchange rates and cost-of-living adjustments.

3. The Advisory Committee notes that the anticipated final level of expenditure and income for the biennium represents a net increase of $46.9 million compared with the revised appropriation and estimate of income approved by the General Assembly in its resolutions 71/272 A and B and 71/273. The projected expenditure for the biennium 2016–2017 is estimated at $5,681.6 million, representing an increase of $61.4 million compared with the revised appropriation of $5,620.2 million.[1] Projected income is estimated at $553.7 million, an increase of $14.5 million over the revised income estimates of $539.2 million (see A/72/606, table 1).

4. The net increase of $46.9 million reflects the combined effects of: (a) commitments entered into under the provisions of General Assembly resolution 70/250 on unforeseen and extraordinary expenses for the biennium 2016–2017 and in respect of decisions of policymaking organs ($37.8 million) and variations in post

[1] The revised appropriation is $159.5 million higher than the revised requirements under expenditure sections in the Secretary-General's first performance report (A/71/576), reflecting amounts subsequently approved in General Assembly resolutions 71/272 A and B and 71/273.

costs and adjustments to other objects of expenditure based on actual and anticipated requirements ($30.3 million); and (b) projected reductions due to changes in rates of inflation ($4.5 million) and exchange ($2.2 million) and an increase in income ($14.5 million) (ibid., table 2).

5. A breakdown of the projected expenditures for 2016–2017 by budget section, category of expenditure and main determining factor (rate of exchange, inflation, unforeseen and extraordinary expenses and decisions of policymaking organs, and post incumbency and other changes) is provided in the report of the Secretary-General (ibid., schedules 1–3).

6. The Secretary-General is requesting that the General Assembly take note of his report and approve the revised estimates for the expenditure sections for the biennium 2016–2017 in the amount of $5,681,615,300, as set out in table 3 of his report, and the related income estimates in the amount of $553,675,600, as set out in table 9.

Presentation of information

7. The Advisory Committee notes that the report of the Secretary-General represents an improvement compared with reports submitted in previous bienniums in terms of the level of detail provided, the analysis of the variances between budgeted and actual expenditure and the presentation of information in a graphic format (see, for example, A/72/606, figures X, XII and XIV).

8. In this connection, as part of his latest management reform initiative, the Secretary-General, in order to increase transparency and enhance reporting, proposes greater disaggregation of information on post and non-post expenditures and more detailed reporting of material variances between budgeted and actual expenditures (see A/72/492/Add.1, para. 52). In its related report thereon, the Advisory Committee recalls its prior recommendations, in the context of its review of budget proposals and performance reports, that such information should be made available for the most recently completed financial period, arguing that this should lead to better substantiation of the resource requirements for the subsequent budget period and allow for more informed resource allocation decisions (see A/72/7/Add.24, para. 57). **The Committee recognizes the efforts of the Secretary-General in presenting an improved performance report and encourages him to continue his efforts to submit performance reports with improved analysis and presentational detail in the future.**

9. In his report, the Secretary-General also indicates that 2016–2017 was the first full biennium in which budget implementation was reflected in Umoja, with its more detailed expenditure reporting possibilities, while the budget for the same period was approved under the legacy system, the Integrated Management Information System (IMIS). Consequently, some expenditures have not been recorded and reported against the object class for which they were approved in the budget, particularly under operational costs (see A/72/606, para. 40). In the report, the explanation of variances by budget class seeks to distinguish between those resulting from the alignment of the budget (prepared in IMIS) with the recording of expenditures by their nature (reported in Umoja) and those relating to variances between budgeted requirements and revised estimates (ibid., para. 41). A summary of the variances due to the alignment of the budget with the recording of expenditures by their actual nature is listed in paragraph 72 of the report. Further comments on those expenditure variances are contained in paragraphs 25, 29 and 30 below.

10. With respect to the overall expenditure trends over time, the Advisory Committee was provided, upon request, with information on the level of appropriations and actual income and expenditure for the bienniums from 2006–2007 to 2016–2017 (see annex below). The Committee notes that between 2006–2007 and

2014–2015, the overall level of final expenditure increased each biennium, with an increase of 37 per cent over that time, from $4.15 billion to $5.69 billion. For the biennium 2016–2017, the expenditure level reported in the second performance report is estimated to be $5.68 billion, representing a decrease of $7 million (or 0.1 per cent) compared with the final expenditure for 2014–2015. Upon enquiry, the Committee was informed that the decrease in expenditures reflected actual expenditure reductions for special political missions and non-recurring items, such as those in support of the United Nations Mission for Ebola Emergency Response. **The Committee considers that a more detailed analysis of overall expenditure trends over time could be provided in future performance reports, along with explanations of variations in those trends.**

11. With respect to the expenditures for special political missions in 2016–2017, specifically in respect of the United Nations Mission in Colombia, the Advisory Committee was informed, upon enquiry, that the report of the Secretary-General included expenditure reductions amounting to $9.2 million, comprising $6.6 million under other staff costs, $2.7 million for general operating expenses and $1.5 million under improvement of premises, offset by increases amounting to $1.6 million, primarily for contractual services (see para. 17 below).

