

SECRETARIAT OF THE PACIFIC COMMUNITY**THIRTY-FIRST MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Republic of Nauru, 14-16 November 2001)**THE YEAR 2002 BUDGET**

(Paper presented by the Secretariat)

INTRODUCTION

1. The SPC's budget has two major sources of funding, Core and Non-Core. The mix of allocations from these two funding sources in the annual budget requires careful balancing – it is a major factor in the financial management of the organisation. The Core funding component of the budget, about one-third of the total, is made up almost entirely of Members' assessed contributions and other income that vary from year to year. There is also a substantial level of Non-Core funds contributed by a number of donors, both Members and non-members. After dramatic growth in recent years, the Non-Core funding level has begun to taper off.
2. The current budgeting approach with respect to the Core Budget is known as the "same nominal" policy, which stipulates that Income and Expenditure is maintained at the same level from one year to the next. Although the Secretariat will be asking the November CRGA meeting to reconsider this policy, it has followed the "same nominal" approach in forming the Core Budget for the Year 2002 as presented in this paper.
3. The Non-Core Budget has been cast on the basis of agreed or assured levels of project funding provided by our donor friends. The dynamic nature of project funding is such that the Non-Core Budget may not be completely accurate, however, it will be determined once the annual programme consultations are held with our project donors. As in previous years, we have followed a conservative approach in forecasting our Non-Core Budget, reflecting only what we already have received assurances on. The budget no longer contains project wish lists.
4. In forming the SPC budget, the Secretariat is guided largely by expressed priorities of Members and donors that emerge from the annual discussions at CRGA on SPC's programmed services, supported by input from the various regional technical meetings, and visits to Member countries and territories throughout the year. The Secretariat believes the proposed Year 2002 Budget is well in line with expressed regional priority needs.

BACKGROUND

5. **Policy Instructions.** Before going into the details of the proposed Year 2002 Budget, it's important to highlight a key factor affecting the development of the budget, particularly the Core Budget. Forming the Year 2002 Core Budget posed major challenges for the Secretariat, because of two existing policy directions given to the Secretariat that complicated the budget process.
6. Briefly, the two major policy issues are:
 - The “same nominal” approach to Core budgeting, that stipulates Members’ Assessed Contributions and other recurrent Income be maintained at last year’s level and caps the Expenditure level accordingly; and
 - The policy of harmonisation of terms and conditions of staff working for CROP agencies, that was approved in principle for implementation as soon as practical after 1 January 2001. The SPC is planning its phased implementation beginning the Year 2002, following a thorough assessment of the financial implications.
7. In preparing the Year 2002 budget, the Secretariat found it necessary to present for consideration by this CRGA two funding scenarios that would comply with the two approved policy directions, while at the same time adequately address the funding requirements of the organisation.

As a starting point, the Secretariat has prepared the proposed Year 2002 Budget following the “same nominal” approach. This proposed budget, however, does not allow for the implementation of the new CROP Remuneration package because of its capped budget ceilings, but it does respect the approved “same nominal” budgeting approach.

We have also prepared a second budget scenario that would allow a phased implementation of the new CROP remuneration package. The funding requirement in this scenario is greater than the level allowed in the “same nominal” budget. The Secretariat is presenting options to Members to obtain the additional funds required to implement the new CROP-harmonised salary/benefits scheme – either a draw-down on the General Reserves, or an increase in Members’ Assessed contributions, or a combination of both.
8. The proposed funding strategies will be presented as a separate agenda item at the November CRGA meeting. That discussion will take place before these Budget discussions and should therefore facilitate the consideration of the proposed Year 2002 Core Budget
9. These explanatory notes and the attached budgetary documents will focus on the proposed Year 2002 “same nominal” budget that addresses the major funding requirements of the organisation for the coming year, with the exception of the new CROP Remuneration package.

10. The **budget format** is essentially the same as that used in previous years. The document features two parts, the Core and Non-Core Budget proposals and the related narratives detailing the desired outputs of all of the sections and programme units of the SPC. The budget document is divided into Chapters, and reflects the split between the Administration and Work Programme areas, and the three divisional programme structures – Social Resources, Marine Resources and Land Resources.

Additional tables and charts that present a snapshot of recent trends in our finances are provided as attachments. Information contained in the attachments includes the level of budget expenditure by Core and Non-Core funding sources over the past ten years, and the average periodic investments and interest earnings, among others.

