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EBAP/84/45

March 6, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Administrative Budget for FY 1984 - Additional
Appropriations and Transfer of Appropriations

It is not intended to bring the proposals in the attached memorandum from the Managing Director to the agenda for discussion unless an Executive Director so requests by the close of business on Friday, March 9, 1984. In the absence of such a request the proposals will be deemed approved by the Executive Board and a decision to that effect recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads

TO: Members of the Executive Board

DATE: March 6, 1984

FROM: The Managing Director

SUBJECT: Administrative Budget for FY 1984: Additional Appropriations and Transfer of Appropriations

1. The administrative budget for FY 1984 as originally approved at EBM/83/62 (4/15/83) amounted to \$192,540,000. The decision of the Executive Board included the statement that "any commitment going beyond the total approved for each category will be submitted to the Executive Board for approval". Subsequently at EBM/83/73 (5/20/83), the Executive Board approved a supplementary appropriation of \$5,700,000 on account of the 1983 general salary adjustment.

2. In my midyear statement I reported that it was expected that administrative expenses in FY 1984 would amount to \$204,290,000 or \$6,050,000 (3.1 percent) more than the approved budget as revised. It was noted that a large part of the projected overexpenditure was accounted for by two factors: (i) the unbudgeted cost of the value of separation grants earned and unused annual leave accumulated during FY 1984, which, following the Executive Board's decision of May 16, 1983 (EBM/83/70), must be included in the administrative budget, and at the time of the midyear review was estimated to total \$3,180,000; and (ii) additional expenses for data processing services which could not have been foreseen at the time of budget preparation, including the rental of an additional mainframe computer in the Joint Computing Facility, which at that time were expected to amount to \$2,270,000. It was noted that the total estimate did not take account of several urgent proposals concerning additional automation expenses which were still under review by the Executive Committee for Computing Services.

3. As a result of a further review at the third quarter point, it is now estimated that total expenses for the year will be \$204,500,000. The net increase of \$210,000 in the estimate since the midyear review is mainly on account of higher estimates for salaries of experts, earned separation grants and accumulated annual leave, communications and data processing services, partially offset by reduced estimates for tax allowances, health benefits and settlement travel. The following is an explanation by object of expense category of the difference (\$6,260,000) between the present estimate (\$204,500,000) and the approved budget as revised after the general salary adjustment (\$198,240,000).

4. Salaries. It is now estimated that expenses in this category will be \$230,000 (0.3 percent) less than the approved budget of \$83,980,000. One reason for the decrease is some changes in accounting procedures, in particular the transfer of the cost of annual leave payments to staff terminating employment (\$600,000) to the Other Personnel Services category in order to consolidate all unused annual leave payments and separation grants and accruals in one account. Another reason for the decrease is the transfer of funds (\$750,000) to the Miscellaneous category because a considerable amount of temporary man-

power originally budgeted in the Salaries category for data processing services has been provided by consulting companies on a contractual basis rather than by directly hired personnel. In addition, several positions which have been vacated by staff going on retirement with a termination payment have not been filled immediately (-\$150,000) so as to partially offset overexpenditures in the termination benefits account (see paragraph 5). The aforesaid reductions in the Salaries category have been largely offset by: (i) increases in the average salaries of experts and in the number of experts from 120 man-years as budgeted to 126 as now estimated (\$665,000); (ii) an increase in the cost of the Staff Contingency Fund and the Economist Program (\$150,000); (iii) a greater incidence of overtime than expected (\$240,000); and (iv) an increase in the remuneration of Executive Board members and advisors effective July 1, 1983 (\$200,000).