II. Expenditure sections

12. The overall changes in estimates under the expenditure sections of the budget are summarized in the table below.

Summary of changes under expenditure sections for the biennium 2016–2017

(Thousands of United States dollars)

Revised appropriation	*Exchange rates*[a]	*Inflation*	*Unforeseen and extraordinary expenses and decisions of policymaking organs*	*Post incumbency and other changes*	*Revised estimate*
5 620 221.6	(2 174.1)	(4 521.4)	37 801.1	30 288.1	5 681 615.3

[a] Including losses from forward purchasing of $10.5 million.

Changes in exchange rates and inflation

13. Explanations of the requirements relating to changes in exchange rates and inflation are provided in section II.A of the report of the Secretary-General. Table 4 of the report shows the distribution of the increases and decreases in estimates owing to changes in exchange rates and inflation by duty station. Details of the budgeted and realized rates of exchange for all duty stations are contained in schedules 4 and 5 of the report. Additional observations are contained in the Advisory Committee's most recent report on the revised estimates: effect of changes in rates of exchange and inflation (see A/72/7/Add.36)).

14. The Secretary-General indicates that, in terms of inflation and exchange rates, adjustments for post resources for 2017 are based on actual experience in 2017 as compared with the rates approved in the revised appropriation for 2016–2017. For 2016, the adjustments are based on the actual experience for 2016 as compared with the rates of exchange and inflation approved in the revised appropriation for 2016–2017, which includes projections for the last two months of 2016. He further indicates that, in estimating the effect of exchange rate fluctuations experienced in 2017, the actual rates realized from January to November were used, with the November 2017 rate assumed for December 2017, and that the decrease in requirements in that category is attributable to the favourable rates of exchange of the United States dollar

in relation to a number of currencies ($2.2 million) and a decrease in the level of inflation ($4.5 million) (see A/72/606, paras. 7–9 and table 4).

Experience of forward purchasing and related presentation practices

15. In section IX of its resolution 69/274, the General Assembly decided to use forward exchange rates in preparing budget estimates, commencing with the proposed programme budget for the biennium 2016–2017. In paragraphs 21–27 of his report, the Secretary-General provides information on the Secretariat's experience in the use of forward purchasing to date.[2] According to the Secretary-General, with the weakening of the United States dollar against the Swiss franc in 2016, the use of the forward contract to purchase Swiss francs resulted in a favourable difference of $11.6 million between the contracted forward rates and the United Nations operational rates of exchange. In contrast, the outcome of the 2017 experience resulted in an unfavourable difference of $10.5 million. Overall, for the biennium 2016–2017, the net positive difference attributable to forward purchasing amounts to $1.1 million. The report indicates that the 2017 experience illustrates the need to set forward rates closer to the date of implementation, ideally in December of the year preceding the implementation of the forward contracts (ibid., para. 27).

16. **The Advisory Committee recalls that the main benefit to be derived from using forward rates is the predictability that they provide in the budget process (see A/70/619, para. 11). While the Committee does not object to setting the forward rates as close as possible to the date of implementation of the forward contracts, it stresses the importance of adopting a consistent approach over time, with a fixed purchase date for entering into forward contracts.**

Unforeseen and extraordinary expenses

17. Table 7 of the report lists commitments totalling $24 million that have been exercised under the provisions of General Assembly resolution 70/250. Of that amount, $14 million relates to expenses for the United Nations Verification Mission in Colombia, authorized with the concurrence of the Advisory Committee. The commitments relate to budget sections 3, 8, 16, 24 and 36 and include commitments authorized by the Secretary-General as well as those authorized by the Secretary-General with the concurrence of the Committee. Upon request, the Committee was provided with a table indicating unforeseen and extraordinary expenses in the amount of $2.8 million that have been approved by the Secretary-General under his own authority.