Budgets for our self-funding operations – the Housing unit, and the Canteen – are also provided as attachments.

11. The **budget process** we followed involved all of our programme and section leaders who developed their respective budget segments, feeding into each of the divisional leaders. The Budget Committee, made up of the Executive team and Finance managers, had the task of balancing the overall funding requirements with the available resources. We had to look increasingly at the Non-Core budget to continue funding essential positions that had featured in the Core Budget, particularly those positions that provide direct services to our Members.

Given the current squeeze on Core resources, the additional constraints of the budget policies, and the levelling off of Non-Core funding sources, the Secretariat did not have a lot of extra room to manoeuvre in setting the annual budget. It required greater budget discipline on the part of all of our programme leaders and the Budget Committee to achieve a good balance and a good mix of allocations so that we could continue to address regional service priority needs.

The challenge ahead for the Secretariat, while continuing to exercise budgetary discipline, is to actively seek new and additional sources of income to meet emerging needs.

12. **SPC's Financial State.** It would be useful to provide a summary of SPC's current financial health in order to put the proposed Year 2002 budget into its proper context.

A look at the current state of the SPC will show that the SPC is in relatively good shape. At present, there isn't a current financial crisis that requires urgent attention although there are clearly financial challenges we face.

13. Some of the major elements of SPC's Financial state that warrant special mention are:

- The SPC's total assets are valued at more than 45 million CFP units. The capital value of our fixed assets – land, buildings and equipment – is slightly more than 29 million CFP units, and our current assets represented by term deposits, receivables and stock. Clearly, the SPC has a strong assets base.
- While we have total assets of 45.5 million CFP units, our total liabilities amount to 43.8 million CFP units, leaving a net worth of about 1.7 million CFP units, which is represented by SPC reserves.
- The level of SPC's various reserve accounts, as listed in the table below, give cause for confidence in the organisation's current financial health. As noted earlier, Members will be asked to consider a modest call on reserves to fund new requirements in the Core Budget under the second proposed funding scenario of the Year 2002 budget.

Funds and Reserves	Level as at 31 Dec 2000
	(in CFP units)
General Reserve Fund	722,157
Special Funds	
Emergency Evacuation	100,000
Plant & Equipment Replacement	321,336
Minor Works	27,500
Foreign Exchange Fluctuation	207,287
Conference Reserve	100,000
Specific Funds	
Canteen	220,260
Housing	16,213
Advance to Provident Fund	50,000

- The Salary Provisions, built up over the years to cover liabilities related to Core and Non-Core staff's contractual entitlements, is slightly more than 1.4 million CFP units at the time of this writing, which is at a very healthy level. This provision is made up through the 9% surcharge on salaries in our annual budgets and is expected to be at a sufficient level into the year 2002 to fully cover staff-related liabilities, even with the anticipated normal draw-downs on the provisions throughout the year.
- The SPC's two self-financing operations – the Canteen and Housing Management – have not required financial support from the SPC Core budget in recent years. It is the Secretariat's intention that these operations remain self-supporting and do not draw on the SPC's Core funds to operate effectively.

- The Canteen Accumulated Fund, which is the result of the Canteen's surplus over the years, is quite substantial at the end of the Year 2000. As this surplus is not required for

planned Canteen operations, the Secretariat intends to bring 100,000 – 150,000 CFP units into the overall SPC General Reserves Fund at year-end 2001.

- The Housing Management account is showing a very small operating surplus at the closing of the Year 2000 accounts. The goal of generating sufficient funds for future reserves remains a priority for the Secretariat, although it has not been possible over the past two years due to the demanding loan repayment and increasing maintenance costs. However, like the Canteen, it continues to have a positive cash flow and be self-supporting.
- Owing to advance payments by our Members and donor friends, our level of investments is currently high. Our interest earnings have been dipping slightly due to the lower rates over the past year. We have been maintaining an average investment level of about 8 million CFP units in our operating accounts, and an additional 2 million CFP units in the staff Provident Fund.
- The SPC continues to exercise tight financial control over its spending, as evidenced by the fact that we have not been running deficit budgets over the years. The Programme leaders are keeping within their budget ceilings in both Core and Non-Core budgets. To ensure overall financial management of the organisation is sound, the Executive remains diligent in monitoring the spending patterns of the organisation at its monthly meetings.