5. Other Personnel Services. The revised estimate for expenses in this category is \$1,800,000 (3.2 percent) more than the approved budget of \$55,830,000. The most important factor accounting for this overexpenditure is the estimated value of earned separation grants and accumulated annual leave, mentioned in paragraph 2, for which provision was not made in the original budget. The revised estimate for this item (\$3,480,000), which is being charged to the settlement allowances account, is \$300,000 more than the midyear estimate. Another important factor in that account is the transfer from the Salaries category of the cost of payments for accrued annual leave for staff actually terminating appointments in FY 1984 as noted in paragraph 4 (\$600,000). The termination benefits account will also cost more (\$350,000) than originally budgeted but, as noted above, there have been savings in the Salaries category which partially offset this increase. Offsetting these higher costs in the Other Personnel Services category are estimated savings in several of the other component accounts including: (i) health benefits (-\$640,000) because of excellent experience with the Medical Benefits Plan, as reported in Staff Bulletin 84/1 dated February 16, 1984; (ii) tax allowances (-\$575,000) because the original estimates for this account, which includes several elements which are difficult to accurately forecast, have proved to have been greater than actual payments; (iii) overseas allowances (-\$535,000) because the number of man-years of service by resident representatives and advisors is likely to be less than the 22 budgeted, and because the average cost of allowances for experts will be less than budgeted as a higher than anticipated proportion of expert assignments is being filled by short-term experts who receive fewer allowances than long-term experts; (iv) retirement contributions (-\$390,000) because the actual expense of the cost-of-living supplement effective May 1, 1982 was less than assumed at the time of the budget preparation and because of a saving in the cost of parity exchange rate differential payments; and (v) children's education allowances (-\$195,000) because the number of claimants has been less than expected.

6. Business Travel. It is expected that expenses in this category will be the same as budgeted (\$13,710,000). Expenses for the Meetings of Governors are expected to be some \$145,000 less than budgeted but

this savings will be offset by a likely overexpenditure of about the same amount in the other business travel account. The latter estimate takes account of a growth in volume of travel about 2 percent higher than originally estimated partially offset by savings from split ticketing procedures which take advantage of the fact that fares expressed in non U.S. currencies are not adjusted immediately when there is a change in the U.S. dollar exchange rate.

7. Other Travel. Expenses for this category are now expected to be about \$290,000 (2.6 percent) less than the approved budget of \$11,115,000. The reduction in estimate is largely because, contrary to the expectation, the average cost of settlement travel in FY 1984 is actually less than the average cost in FY 1983. The freight element in settlement travel is historically volatile and difficult to forecast in aggregate for the Fund's relatively small volume. The lower costs of settlement travel have been partially offset by a higher cost for home leave travel on account of a 3 percent higher volume of travel and a 3 percent higher average unit cost than expected.

8. Communications. It is expected that the budget for this category (\$6,380,000) will be exceeded by \$430,000 (6.7 percent). The overexpenditure is due to more long distance telephone calls and because the parallel operation between the new Rolm telephone system and the old Bell Centrex system in FY 1984 will last for twelve months rather than eight months as originally assumed. Despite a considerable increase in volume of cable traffic, the estimated cost of cables is only slightly above the original budget, because the staff has expanded the number of carriers competing for Fund business and has taken advantage of discounts made available as a result of deregulation in the communications industry.

9. Building Occupancy. The third quarter review of expenses in this category indicates that they may exceed the approved budget of \$9,255,000 by about \$180,000 (1.9 percent). Costs higher than expected have been incurred on account of the opening of the Phase IIa extension to the headquarters building, particularly for electricity and for janitorial services in connection with office moves. Additional costs have been incurred for building alterations to accommodate a laser beam communication device linking the headquarters building with offices in International Square. Finally, rental income will be less than assumed because of the release by the World Bank of 15 apartments rented from the Fund in the Concordia building which are now required for use by the IMF Institute.

10. Books and Printing. It is now estimated that the budget for this category (\$2,050,000) will be underspent by \$180,000 (8.8 percent). Most of this anticipated decrease is on account of a significant rise in sales income following more active promotion of Fund publications.

11. Supplies and Equipment. The largest single element in the budget for this category in FY 1984 was a provision for the replacement of carpeting in corridors, lobbies, the cafeteria and the dining room

in the headquarters building and for carpeting in the International Square building (\$868,000). It is now apparent that the budget for carpeting will be exceeded by about \$283,000 largely on account of additional replacements necessitated by the fitting of the new telephone system in the headquarters building and because of a more rapid deterioration than expected of the existing carpeting. So as to minimize the impact on the administrative budget for FY 1984, a thorough review has been made of other items which were provided for in the original budget to see if some could be postponed until FY 1985. As a result of this review, it has been decided to defer expenses amounting to about \$120,000 on account of the acquisition of some office equipment, and some furniture and furnishings planned for the Executive Dining Room, the Mini Park and parts of the Phase IIa building, as well as for the Concordia apartments. Consequently, it is estimated that it will be possible to hold down the overexpenditure in this category to about \$160,000, which is 3.7 percent of the approved budget of \$4,300,000.