Decisions of policymaking organs

18. Additional expenses arising from the decisions of policymaking organs include: (a) subventions of $11 million and $2.8 million authorized by the General Assembly in sections II and III of its resolution 71/272, under section 8, Legal affairs, for the Extraordinary Chambers in the Courts of Cambodia and the Residual Special Court for Sierra Leone, respectively (see A/72/606, paras. 30 and 31); and (b) the use of the limited budgetary discretion authorized by the General Assembly in its resolution 70/248 A in the amount of $455,300 to cover the costs of four temporary positions in the Office of the Victims Rights Advocate for the period from 1 July to 31 December 2017. The requirements for the Office were funded through the utilization of underexpenditures identified from the provisions of special political missions (ibid.,

[2] Defined as a financial instrument that predefines the price of foreign currency to be purchased in the future.

paras. 32–35). The Committee's most recent observations and recommendations on the use of the limited budgetary discretion are contained in its report A/72/7/Add.30.

Post incumbency and other changes

19. The changes under the post incumbency and other changes category include: (a) the difference between realized vacancy rates and those assumed in the revised appropriation; (b) differences between actual average salary and common staff costs compared with the standards included in the revised appropriations; and (c) adjustments to objects of expenditure other than posts based on actual and anticipated requirements to the end of the biennium 2016–2017. Those changes amount to a net increase of $30.3 million, resulting from increased requirements of $58.5 million for post-related objects of expenditure, increased requirements of $24.3 million under other staff costs and reduced net requirements of $52.5 million for other non-post objects of expenditure (ibid., para. 39). Schedules 2 and 3 of the Secretary-General's report include details of post incumbency and other changes by object of expenditure and budget section.

Post-related expenditure

20. The increase of $58.5 million under posts reflects increased requirements under salaries ($3.9 million) and common staff costs ($54.6 million). Under salaries, the main contributing factors included lower-than-budgeted actual vacancy rates for posts in the Professional and higher categories, payroll adjustments and average increases in salary steps, offset by reductions owing to the implementation of the unified salary scale and higher-than-budgeted vacancy rates for the General Service and related categories (ibid., para. 45).

21. Details of the actual average vacancy rates in both the Professional and higher and General Service and related categories from 2014 to 2017 are contained in schedule 8 of the report of the Secretary-General, which indicates a reduction in the average budgeted vacancy rates for Professional staff from 9.2 per cent in 2016 to 8.3 per cent in 2017 and an increase with respect to General Service staff from 7.3 per cent to 8.3 per cent for the same period.

22. Regarding the increases in salary costs, the Advisory Committee was informed, upon enquiry, that the standard salary costs included in the budget for each post level were based on the average of actual salaries for that level at each duty station. However, actual salary costs comprise salaries at different steps for each grade depending on the composition of the staff. For the biennium 2016–2017, a review of actual grade and step increases showed step increments for both Professional and General Service staff, with an average overall increase of 0.34 and 0.25 steps, respectively.

23. Under common staff costs, the main factors contributing to the net increase of $54.6 million include increases due to: (a) the new dependency allowance (previously embedded in salary costs); (b) allowances related to staff movements, mostly under relocation and settling-in grants (the trend of which is illustrated in figure X of the report); (c) pension subsidies relating to the revised pensionable remuneration scale for staff in the Professional and higher categories; (d) special payments incurred under the United Nations Dispute Tribunal; and (e) lower vacancy rates in the Professional and higher categories (ibid., para. 46).

24. Regarding the impact of the introduction of the unified salary scale for the Professional and higher categories, the Advisory Committee was informed, upon enquiry, that the estimated financial implications had been based on staff payroll data from the biennium 2012–2013 and that the actual implications turned out to be $2 million higher owing to differences in the composition of staff, as well as the

budgeting assumptions used. **The Committee is of the view that every effort should be made to improve budgetary precision, including through basing budgetary assumptions on the most up-to-date staffing composition data.**

