

SECRETARIAT OF THE PACIFIC COMMUNITY**THIRTY-FIFTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Koror, Palau, 14-17 November 2005)**YEAR 2006 BUDGET**

(Paper presented by the Secretariat)

INTRODUCTION

1. This budget paper presents an overview of the proposed SPC budget for Financial Year 2006 that Members are invited to consider and approve.
2. It should be read together with CRGA 35, Paper 4.1 on Staffing Issues and CROP Remuneration that will be considered at the November CRGA meeting, prior to the budget discussions. The proposed 2006 budget was prepared with a key assumption that CRGA would endorse the recommended increase in CROP remuneration for participating CROP agencies. The Secretariat proposes to fund the increase from within existing resources and will not be asking for increased membership contributions to finance the new CROP plan.
3. The budget document highlights the strategic objectives, expected outputs and key performance indicators of SPC programmes and programme support units, sourced from the various strategic plans, and links them with identified resources in the budget. Updates of strategic programme plans will be presented at the November meeting for Members' consideration, and if adopted, will replace those in the budget document, as appropriate.
4. The total SPC budget for 2006 is the highest ever, at 33.6 million CFP units of which 8,854,166 CFP units is for Core and 24,747,700 CFP units is for Non-Core. The proposed total budget is slightly higher than the revised 2005 budget. It represents an increase of 12 % over the initial 2005 budget.
5. The Core component of the SPC budget is 26% of the total budget. Core funding has been relatively stable over the years, with the overall level of Members' assessed contributions remaining unchanged.
6. The Non-Core part of the SPC budget continues to grow. For 2006, it is projected at the level of 24.7 million CFP units, which is 74% of the overall budget. The Secretariat is currently in negotiations with donors on new projects for next year that would bring the extra-budgetary funding to an even higher level.
7. The Administrative budget is 8.4%, well below our target of 10 per cent.

SPC FINANCES

8. The audited financial statements for the year 2004 show the SPC in good financial condition, however, the level of Members' assessed contribution arrears continues to be a concern. The key indicators of SPC's financial health, extracted from the financial statements, are highlighted in this section.
9. SPC's total assets are valued at 50.6 million CFP units, of which 28.6 million CFP units are the value of our fixed assets (property, plant and equipment).
10. The General Reserves, Specific Funds and Special Funds are detailed in the following table:

Funds and Reserves	Level at 31 Dec 2004 (in CFP units)
General Reserves	774,945
Specific Funds:	
Emergency Evacuation	100,000
Plant & Equipment	204,869
Replacement	44,995
Minor Works	243,108
Foreign Exchange Fluctuation	100,000
Conference	
Special Funds:	
Canteen	81,385
Housing	185,710

11. The level of General Reserves exceeds the desired amount of 600,000 CFP units agreed to by CRGA/Conference. The Secretariat is proposing to bring back the excess amount of 174,945 CFP units into operations through this budget process.
12. Our two trading enterprises, the Canteen and Housing Management, are closely monitored and they continue to be well-managed and operate effectively without the need for financial support from the SPC budget. The Canteen contributes to Core income for rental of facilities.
13. An amount of 1.5 million CFP units is set aside to provide for salary-related entitlements such as home leave and repatriation. The salary provision comes from a percentage levy on salaries which is set at 5% for Noumea and 7% for Suva.
14. Bank investments remain relatively high, owing largely to advance payments made by some of our members and donor partners. We maintained an average of 500 million CFP units in our operating accounts and 150 million CFP units in our Staff Provident Fund. Interest earnings on these investments, however, are modest due to low interest rates.

15. At the end of 2004, the total amount of outstanding Members' assessed contributions reached a record high of 998,021 CFP units, prompting SPC's auditors, during the audit process, to once again raise the issue as a concern for management and Members to address. The membership contribution arrears and auditor's recommendations will be discussed in greater detail when the 2004 audit reports (CRGA 35, Paper 4.3) are presented at the November CRGA. To briefly update members here, since the beginning of this year, the Secretariat has collected 404,647 CFP units, about 40% of the arrears at the end of 2004.
16. The trend with the Members' contribution arrears, its continuing growth over the years and its size, remains a challenge to the Secretariat in the financial management of the organisation. While there has been progress made so far this year in recovering arrears, the Secretariat needs to continue to give top priority to the collection of outstanding contributions, and Members, particularly those in arrears, need to make timely payments and to settle their arrears in full.