14. **Financial challenges.** In putting this budget together, there were a number of important issues identified by the Secretariat that are worth mentioning here. There are also other policy issues that we are bringing to Members' attention for reconsideration as separate agenda items to this CRGA meeting.

- Currently, there is a very tight squeeze on the SPC budget, especially after effecting the "catch-up" salary adjustments for Noumea professional staff earlier this year. We were able to absorb the additional costs within existing ceilings only by identifying and realising savings in our overall operational budget by re-prioritising our needs, and cutting back wherever possible. The significant level of the adjustments is such that it put an even greater squeeze into what is already a very tight Budget.

Beyond this financial year, it will be necessary to ensure that these continuing commitments are absorbed into future Budgets, while still respecting budgetary ceilings. In order to do this, we must meet our established savings targets across the divisions to sustain these added costs. We must also continue to monitor our spending patterns, and must remain committed to living within our means. Our strategy is to achieve greater efficiencies, while remaining responsive to the expressed needs of our Members in the delivery of SPC services.

It must be noted, however, that the outlook for further reductions, particularly in the Core Budget, is not very promising at this stage. Staff salaries make up the bulk of the total SPC budget, and further reductions in the Budget are likely to affect staffing. Significant

reductions in staffing are likely to have an impact on services to our Members. The Secretariat must keep a watchful eye on this so that its budgetary reductions do not necessarily result in a diminution of services to Members.

- One of the major challenges facing the organisation is the use of different currencies in our operations, and the need for the management of foreign exchange exposures. The official currency of the organisation, as per our Financial Regulations, is the French Pacific Franc (CFP). Members' assessed contributions are assessed and payable in CFP francs. Donors generally provide programme/project funds in the currency of the donor country or in the case of Aid agencies in a foreign currency such as the US dollar.

In developing the budget, the largest factor is personnel costs. The current policy states that SPC professional salaries, like other CROP agencies, are based on SDRs, which can vary greatly from the currencies used in SPC operations at the Noumea headquarters and in Suva. The SPC budget expresses salaries, and other operational costs, in CFPs. The Suva operations budget is initially cast in Fiji dollars and converted to CFP for the budget presentation, and again at the end of the financial year, for the consolidation of the accounts.

As much of SPC operations are based on the use of different currencies, it is important that we manage any adverse impacts resulting from current fluctuations beyond our control. Otherwise, this will have an important effect on the final income available for activities in the budget.

- The cost of implementing the new CROP Remuneration package at the SPC requires significant new resources, beyond the current limits. The Secretariat is in full agreement with the principle of harmonisation of general conditions of employment across the CROP agencies, and believes it should be implemented at the SPC without further delay.

All other CROP agencies have put the new system into effect, most at the beginning of this year. The financial implications of the new CROP Remuneration system for the SPC, which is the largest of the CROP agencies and which has about the same number of staff as the other agencies combined, are great. It would be important to recognise the financial ability of the organisation in implementing the new system. We believe the Secretariat's plan to effect the new Remuneration system, to be discussed as a separate agenda item at the November meeting, accomplishes the goal of harmonising SPC with other regional bodies, while at the same time recognising the financial ability of the organisation.

- We are continuing to keep a watchful eye on the trend in the payment and the issue of arrears of Members' assessed contributions. Currently, some Members are continuing to experience difficulties in meeting their membership commitments to the organisation. The total amount of arrears at the end of the Year 2000 was 592,043 CFP units, a significant drop from the

previous year due to the payment of the US arrears. The total amount of arrears may not appear too great in overall percentage terms, but does have an adverse impact on our cash flows. It is still manageable. However, it remains a nagging concern to the Secretariat.

- Core Allocation to the various programmes such as Health, Fisheries and Agriculture, also warrants continuing attention. During last year's budget discussions, we flagged the need to look more closely at the percentage of core funds going into these critical programme areas which at present, are quite low. This is an issue that will take a long time to resolve, but which the Secretariat will continue to keep on the front burner in addressing with Members and our donor partners.

THE YEAR 2002 BUDGET

15. **The total proposed budget - Core and Non-Core - is approximately 25.8 million CFP units.** This represents an overall increase of 3.8% over the Revised Year 2001 Budget. In comparing the proposed budget to the revised 2001 levels, you will note that administration costs are reduced by about 7.1%, while there is an increase of 4.6% in the Work Programme areas.

