

SUPPLEMENTARY BUDGET SUPPORT COST SYSTEM

1. This paper provides background information on the Supplementary Programme Support Cost system recently introduced in UNHCR, and on which there have been a number of informal consultations with ExCom members over recent months. Reference to this is also included in the UNHCR Annual Programme Budget 2004 (A/AC.96/979, Para. 26). This paper provides an update of the rationale for the system and its mechanism, as requested by the Standing Committee at its 27th Meeting in June 2003.

Background

2. The Annual Programme Budget (AB) and Supplementary Programme Budgets (SBs) are part of one budgetary entity, namely the Unified Budget. The basic difference between these budgets is one of timing: the AB is approved by the Executive Committee at its annual session in October; SBs are established by the High Commissioner for needs identified after submission of the AB to the Committee. Since SBs are created for needs that could not be anticipated at the time of the adoption of the AB, it follows that the latter has no budgetary provisions to support SBs when they are established.

3. Since the introduction of the Unified Budget in 2000, experience has shown that several SBs are needed each year in response to emergencies and other unforeseen needs. Once established, programme support as well as management and administrative services must be provided to the SBs from the AB. These therefore represent additional support activities and related costs, that are borne by the AB.

AB and SBs in 2003

4. Taking the current year by way of example, the initial AB approved by the ExCom was \$809 million. This included \$580 million (72%) for Operations, and \$229 million (28%) for Programme Support/Management and Administration (PS/MA). As of August 2003, the total value of current SBs amounted to \$335 million,¹ bringing total budgets for Operations to \$915 million, supported by an unchanged level of PS/MA. Moreover, with an anticipated shortfall of \$96 million under the AB, funds available for PS/MA are expected to fall from the initially-budgeted figure of \$229 million to an actual level of \$202 million.

5. This example illustrates how the operation of the Unified Budget leads not only to considerable strains for the activities planned under the AB (which has been significantly

¹ For breakdown, see EC/53/SC/CRP.14, Annex 1, Column 3

underfunded), but also to a distortion in resource allocation between the AB and SBs. Unless corrective measures are taken, SBs will be undercharged whereas the AB will be overcharged, to the extent that the latter also has to support the indirect costs incurred by SBs.

Support Cost System

6. In order to allocate financial resources rationally between the AB and SBs, in accordance with actual resource utilisation, a corrective mechanism has been introduced by means of transfer of funds from the SBs to the AB to cover expenditures incurred on account of the SBs. The system is based on the principle of proper cost attribution between the AB and SBs within the framework of the Unified Budget.

7. Direct support costs, such as evaluation of programmes, and procurement support, are already charged to the SB. The new mechanism thus focuses on indirect support costs. These are mainly incurred at Headquarters, as a result of activities such as additional emergency response capacity, meetings, overtime, temporary assistance, liaison activities and communication costs. Staff time is a major component of these costs.

8. Precise calculation and tracking of these additional indirect costs are difficult and labour intensive, due to their nature and specific cost drivers. It has therefore been necessary to undertake an estimation of the support cost rate, based on the additional resources (primarily staff time) dedicated by the concerned units at Headquarters, focusing on additional indirect support costs from relevant budgetary and accounting information. The average support cost, estimated on this basis, is seven percent.

9. Upon receipt of contributions to SBs, an amount of seven percent is transferred to the AB, and is retained in a separate account specially created under the AB. The funds are transferred to the AB on a quarterly basis to cover additional expenditures incurred by HQ units that provide support services to the new SBs. Each appeal for an SB makes reference to support costs, and reporting on these costs will appear in the annual financial statements.

10. On this basis, some \$10 million has been transferred so far in 2003 to the AB. Assuming that contributions to SB budgets will reach \$242.5 million by the end of the year,² total SB indirect support costs will stand at some \$17 million. The transfer of \$17 million will thus serve to increase funds available for support budgets under the AB, from \$202 million (see para.4 above) to \$219 million.

11. Annex 1 provides an idea of how the support cost system works and Annex 2 examines the scale of allocation of support costs for 2002 and 2003. Based on the experience in 2002 and 2003, the methodology will be refined for 2004.

12. The support cost system is an internal accounting adjustment designed to rationalise cost allocations within the approved Unified Budget, on a transparent and systematic basis, while providing additional flexibility to the Unified Budget. The system is in its concept similar to the support cost system that was recently adopted by UNICEF.³ In the case of UNICEF, however,