THE 2006 BUDGET

Personnel costs

17. A major element of the annual SPC budget is personnel costs, as staff salaries contribute more than 57% of the total budget. The average number of SPC staff this year has remained relatively high, with 282 staff on board as at September 2005.
18. For 2006, an important factor in personnel costs for SPC and other participating CROP agencies, as outlined in CRGA Paper 4.1, is the proposed CROP remuneration plan that calls for an increase in professional staff salary scales in line with the average movements of the three reference markets for CROP. The new CROP remuneration plan will be presented as a separate agenda item in November, however its budgetary implications are highlighted in this budget document. As stated earlier, formal acceptance by CRGA of the Secretariat's recommendation to implement the plan is a critical assumption for the Year 2006 budget.
19. For ease of reference, the following on the recommendation by heads of participating CROP agencies to their respective governing councils is extracted from Paper 4.1:

Noting the upward movements in the three reference markets, the widening gap between the CROP salary scale and the reference markets and the negative impact this has on the capacity of CROP to attract and retain qualified staff and noting the need to:

- *improve the ability of CROP agencies to attract a larger pool of suitable candidates for CROP vacancies;*
- *enhance their capacity to retain qualified staff; and*
- *help maintain some parity of the CROP salary scale for CROP staff with the reference markets;*

Council **agreed** to recommend to their governing councils that an increase in the CROP salary scale in line with the average movements in the three reference markets be implemented from 1 January 2006 as follows:

<i>Grade</i>	<i>Proposed Increase</i>
<i>I</i>	<i>5.13%</i>
<i>J</i>	<i>7.26%</i>
<i>K</i>	<i>10.62%</i>
<i>L</i>	<i>10.30%</i>
<i>M</i>	<i>9.37%</i>

20. The projected cost of the new CROP plan is 796,000 CFP units, of which 236,000 CFP units is for Core and 560,000 CFP units for Non-Core. In developing the 2006 budget, the Secretariat is able to manage the additional funding requirement, and can finance the implementation of this new CROP remuneration plan from existing resources, without seeking an increase in membership contributions.
21. For support staff, we are bringing their salaries in line with local public service adjustments in the respective markets in Fiji and New Caledonia. This requires minimal funding, estimated at 17,700 CFP units, and can also be done within budget.
22. There are other financial factors related to personnel costs that are worth mentioning, in particular the movements in the exchange rates used in determining professional staff salaries. This year, the SDR has slowly weakened against the CFP and the FJD, and professional staff salaries have gradually been declining. This trend is expected to continue into next year, and we are reflecting this decrease in our 2006 budget.
23. The SPC's performance management system is continuing to reward good performers with bonuses rather than permanent increments as other CROP agencies do. This system calls for setting the bonus level according to the organisation's ability to pay.

The Core Budget

24. Core Income. The level of core income is projected at 8,855,214 CFP units. This represents a slight decrease from the revised 2005 budget.
25. Members' assessed contributions are exactly at the same level as this year. Bank interest earnings and the Canteen rental are projected at the revised 2005 budget level. We are anticipating a decrease of 95,000 CFP units in Miscellaneous income, however, an increase of 100,000 CFP units in project management fees.
26. We are seeking CRGA's approval to transfer into the 2006 budget the amount of 174,945 CFP units which are "excess" reserves above the desired level in General Reserves. As in recent years, we are allocating the funds to the technical divisions to enable them to better respond to unforeseen and emergency needs expressed by member countries and territories.

27. In 2006, there is no need for a transfer from our Conference reserves, as the 5th meeting of Conference of the Pacific Community is not scheduled until 2007.
28. Core Expenditure. The projected core expenditure level for 2006 is 8,854,166 CFP units, slightly less than the revised 2005 budget level.
29. Overall, we are projecting a small surplus of 1,048 CFP units.
30. There is little change in the allocation of core funds to programmes and programme support services for 2006 as compared to 2005. The one initiative that requires new funding is the implementation of the proposed CROP salary increase for professional staff, estimated to be 236,000 CFP units for Core-funded positions. One minor change is the allocation to travel and programme activities for programme and section heads, which is now a standard amount. This resulted in minor adjustments throughout the budget.
31. The following are key changes in core expenditure (those amounting to percentage changes of 10 per cent or more between the proposed 2006 and the revised 2005 budgets):
 - The Director-General's Office budget is reduced significantly (-33%) due to the fallout of the Conference reserves next year.
 - Additional funds of 50,000 CFP units (+23%) are provided to the Office of the Director of Land Resources for the combined regional meeting for the Heads of Agriculture and Forestry Services next year.
 - Full year's funding for the Women's Development Adviser post that was vacant part of 2005 is provided to the Pacific Women's Bureau (+25.8%).
 - There is a slight decrease (-12.7%) in the funding allocation to the Pacific Youth Bureau as the funds for this year's regional ministerial meeting are not required in 2006.
 - The Cultural Affairs Programme budget is higher (40%) in order to cater for next year's Council of Pacific Arts executive meeting.
 - The budget for Regional Media Centre is increased (21%) to cover the full year's funding requirement for the new programme structure.
 - We reduced the travel costs of the Coastal Fisheries Programme staff by 15.6% when we standardised the core funding allocation for travel and programme activities to programme heads.
 - The Agriculture budget is increased (15%) to cover full year funding for positions that were vacant part of this year.