The proposed Year 2002 Core and Non-Core budgets are balanced budgets – the expenditure levels do not exceed the projected income.

16. The administration costs budgeted for the Year 2002 is slightly lower than 10% of total Core and Non-Core budgets, so Members will note that we are still on target in keeping our administration costs in check.
17. Funding for most areas of the Work Programme will be increasing slightly, particularly in Fisheries where large new projects are on line for next year. Other programme areas are showing slight decreases but are maintaining a steady course. There are several project extensions, especially in Health, that are likely for next year, but do not feature in the proposed budget as donor decisions on those projects will not be taken until later this year.

The proposed Work Programme is very much in line with what island members expressed as their priorities at last year's CRGA meeting. As we have in previous years, we work closely with our donor partners to enable the continuation of our current Work Programme, and to look at other service needs expressed by our Members.

18. In general terms, the proposed Core budget of 8,099,400 CFP units is slightly lower than the Revised Year 2001, and more so still than the Approved Budget level. Income coming into the budget from Members' Assessed Contributions is at the exact level as it has been over the past two financial years. The other income categories are about the same as the Revised and Approved Year 2001 budgets, with the major difference being the additional transfers from reserves in 2001.

19. We are looking at about the same level of project funding in the proposed Year 2002 Non-Core budget as compared to the Year 2001. The current estimate is approximately 17.7 million CFP units. The Year 2002 level is a slight increase of 4.6% over the Revised Year 2001, however, it is slightly lower than the Approved Year 2001 level.
20. The CFP/FJD exchange rate used in developing this budget is 63, which was the approximate rate at the time the budget was cast.

THE CORE BUDGET

21. In summary, the proposed Core Budget is essentially a balanced one – the total funds available are projected at 8,099,933 million CFP units against the expenditure level of 8,099,400 CFP units.
22. **Total income.** Most of the estimated income – a total of 7,646,933 CFP units - is expected to come from Members’ Assessed Contributions, which has been at the exact same level since the Year 2000 budget when the current “same nominal” policy came into effect.

Income derived from other sources tend to fluctuate and may vary from year to year. For the Year 2002 budget, the income categories and projected levels in CFP units are:

• Voluntary contributions to the Core	6,130
• Bank interest earnings	315,000
• Miscellaneous income (i.e., facility rentals)	63,870
• Housing Management levy	50,000
• Canteen Rental	18,000

Members may note that the projected levels of income are almost identical as the Year 2001 Budget, with the notable exception of transfers from reserves. The Secretariat is mindful that the difference in the income budget for Year 2002 may violate the strict application of the “same nominal” policy. However, we believe it is more accurate and transparent to reflect anticipated income increases in the proposed budget, based on current financial trends, as we have done in projecting the 15,000 CFP unit increase in bank interest earnings.

In the second budget scenario presented by the Secretariat, there is a proposed funding increase of 176,000 CFP units, coming from either a transfer in from the General Reserves or an increase in Members’ Assessed Contributions to enable the phased implementation of the new CROP Remuneration package next year.

23. **Total expenditure.** The anticipated expenditure in the Administration and Work Programme areas amounts to 8,099,400 CFP units – leaving a nominal surplus of 533 CFP units for the year.

The Core expenditure plan for the Year 2002 is lower than both the Approved and Revised Year 2001 levels, by 300,090 CFP units and 99,846 CFP units respectively.

Projected Administration costs are expected to decrease by 5.2%, while the Work Programme allocations have increased slightly by 0.7%, when you compare the Year 2002 expenditure plan with the Revised Year 2001.

As indicated in the working paper on the implementation of the new CROP Remuneration package, there is only one element of the new package that the Secretariat was able to bring into the “same nominal” budget for Year 2002, that being the funding for the new salary structure. The additional costs to move to this new salary scale, which is 52,000 CFP units, is reflected in the proposed Core Budget under Salary-related Provisions, Job-sizing/CROP harmonisation. It should be noted that the individual staff salary votes in the section/programme areas reflect the current Year 2001 funding requirements, and will be changed once the Year 2002 budget is approved.

The benefits package included in this proposed “same nominal” budget under the Salary-related Provisions also reflect only the existing Year 2001 requirements, as the capped budget ceiling in the proposed budget did not allow for the new CROP benefits to be accommodated. You will note, however, that the second budget funding scenario proposed by the Secretariat takes on board the increased funding requirements to enable the partial implementation of the new CROP harmonised package.

