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DRAFT BUDGET 2001: THE BUDGET ENVELOPE

(Note by the Secretariat)

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DRAFT BUDGET 2001: THE BUDGET ENVELOPE

Introduction

1. In January, Council agreed on a number of steps relating to resources allocation in the Organisation's Programme of Work and Budget. One of these concerned agreement on a provisional budget envelope if possible by end-July each year [C(99)204/FINAL, paragraph 6 of the Decision].

2. The Secretary-General considers that the budget envelope for 2001 should reflect Zero Volume Growth (ZVG). ZVG is a prudent, responsible budgetary strategy, through which the Organisation is not seeking to increase real resources but to compensate for such cost of living and technical adjustments so as to prevent the erosion of programme resources. It is the only strategy which reconciles effectively Members' interest in a sustained search for efficiencies and their strong endorsement by Members of the principle of budgetary stability.

3. Ideally, the decision about the budget envelope should be taken in light of a full understanding of the range of budgetary pressures that will apply in 2001. Not all of these are clear at the time of preparation of this document, however, notably the potential impact of the results of the Ministerial Council Meeting in areas such as growth, biotechnology and food safety, health, electronic commerce and the fight against corruption.. Consistent with an overall prudent budget strategy, however, and in response to Members' interest in achieving effective resource reallocation, the Secretary-General intends that, with the exception of the implications of possible Slovak accession (see below), *all additional work identified for 2001 will need to be absorbed and resourced from within the ZVG limit.*

4. This document therefore sets out for Members the adjustments that need to be taken into account in order to maintain budgetary stability. The adjustments are defined as:

- those which result from the decisions taken by Council on staff remuneration or in the context of the Organisation 's staff policy;
- items to offset the erosion of real resources due to inflation;
- minor technical changes concerning external or circumstantial constraints, such as exchange rate variations; changes in the number of pensioners; or in contributions to the medical insurance programme (OMESYS).

5. The adjustments proposed hereafter are those currently estimated to apply in 2001. They are provisional, and may be subject to slight amendment in the coming months. They total MF 37.8, the main components being salaries and other staff appropriations (MF 19.9); an increase in the level of contributions to OMESYS (MF 2.2), accession costs of the Slovak Republic (MF 9.5) and MF 6.2 for other adjustments. These and other items are explained in further detail below. The following is a summary table of the adjustments compared with Budget 2000. In percentage terms, the increase is 3.2%, of which Slovak accessions accounts for just under one percentage point. Of the balance (2.4%), salary adjustments account for 1.7%. In other words, non-salary increases amount to only 0.7%, compared with the current budget.

INDICATIVE BUDGET ENVELOPE FOR 2001

	Part I	Part II	Pensions	Consolid.	TOTAL	
Budget 2000	985.3	158.7	249.0	(206.0)	1,187.0	
<i>Adjustment of permanent staff appropriations</i>						
+Salaries increase + 1.4 % as at 01.07.2000	5.1	0.5	1.7	-1.2	6.1	0.5%
+Salaries increase as at 01.01.2001: 1.5 % ?	11.4	1.1	3.8	-2.5	13.8	1.2%
+ OMESYS	1.4	0.2	0.6		2.2	0.2%
						1.9%
<i>Slovak Accession</i>						
	9.5				9.5	0.8%
						0.8%
<i>Other adjustments for inflation</i>						
+ Inflation	3.5	1.5			5.0	0.4%
+ Exchange rate evolution (\$)	0.7				0.7	0.1%
						0.5%
<i>Miscellaneous adjustments</i>						
+ Banking charges	0.5				0.5	0.0%
						0.0%
Total	32.1	3.3	6.1	-3.7	37.8	3.2%
= Indicative Budget 2001	1017.4	162.0	255.1	(209.7)	1,224.8	

I. Adjustment of permanent staff appropriations

a) Salaries and related adjustments for 2001

MF 19.9

6. The cost of living adjustment due on 1 January 2000 (1.4%), was deferred until 1 July. Consequently, the budget base currently reflects the impact for six months. The full year's impact requires an adjustment of MF 6.1 (MF 5.1 for Part I) in 2001.