Other staff costs

25. Net increases in other staff costs are estimated at $24.3 million, $14.8 million of which relates to expenditures for special political missions. Increases in staff costs were due to lower-than-budgeted actual vacancy rates, primarily in the United Nations Assistance Mission in Afghanistan, the United Nations Assistance Mission for Iraq, the United Nations Assistance Mission in Somalia and the Office of the Special Adviser to the Secretary-General on Yemen, offset by reduced requirements relating to the closure of the United Nations Mission in Colombia and a reduced deployment in the United Nations Support Mission in Libya (ibid., para. 51). The net increased requirements of $9.5 million not pertaining to special political missions include: (a) an increase for safety and security expenses owing to overtime costs at Headquarters, Nairobi and Santiago ($12.6 million); (b) the costs of operationalizing the mobility and career development framework and the provision of Umoja business readiness and support ($2.1 million); (c) additional requirements for temporary funding of the Property Management Unit and overtime for increased support required during sessions of the General Assembly ($2.3 million); and (d) higher requirements for after-service health insurance payments due to the increase in the number of participants in New York ($2.7 million), offset by decreased requirements relating to: (i) delays in the recruitment of general temporary assistance positions to support new mandates of the Human Rights Council ($2.8 million); and (ii) delayed rotation and repatriation of United Nations military observers in the United Nations Military Observer Group in India and Pakistan and the United Nations Troop Supervision Organization ($1.3 million). In addition, adjustments reflect a net decrease of $6.6 million in relation to the alignment of the budget with the recording of expenditures by their nature, referred to in paragraph 9 above (ibid., para. 52).

26. Regarding the additional overtime expenditures for security operations and services, the Advisory Committee was informed that additional resources had previously been included in the budget outline for 2016–2017 (see A/69/416, para. 13 (b) (vi)), but had not been supported by the General Assembly. The Committee was informed that overtime was an integral part of efforts to provide uninterrupted security operations and services at headquarters compounds. A trend of incurring increased overtime expenditures for security services has been experienced over the past five bienniums.

27. With respect to the additional costs for the Property Management Unit, the Advisory Committee was informed, upon enquiry, that those costs addressed requirements for property management following the adoption by the United Nations of the International Public Sector Accounting Standards. Considering that the Committee had previously recommended that a clear business case be submitted to the General Assembly in respect of the intention to formalize the establishment of a new Property Management Unit (see A/69/571), the related resources had not been included in the 2016–2017 budget proposal. The Committee was also informed that the Secretariat was currently assessing how this would be addressed.

Non-post expenditure

28. Details regarding the reduced requirements of $52.5 million for non-post objects of expenditure are presented in paragraphs 54–71 of the Secretary-General's report. These include: net decreased requirements for consultants, experts, travel of representatives, contractual services, supplies and materials and improvement of

premises, offset by increases for travel of staff, general operating expenses, furniture and equipment, grants and contributions and other costs.

29. The Advisory Committee again notes that significant variances are attributable to the alignment of the budget with the recording of expenditures by their nature, referred to in paragraph 9 above, particularly in the case of contractual services (see A/72/606, para. 62 (f)), general operating expenses (ibid., para. 63 (e)), improvement of premises (ibid., para. 67 (c)), and grants and contributions (ibid., para. 68 (d)).

30. Upon request, the Advisory Committee was provided with a revised breakdown of projected expenditure for each budget section by object of expenditure and main determining factor, excluding the impact of the Umoja alignment. In this connection, the Committee noted several examples of significant overexpenditure, in percentage terms, that were not connected to any adjustments brought about by the aforementioned alignment. These include overexpenditure of: (a) $580,500, or 176 per cent, under travel of staff in section 4, Disarmament; (b) $364,300, or 93 per cent, under general operating expenses in section 14, Environment; (c) $645,200, or 58 per cent, under travel of staff in section 28, Public information; and (d) $593,300, or 228 per cent, under other staff costs in section 29A, Office of the Under-Secretary-General for Management. **The Committee considers that further efforts are needed to improve budget planning and exert budgetary discipline within departments and offices, particularly in the case of non-post-related expenditure, so as to minimize the level of variances between budgeted and actual expenditure and maintain budgetary integrity during the course of budget execution. In addition, the Committee trusts that the revised detail of the variances in actual expenditure, excluding the impact of the Umoja alignment, will be provided to the General Assembly at the time of its consideration of the report.**

Consultants

31. Included in the variances reflected in the amounts expended under consultants is an increase of $1.8 million under section 29E, Office of Information and Communications Technology, which, according to the Secretary-General, relates mainly to the development of various applications, database administration, application testing, web development and use of consultants for Umoja-related support (ibid., para. 58 (e)). Upon enquiry, the Advisory Committee was informed that the Umoja-related support included expenditure for maintenance costs, none of which related to requirements in support of the Umoja project team. The Committee was also informed that the members of the Headquarters Deployment Group established to temporarily assist with Umoja implementation will have returned to their parent offices or departments by 1 January 2018. In this connection, the Committee recalls its intention to request the Board of Auditors to undertake a verification exercise with respect to the Umoja-related benefits reported in the context of the proposed programme budget for 2018–2019 (see A/72/7, para. 79).