The significant expenditure changes in the Core Budget are listed by chapters below.

24. **Chapter I – Administration**

- Office of the Director General. The salary of the Director General is increased by 13.2% - to reflect additional funding requirement for a renewal of contract.

The regional consultations budget line is decreased by 150,000 CFP units as the CRGA next year is planned to be convened at the Noumea headquarters, which will cost significantly lower.

- Corporate Services. The expected drop of 2.9% in Finance and Administrative Services is due to reduced staffing level. You will note that SPC Suva has merged the two sections into one, bringing it under the responsibility of the Finance Manager (Suva) whose terms of reference have also been expanded to reflect the new duties.

There are two positions in the Administration Budget that have been eliminated, both of which are Registry Assistants positions, one in Noumea and the other in Suva. The staff reductions are part of the ongoing effort by the Secretariat to gain operational efficiencies, given budgetary constraints.

The overall increase in Staff-related Provisions is largely associated with the move to place staff costs associated with child and education allowances into this budget category. These allowances had previously been included in the individual staff budget lines, which had distorted basic salary costs. The other increase of 15,000 CFP units is to fund additional costs of the new CROP Remuneration system for staff in the Administration Budget – stemming from the transition to the new professional salary scale and the job-sizing exercise.

Programmes – Noumea Headquarters

25. Chapter II, Programme Management

- The divisional offices of the Deputy Director General and the Director of Marine Resources are costing 13.9% more overall, as compared to the Revised Year 2001 budget. There are slight increases in the salary costs for both positions to cater for necessary adjustments.

The Office of the Deputy Director General is budgeted with an increase of 4,500 CFP units in the Minor Projects. This fund provides great flexibility to divisional leaders in responding to unforeseen needs of Members that emerge during the year in their respective sectoral areas. The budget lines for the other divisional leaders have increased similarly.

In Salary-related Provisions, the 21.2% increase is mostly associated with the introduction of child and education allowances – amounting to 110,700 CFP units - into this part of the budget. There is an additional 37,000 CFP units set aside to fund projected increases resulting from the new CROP salary system and job-sizing exercise for those staff funded under the Work Programme budget for Noumea.

26. Chapter III, Social Resources

- The overall percentage change in the Social Resources Division – Noumea is small – an increase of 0.8% for the Year 2002 as compared to the current year. There are several components of this chapter worth highlighting.

Working Paper 5
Page 11

- 26.1 In the Public Health Programme, the core fund allocation has risen slightly, by 2.1%. You will note that the position of the Manager of the Public Health Programme has been re-introduced, as recommended by the independent Review Team that evaluated PHP last year. The position, with a new set of terms of reference, is now responsible for the overall co-ordination of the Health Sections, as well as the Health Promotion project within PHP. Through an agreement with AusAID, the position will be partially funded by Non-Core funds for half of the year, and will be taken fully onto core funding subsequently.

We are also planning to shift the position of Epidemiologist in the Public Health Surveillance and Communicable Diseases Control section onto Non-Core funding next year when the incumbent currently in the position is scheduled to complete his 6-year term. The section will also be subject of an external programme review next year. The position is funded for only half

of the year in the Core Budget, requiring 42,500 for salary and 2,500 for programme activity costs.

26.2 Expenditure for the Noumea Socio-Economic Programmes is expected to decrease overall by 6.5%. There are three components requiring explanation:

- In the Pacific Women's Bureau, the salary component for the Women's Development Officer is being shifted onto Non-Core funding, following the agreement with NZODA to increase its annual XB allocation to this programme.
- In the Pacific Youth Bureau, there is a slight re-shuffling of operational funding, with reductions in duty travel and programme activity costs and an increase of 40,000 CFP units to fund the regional Youth Conference scheduled for next year. The Small Islands States fund that caters for youth training activities in our smaller Island member states is now featured in the Non-Core Budget where it sits more appropriately.
- In the Cultural Affairs Programme, we have provided a small allocation of 35,000 CFP units for a scheduled Meeting of the Pacific Arts Council next year.

26.3 There is anticipated increase of 2.8% in the overall funding for the Information and Communication Programme. The following areas are worth highlighting:

- The salary for the Head of the Planning unit is increased slightly resulting from the renewal of contract for the incumbent.
- The Publications section has a small reduction overall of 2.1%. One of the three English Editor positions has been frozen, as a result of the current budgetary constraints. The need for the position will remain under review. Funding for the salary of the Senior Printery Assistant position has been restored to its full year's allocation.