The Non-Core Budget

32. We are projecting an increase in Non-Core funding for 2006 as compared to this year. The amount of Non-Core funding in the 2006 budget has reached a record high, 24.7 million CFP units and it is expected to grow even larger, once negotiations entered into recently with donors on regional initiatives are concluded. The estimated extra-budgetary funding in the 2006 budget is nearly three times the size of the Core budget.
33. The Non-Core budget only includes those initiatives where assurances for funding by donors have been secured. Although our forecast of donor contributions is conservative, it is likely to change during the course of the financial year with new funding opportunities.
34. Most of the extra-budgetary contributions that support SPC programmes come from our donor member countries – Australia, France and New Zealand – through formal multi-year agreements and/or block grant. We are currently re-negotiating the next triennial agreement with AusAID to take effect in 2006. Programme funding from these three members amounts to slightly more than 7 million CFP units, or about 21 % of the total budget.
35. Other XB contributors to the SPC provide funds for projects that generally are fixed-term. These include the European Commission, the Global Fund, and Taiwan/ROC. We continue to forge new partnerships with other development agencies, of recent with the Asian Development Bank, on a number of initiatives of priority to the region. The increase in funding support for programme activities indicates the continued confidence that members and donor partners place in the work of the organisation.

Programme highlights

36. This section presents the key budgetary features of SPC's programmes in 2006.
37. Under Programme Management and Support Services, there is little change in the 2006 allocation for divisional leaders as compared to previous years. It is worth noting that the Senior Deputy Director-General based in Suva and the Deputy Director-General based in Noumea will come to the end of their contracts next year, and any budgetary adjustments required in the change-over can be made during next year's budgetary revision.
38. The Planning Unit's budget is increased for 2006 as a result of additional funding assistance secured from AusAID and NZAID to further support the increased work of the Planning unit. A new AusAID secondment in Suva will begin during the last quarter of 2005 and continue for a period of at least one year.
39. The budgets for the other programme support services, including Publications, Translation/Interpretation and the Library, are essentially at the same level as in recent years. There is a slight increase in funding for Information Communication Technology to support a project begun this year that will enable SPC's archives, most of which are paper documents, some dating back more than 50 years, to be digitized and saved in electronic form.