Improvement of premises

32. Under the variances reported concerning expenditures under improvement of premises, the Secretary-General recalls that the General Assembly authorized spending of $10 million in 2017 for the application of a flexible workplace strategy in the Secretariat Building, to be funded from existing resources (resolution 71/272, sect. XVI). While $4.8 million has been absorbed, the balance of $5.2 million under section 29D, Office of Central Support Services, reflects additional requirements for the implementation of the project (see A/72/606, para. 67 (b)).

Unliquidated obligations

33. In paragraph 73 of his report, the Secretary-General indicates that the amount of unliquidated obligations as at 31 October 2017 stood at $155.9 million, compared with $140.8 million verified on 31 October 2015. Upon enquiry, the Advisory Committee was informed that the level of unliquidated obligations had since been reduced to $138 million, as of early December 2017. Regarding the related recommendations made by the Board of Auditors with respect to the level of unliquidated obligations (see A/72/5 (Vol. I), chap. II, paras. 25–34), the Committee was informed that detailed guidance on the review of open commitments for retention and/or liquidation had been issued to departments and offices. Furthermore, in order to facilitate the review of commitments during the year, a business intelligence dashboard and report for open commitments, pre-commitments and closed commitments has been launched. **The Committee reiterates its expectation that the Secretary-General will provide more information with respect to unliquidated obligations, including with respect to the implementation of related recommendations from the Board of Auditors, in future performance reports (see also A/70/619, para. 29).**

34. In this connection, the Advisory Committee was also informed, upon enquiry, that savings of prior-period unused commitments raised in the biennium 2014–2015 were approximately $45.6 million and would be applied to offset 2018 assessments on Member States following their conclusion of discussions on the budget for the biennium 2018–2019.

III. Income sections

35. As indicated in table 9 and paragraph 74 of the Secretary-General's report, the total increase under income sections amounts to $14.5 million, reflecting increases of: (a) $7.5 million from income section 1, Income from staff assessment; (b) $4.9 million from income section 2, General income; and (c) $2.2 million from income section 3, Services to the public. The increase in net revenue under income section 3, as outlined in paragraphs 77–79 of the report, reflects the combined effect of a net decrease in gross revenue ($1.0 million) and a net decrease in total expenditure ($3.2 million).

IV. Conclusion

36. The action to be taken by the General Assembly is set out in paragraph 81 of the report of the Secretary-General. **Taking into account its comments and observations in the preceding paragraphs, the Advisory Committee recommends that the Assembly take note of that report and approve the revised estimates under the expenditure sections and the related income estimates for the biennium 2016–2017, as set out in tables 3 and 9 of the Secretary-General's report.**

Annex

Initial, revised and final appropriation for the bienniums 2006–2007 to 2016–2017, and final expenditure for the bienniums 2006–2007 to 2014–2015

(Millions of United States dollars)

	Initial appropriation			*Revised appropriation*			*Second performance report*			*Final appropriation*			*Final expenditure*		
Biennium	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*
2006–2007	3 798.9	427.4	3 371.6	4 302.0	492.2	3 809.8	4 188.8	505.1	3 683.7	4 193.8	505.2	3 688.6	4 146.3	512.0	3 634.2
2008–2009	4 171.4	515.5	3 655.9	4 885.2	557.9	4 327.3	4 792.4	550.5	4 241.9	4 799.9	550.4	4 249.5	4 749.4	555.0	4 194.4
2010–2011	5 156.0	554.2	4 601.9	5 367.2	593.0	4 774.2	5 416.4	601.3	4 815.1	5 416.4	601.3	4 815.2	5 414.2	617.9	4 796.2
2012–2013	5 152.3	507.8	4 644.5	5 399.4	511.9	4 887.5	5 603.7	543.0	5 060.7	5 565.1	543.0	5 022.0	5 524.8	564.0	4 960.8
2014–2015	5 530.3	523.1	5 007.2	5 831.9	546.8	5 285.1	5 808.3	574.7	5 233.6	5 808.6	574.7	5 233.9	5 688.5	Not available[a]	5 688.5
2016–2017	5 408.7	531.3	4 877.4	5 620.2	539.2	5 081.1	5 681.6	553.7	5 127.9	To be determined	To be determined	–	To be determined	To be determined	–

[a] The amount is not readily available owing to its exclusion from financial statements.