Working Paper 5
Page 12

- The Information Technology and Communications section will see an increase of 12.9% in its funding level. The salary for the IT Manager is increased to cover the full year's salary costs. The network maintenance budget that caters for licensing agreements and general system improvements has been adjusted higher as a result of increased costs

27. **Chapter IV, Marine Resources**

- In the Coastal Fisheries Programme, the position of Fisheries Development Officer is being shifted onto Non-Core funding, resulting in the substantial reduction of 35.3% in overall funding next year.
- The budget for the Oceanic Fisheries Programme is virtually unchanged compared to the 2001 allocation.

Programmes – Suva

28. **Chapter II – Programme Management**

- The Office of the Senior Deputy Director General shows a reduction of 4% in overall funding. Like other divisions, the budget line for the Minor Projects fund is increased to 16,500 CFP units.
- The Salary-related Provisions vote is substantially higher than the current year's allocation, owing largely to the introduction of children education allowances in the amount of 75,700 CFP units into this budget line. The amount of 20,000 CFP units has also been set aside to fund the increased salary requirements in the new CROP salary structure, and the result of the job-sizing exercise.

29. **Chapter III - Social Resources**

- The programmes in the Social Resources division show few changes, as follows:
 - The Community Education and Training Centre will see a 10.4% reduction in its overall funding. The position of Cleaner/Room Attendant is being shifted onto Non-Core funding beginning next year, resulting in slight savings of 7,500 CFP units.
 - The Regional Media Centre budget remains about the same as the current year funding, with a few minor re-shuffling. Funds for the position of Television/Video Specialist have been restored to its annual level. Funding for the Radio/Broadcast Specialist position has been decreased, as part of the year, it will be in the professional level and but later re-graded to a support position once the current incumbent's contract expires next August. The position of Video Editor has been shifted to the Non-Core budget.

Working Paper 5
Page 13

- In the Information Technology and Communications section, there is a slight increase of 5.9% in the budget. Two positions had been re-graded earlier this year to achieve consistency with their Noumea colleagues.

30. **Chapter IV – Marine Resources**

- The Regional Maritime Legal Services budget is reduced by 14%, as funds needed for training workshops sponsored jointly with the Non-Core funded Regional Maritime Training Services will be equally shared by the two sections next year.

31. **Chapter V – Land Resources**

- In the Agriculture sections, the substantial reduction of 26.1% in the programme funding is largely due to the planned shift of the Agriculture Information and Resources Adviser

position onto the Non-Core budget. The other factor is the removal of funds for the triennial technical meeting, which took place earlier this year. You will note that the position of Laboratory Technician – Tissue Culture has been shifted from Plant Protection Services to the new Agriculture component of Regional Germplasm Centre in the budget.

- In the Forestry programme, there is a reduction of 18.9% in the salary vote for the Forestry Adviser, due to the reclassification of education allowances in the Year 2002 budget. There is also a minor re-shuffling of operational funds from the Pacific Islands Forests and Trees Support Programme to support the SPC/GTZ Forestry Project.

THE NON-CORE BUDGET

32. The Non-Core budget is about twice the size of the Core budget and it funds about three-quarters of the SPC's programme activities. Contributions to the Non-Core budget are made largely by our SPC donor members, although a large amount is made by our non-Member donor friends, like the European Commission.
33. There are two types of Non-Core funding support at the SPC – programme funds to support areas that are high priority and long-term in nature, and project funds for fixed term projects that generally follow donors' competitive funding cycle with certainty in funding for a specific term, once approved.
34. Usually, the Non-Core budget presentation is much less detailed than the Core budget presentation due to the dynamic nature of project funding, making it difficult to accurately present as it is subject to change. You may also wish to note that the financial control for Non-Core funded activities is determined by contractual agreements between the Secretariat and the project donors, so the financial security of the organisation is not at risk through the Non-Core budget.