7. A cost of living adjustment is applicable from 1 January 2001. For the purpose of this document, a provisional increase of 1.5% has been applied. The impact of this provisional adjustment totals MF 13.8 (MF 11.4 for Part I). Together the two increases in salaries and related compensation total MF 19.9 (MF 16.5 for Part I), or 53% of the total adjustments proposed.

b) OMESYS Medical Insurance Contribution

MF 2.2

8. In Budget 2000, the assessed contribution rate for the medical insurance programme was set at 8.1% (of which 5.4% represents the employer's share). Half of this increase was offset last year by drawing down reserves of the Medical Plan Fund. That one-off solution in 2000 needs to be built into the budget proper for 2001 and beyond. Moreover, given the fact that the medical insurance system is currently in deficit, and that a new contract is to take effect from 2001, a further, additional adjustment cannot be ruled out.

II. Slovak Accession

MF 9.5

9. The Slovak Republic is assumed to be included in the 2001 scale of contributions at the minimum level of 0.1%. Based on prior studies, the recurring additional resources required is of the order of MF 9.5. This includes the human and material resources for programmes such as economic and policy studies and the communications with the new Member. The addition of the Slovak contribution to the 2001 budget will lead to an increase in the overall budget envelope for Part I of only MF 0.9.

III. Other adjustments for inflation

MF 5.7

10. These are calculated by main categories of expenditure on the basis of data covering the latest 12-month period for which statistics are available. Most operational expenditure adjustments draw on INSEE's indices. The amount involved is MF 5.0. In addition, estimates are made of the impact of exchange rate variations between the French franc and, respectively, the US dollar and the Japanese yen. The adjustment required is currently estimated to be MF 0.7.

IV. Miscellaneous adjustments

MF 0.5

11. A number of other items, totalling over MF 2.1, were presented as adjustments for Budget 2000. These included the increased costs of improved waste management; postal charges and bank charges. In the event, these items were all absorbed. The Secretary-General proposes to do so again, with the exception of part of the banking charges. These have never been budgeted, and totalled MF1.4 in 1999. At the same time, the Secretariat is seeking to reduce the charges as part of financial management reform. The Secretary-General proposes therefore an adjustment to cover only a part of the deficit, with the balance to be eliminated as rapidly as possible through efficiency measures.

V. Staff Separation Repayments Schedule

12. The separation plans put in place between 1996 and 1999 envisioned a repayment schedule of MF21.0 in 1999, 2000 and 2001; MF23.6 in 2002; and MF18.6 in 2003, 2004, 2005 and 2006. In fact, the actual levels of expenditure and repayments mean that only part of the budgeted MF 21 will be required in 2001. The Secretary-General, rather than using this one-off opportunity (of the order of MF14) to finance expenditures, intends to apply this amount to effect a reduction in the scheduled repayments in subsequent years

VI. Impact on Part I

13. A summary table comparing the adjustments in Budget 2000 and Budget 2001 for Part I only is presented below for information.

	2000		2001	
	Amount	%	Amount	%
Statutory adjustments	16.5	1.7%	16.5	1.7%
Slovak Accession	N/a		9.5	1.0%
Increase in OMESYS rate	1.4	0.1%	1.4	0.1%
Other Inflationary adjustments	3.6	0.4%	4.2	0.4%
Miscellaneous	2.8	0.3%	0.5	0.1%
Total adjustments for Part I *	24.3	2.5%	32.1	3.3%
Total budgets –Part I *	985.3		1017.4	

* Adjusted for Slovak accession. If the Slovak accession costs were limited to its contribution (MF 0.9), the total adjustment for 2001 would be MF 23.5, i.e. +2.4%.

VII. Conclusion

14. The Budget Committee is invited to address the issue of the budget envelope for 2001.