40. The Public Health Programme in Noumea is funded at 5,182,700 CFP units which is slightly lower than the revised 2005 level. We receive significant funding support from our donor members and from other partners including the Global Fund, ADB, WHO, Taiwan/ROC for initiatives in communicable and non-communicable disease prevention and control and for public health surveillance.
41. The Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria project, an initiative that involves 11 countries and territories in the region with SPC as the implementing agency, was officially approved earlier this year for a second phase of the Round 2 competition. The project remains the largest initiative in PHP, funded at 2.3 million CFP units for 2006 and will continue for another 3 years.
42. The SPC is currently in negotiations with the ADB on an HIV/AIDS initiative that will provide substantial funding to the region over the five-year period. We are aiming to conclude negotiations before the November CRGA.
43. Part of PHP based in Suva is the Adolescent Reproductive Health and Pacific Parliamentary Advocacy project that is budgeted at the level of 801,000 CFP units for 2006. The project is funded by UNFPA and focuses on advocacy on population and development issues.
44. The merger of the Statistics and Demography/Population programmes, as recommended by the external review last year, is underway and is reflected in the 2006 budget. The budgetary implication of the merger is minimal, as the Statistician position vacated in June was converted to a Manager post to oversee the combined unit.
45. In 2005, the programme received additional funding support from AusAID to continue PRISM, a valuable source for regional information, for another two years, and to extend the Population GIS project another year. AusAID is also financing the programme to assist countries in the region in their upcoming round of censuses. Other programme partners include NZAID, France, UNFPA, UNDP and USAID, and negotiations are underway with ADB on a new regional Demographic Health Survey project that is likely to be implemented by the SPC next year. The overall budget for the programme for 2006 is 2,562,600 CFP units, which is a significant increase as compared to the initial 2005 budget.
46. The budgets for the Pacific Women's Bureau, the Community Education Training Centre, and the Regional Media Centre are about at the same level as in previous years.
47. The PWB is budgeted at 465,000 CFP units, with programme funding provided by our donor members and New Caledonia to enable the bureau to continue its capacity-building work with governments in the region to address gender and development issues.
48. The CETC budget is at 372,200 CFP units. The centre receives financial support from AusAID and NZAID for the training it provides for community-based women leaders and development workers. The Commonwealth Secretariat also provides scholarship funds for some CETC participants.
49. The RMC budget is 451,600 CFP units, mainly from Core and cost recoveries for services it provides to SPC programmes. Staff appointments under the new RMC structure is taking place during the second half of 2005 which would enable the Centre's activities in media training and production to be in full swing next year.

50. The Pacific Youth Bureau is funded at 291,600 CFP units, which is slightly lower than the revised 2005 budget. The programme is continuing to assist PICTs implement national youth policies, and will place a greater focus next year on development of mid-term national strategic plans. Project funds already secured for the regional youth ministers meeting this December will not be available until the new financial year.
51. The Cultural Affairs programme budget is increased in 2006 to cater for the executive board meeting of the Council of Pacific Arts that is scheduled for next year. The programme has also secured new project funding from France to launch a joint initiative with a media firm to conduct a script writers' workshop PICTs leading up to the 10th Festival of the Arts. Funding for the programme is at 322,200 CFP units.
52. The 2006 budget for the Coastal Fisheries Programme budget is projected at 4,451,500 CFP units, an increase over the 2005 level. The programme receives programme funding from SPC's donor members to support ongoing work in aquaculture, fisheries development, coastal fisheries management, the Reef Fischeires Observatory, and training and information. Project funding is provided by the European Commission, Commonwealth Secretariat, New Caledonia and others including the private sector philanthropic organisation, MacArthur Foundation.
53. We are estimating a budget of 2,961,600 CFP units for the Oceanic Fisheries Programme in 2006 which is slightly higher than the 2005 budget. OFP continues to receive programme funding from our donor members, and project funds from the European Commission, the Global Environmental Facility, the University of Hawaii and the new Tuna Commission.
54. The new 5-year GEF project that began this year will focus on capacity building for fisheries monitoring and stock assessment which will assist PICTs fulfill their obligations under the new tuna convention. In 2006, we expect the new Tuna Commission to pay for scientific services that OFP provides under the new tuna management regime, and this is reflected in the proposed budget.
55. The budget for the Regional Maritime Programme is estimated at 1,363,700 CFP units, more than the initial but slightly lower than the revised 2005 budget. The core business of the programme continues to be funded by NZAID while the programme is successfully attracting project funding support from other donors, including AusAID, IMO and other NZ agencies. The maritime programme next year will continue to provide support to the region in meeting international security requirements and in building regional pool of assistance and regional maritime associations.
56. The Agriculture and Forestry programmes that make up the Land Resources Division are budgeted at a healthy level of 7,057,000 CFP units, although slightly decreased as compared to this year. Our donor members continue to provide substantial programme funding to the divisional programmes. Project funds come from the European Commission for agriculture, the German government for Forestry, and others including ACIAR. NZAID is also providing project funds for training of paravets and for the quarantine component of the regional trade facilitation programme. The programmes' focus next year will be more on land use and resources, and policy work.

CONCLUSION

57. The proposed budget for 2006 is summarised as follows:

Core	8,854,166 CFP units	(26%)
Non-Core	<u>24,747,700</u> CFP units	(74%)
Total	33,601,866 CFP units	(100%)

58. It is the highest budget ever for the SPC, with the Non-Core funds nearly three times the size of Core.

59. The 2006 budget is in line with Members' expressed priorities for SPC's work programme and with the policy directives of CRGA/Conference.

60. CRGA is invited to consider and approve SPC's budget for the Year 2006.

14 September 2005