Working Paper 5
Page 14

35. As indicated earlier, the Secretariat has provided a conservative estimate of donor income in the casting of the Year 2002 Non-Core Budget – only those programmes or projects that the donors have provided funding assurances are contained in the proposed budget document. The Secretariat is also pursuing other funding possibilities, for either new projects or project extensions that are likely to be considered by donors in the coming year. The nature of XB funding is such that new projects can be supported by donors at short notice during the course of any financial year when funds become available. This flexibility allows the organisation to respond more easily to regional priorities.
36. The proposed Non-Core budget for the Year 2002 is 17.7 million CFP units, an increase of 6.2% over the revised Year 2001 level, and just slightly higher than the approved Year 2001 budget estimation. For the past 2-3 years, Non-Core funds to the SPC have reached a plateau, as we had predicted. It's still a healthy position to be in, with our traditional major donors continuing to place their confidence in our ability to deliver regional technical service. Our donor friends continue to see the SPC as an important vehicle to deliver services to the region cost-effectively.

37. There is one new element of the proposed Non-Core budget that is worth highlighting here. It is the introduction of project management fees during 2001 that enables the Secretariat to maintain necessary support to the growing Work Programme activities. These fees are derived from a 3% levy on donor contributions to Non-Core activities, and are used to fund various core programme support functions across the organisation. The individual programme support units charged to the project management fees are listed in their respective chapters. The issue of income derived from project management fees and its proper place in the SPC budget will be presented separately for reconsideration by CRGA in November.

Highlights of the other major changes in XB funding follow.

Noumea Headquarters

38. **Chapter I - Administration**

- A Senior Accounts clerk position is needed to support the increased financial accountability requirements resulting from the recent expansion in the Non-Core area. The amount of 37,100 CFP units is provided in the Noumea Finance Office for this position, to be charged against project management fees.

39. **Chapter II – Programme Management**

- Funds allocated this financial year for a regional technical meeting will not be required next year under the Director of Marine Resources budget.

Working Paper 5
Page 15

40. **Chapter III – Social Resources**

- The Public Health Programme is showing a slight reduction overall of 1.6%, with four health projects scheduled to be completed by the end of this year or next. The AusAID-funded HIV/AIDS and STD project is currently under design and is likely to include an SPC component, although our budget document does not reflect this possibility as donor assurance on funding has yet to be obtained. We are also in discussions with NZODA on possible extensions of the Pacific Regional Tuberculosis Control Project, and the Health Management Development Project, likely contenders for next year as well. The one new project this year is the AusAID-funded Pacific Action for Health project, a non-communicable disease project targeting four countries in the region. The Pacific Regional Vector-Borne Diseases project was concluded in June 2001.
- The Socio-Economic Programmes are facing a substantial drop of 23.8%, generally due to reduced activities next year. There are small reductions in both the Statistics and Demography/Population sections, with requests for the extensions of the training attachments for each of the sections still under consideration.

The Renewable Energy PREFACE project is entering its third year, with a planned reduction in its operational budget for the project. The unit has been able to attract funding support for new solar electrification projects in Micronesia.

The Pacific Women's Bureau budget has increased slightly, with the Women's Development Officer shifted onto programme funding next year with support from NZODA.

Funds for the Pacific Youth Bureau are expected to decrease, although the Small Islands States Fund is now featured in the Non-Core Budget.

- The Information and Communication programme will see a drop in its overall funding next year, largely due to the fall out of funds for the regional ICT workshop that was held this year. Of particular note are the two areas in this programme, Publications and Information Technology, that have received additional support from project management fees. We expect to continue funding the Support Engineer using the same funding source next year.

40. **Chapter IV – Marine Resources**

- The substantial increase of more than 50% in funding projection for the Coastal Fisheries Programme and the Oceanic Fisheries Programme is due to the commencement of the long-awaited PROCFISH project supported by the European Commission.
- On the Coastal side, the project will focus on reef fisheries science, with a total of six new staff enhancing the existing Reef Fisheries Assessment and Management unit.

Working Paper 5
Page 16

- Another section of the Coastal Fisheries Programme worth mentioning is Training which will be pursuing continued donor support for the Nelson training course that it had been running for the past 22 years. At this year's Heads of Fisheries meeting, the training activity was deemed high priority for Member countries and territories. So far, we have yet to receive funding assurances to enable the training course next year.
- For the Oceanic Fisheries Programme, the new EU-funded PROCFISH project will enable the next phase of the regional tuna fisheries scientific support with financial resources spread across the three OFP sections, Statistics, Stock Assessment and Modelling and Tuna Ecology and Biology. The project will enable six new staff to come on board next year.