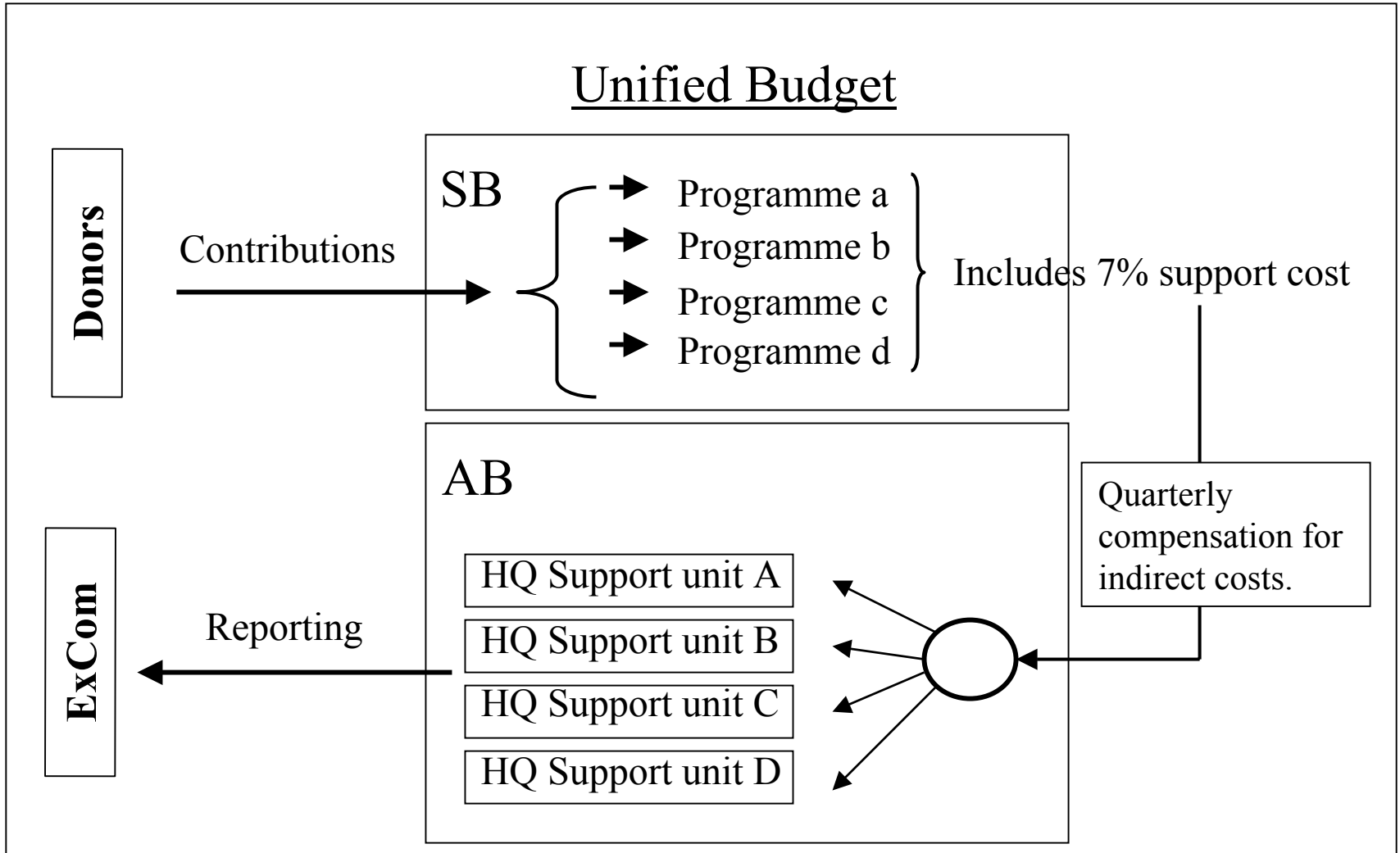
² See EC/53/SC/CRP.14, Annex 1, Column 9

³ UNICEF Executive Board Decision 2003/9, "The UNICEF Recovery Policy".

support cost transfers are made between budgetary and extra-budgetary activities, while in the case of UNHCR, support cost transfer is made within the same budgetary entity, namely, the Unified Budget. The system is also in line with the UN system-wide trend to reassess the system of support costs with regard to extra-budgetary contributions.⁴

⁴ See Joint Inspection Unit report: "Support Costs Related to Extra-budgetary Activities in Organisations of the United Nations System" (A/57/442, JIU/REP/2002/3).

Overview of the SB support cost mechanism



Support costs allocation

SB 2002

<u>HQ units</u>	<u>Share</u>	<u>\$US</u>
EDM (incl. Emer.& Sec.Service)	28%	2.8M
Dept. of Protection	15%	1.5M
Div. of Comm. & Information	9%	0.9M
Div. of Op. Support (excl. Bureaux)	7%	0.7M
Div. of Human Resources Mgt.	11%	1.1M
Div. of Fin. & Supply Mgt.	<u>29%</u>	<u>2.9M</u>
Total	<u>100%</u>	<u>\$10M</u>

- (1) 7% was based on total budgets of HQ support units involved.
- (2) Figures are based on the largest SB in 2002 (Afghanistan)
- (3) Amount of \$10M was allocated based on the relative budget weight of support HQ units.
- (4) For 2003, the same methodology will be used for support cost allocation. The support costs are expected to be some \$17M.