SUVA OPERATIONS

41. **Chapter I – Administration**

- The accounting support in the Suva Finance Services will continue to be provided using funds from project management fees.

42. **Chapter II – Programme Management**

- There is a decrease in project funding for the Office of the Senior Deputy Director with the French and Taiwan funds dropping out.

43. **Chapter III – Social Resources**

- The Population and Reproductive Health Advocacy and IEC Support project has received new funding support from UNFPA to focus on improving Adolescent reproductive health in nine Pacific Island countries. Under this project, there are 3 Suva-based project staff and 6 country-based ARH co-ordinators. The 3-year project will bring in nearly 1 million CFP units next year.
- Two small projects managed by the Population Advocacy unit in Suva – the Regional Census & Data Management Project, and the Family Health and Safety Project - are finishing this year.
- There is a reduction in funds for the Community Education and Training Centre, due largely to the completion of two DFID supported training projects.
- The projected loss of funding for the Regional Media Centre corresponds to the completion later this year of several projects supported by various donors.

Working Paper 5
Page 17

44. **Chapter IV – Marine Resources**

- The Maritime Education and Training programme received substantial one-off project funding this year from DFID and AusAID to enable the training of 339 Pacific seafarers from nine Pacific Island countries to meet international standards set by IMO under STCW 95 convention; the deadline for meeting those standards is February 2002. We are hoping to secure additional funds to address the remaining 852 seafarers in the region. DFID has agreed to assist in the training of these remaining seafarers with a funding package equivalent to about 450,000 CFP units next year. Longer-term funding for the overall programme is still being developed with NZODA.

45. **Chapter V – Land Resources**

- The anticipated funding level of about 3.2 million CFP units for the Agriculture programme is likely to remain quite stable next year. The new 4-year Pest Management in the Pacific project started as planned this year with joint funding from AusAID, NZODA, UNDP and ACIAR.
- The major expansion funded by the European Commission in Plant Protection Services commenced this year, with the likelihood of a second project on Participatory Technology Development and Promotion by mid year 2002.

- Our two Forestry programmes are maintaining funding support by key donors. We are working with AusAID in developing the Pacific Islands Forests and Trees Support programme into a longer-term project. We have also received assurances from Germany on future funding for the Pacific German (GTZ) Regional Forestry project for the next 4 years.

THE SUMMARY

46. The total budget summary for the Year 2002 in CFP units is as follows:

Core Budget	8,099,400
Non-Core	<u>17,758,895</u>
Total	25,858,295

Overall, this represents a slight increase of 3.8% over the revised Year 2001 budget, but slightly lower than the Approved Year 2001 budget. As in previous years, the Secretariat is presenting a balanced budget for the Year 2002.

47. The proposed Core Budget, as presented in this document, follows the “same nominal” policy. The expenditure level is projected at 8,099,400 CFP units. Given the current budgeting policy, which essentially puts a cap on Income and Expenditure so that it does not exceed the current budget year, the proposed Year 2002 “same nominal” Core Budget does not allow for the implementation of the new CROP Remuneration system.

Working Paper 5
Page 18

48. The Secretariat is presenting a second Core Budget scenario for Members’ consideration that requires additional resources to enable partial implementation of the new CROP system as planned. The Secretariat has presented funding options for Members to consider in achieving additional income for this purpose, either from a draw-down of SPC General Reserves, an increase in Members’ Assessed contributions, or a combination thereof.
49. Administration costs are budgeted below the 10% mark - which remains the Secretariat’s target in keeping SPC’s administration costs in check. Planned programme expenditures continue on a slight upward trend, although the level of programme funding has probably reached a plateau.
50. The future challenges in developing the SPC budget are many. The Secretariat’s response to these budgetary pressures requires greater management at all levels. In managing the Core Budget, we must keep the pressure on for efficient administration while maintaining the tight financial control of salaries and conditions of service. Managing the Non-Core Budget requires great care in ensuring project funding fits the role of the SPC and members’ priority needs, and meets donor requirements in reporting and accountability. Finding the delicate balance and mix of the two is the key.

RECOMMENDATION

51. That CRGA is invited to consider and approve the Core and Non-Core Budgets for the Year 2002. The Secretariat is recommending the approval of the second funding scenario for the Year 2002 Core Budget that would enable a phased implementation of the new CROP Remuneration system.

20 September 2001