12. Data Processing Services. It is now expected that the budget for this category (\$6,160,000) will be exceeded by \$1,875,000 (30.4 percent), of which \$1,220,000 is attributable to the Joint Computing Facility (JCF) and \$655,000 is on account of all other data processing services. Subsequent to the approval of the budget by the Executive Board, a technical review was made by the staff of the JCF to see what could be done to improve a deteriorating level of service. As a result of that review, it was decided to rent an additional mainframe computer so that all Fund applications could be handled by three machines, two large and one small. Two thirds of the extra cost to the Fund of the JCF is accounted for by this development. The remaining one third is largely due to an underestimate of other JCF costs because they were based on figures supplied by the World Bank, which later proved to be too low. A large part of the overexpenditure for other data processing services is on account of data communications equipment acquired to provide a less expensive means of communications between the mainframe computers and the Fund terminals which will provide recurring savings over an extended period of time. Another urgent project for which additional provision had to be made during the year is an integrated information management system in the Treasurer's Department. There has also been some additional expenditure for extra word processors and microcomputers to help staff working under severe pressure. However, some of this last expense has been offset by savings elsewhere in the budget which results from a requirement that departments with needs for nonbudgeted items, if feasible, surrender in return some item which had been budgeted.

13. Miscellaneous. The revised estimate for expenses in this category is \$7,975,000 or \$2,515,000 (46.1 percent) more than the approved budget of \$5,460,000. Some 70 percent of the increase is attributable to the cost of data processing services provided on a contractual basis by private companies. As noted in paragraph 4, a considerable portion of the overexpenditure on account of this factor is offset by a reduction in the budget for temporary manpower for data

processing services provided in the Salaries category. However, in addition, it has been necessary to make provision for a higher unit cost for manpower hired through private corporations, rather than direct, because of such factors as corporate profit and overhead. It has also been necessary to revise upwards the estimated cost of several other contractual services including the staff compensation study, mainly on account of widened scope of the exercise requested by the Executive Board (\$475,000), investment and custody fees for the Staff Retirement Plan (\$200,000), the Staff Retirement Plan study (\$70,000), the career streams study (\$45,000), and moving services in connection with relocation of offices in the extension to the headquarters building and in International Square (\$50,000).

14. The following summary table recapitulates the above estimates by grouping first the six categories where it is expected that expenses will exceed the authorized budget, and secondly the four remaining categories.

Category of Expense	Approved Budget	Revised Estimate	Revised Estimate Compared with Approved Budget	
			Increase + Decrease -	Index Budget=100
<--- (Value Figures in \$000s) --->				
A. <u>Estimates in Excess of Budgets</u>				
Other Personnel Expenses	55,830	57,630	+ 1,800	103.2
Communications	6,380	6,810	+ 430	106.7
Building Occupancy	9,255	9,435	+ 180	101.9
Supplies & Equipment	4,300	4,460	+ 160	103.7
Data Processing Services	6,160	8,035	+ 1,875	130.4
Miscellaneous	5,460	7,975	+ 2,515	146.1
Subtotal	<u>87,385</u>	<u>94,345</u>	<u>+ 6,960</u>	<u>108.0</u>
B. <u>Other Categories</u>				
Salaries	83,980	83,750	- 230	99.7
Business Travel	13,710	13,710	-	100.0
Other Travel	11,115	10,825	- 290	97.4
Books & Printing	2,050	1,870	- 180	91.2
Subtotal	<u>110,855</u>	<u>110,155</u>	<u>- 700</u>	<u>99.4</u>
 Total	 <u>198,240</u>	 <u>204,500</u>	 <u>+ 6,260</u>	 <u>103.2</u>

15. As noted above, there is now a large expense in the Miscellaneous category pertaining to contractual services for data processing. This is a new phenomenon associated with the recent program to catch up in automation after a period of marking time. It is believed that it would be more appropriate to charge such expenses to a new account in the Data Processing Services category because (a) it would present a better picture of the total cost of data processing services, and (b) it would avoid greatly expanding the Miscellaneous category which by definition should be confined to relatively small residual items. There are precedents for such an arrangement, i.e., the other contractual services account in the Miscellaneous category already excludes, for instance, contracts in connection with building services (Building Occupancy category) and for contractual printing (Books and Printing category). Accordingly, it is recommended that \$2,500,000 be transferred from the Miscellaneous category (other contractual services account) to Data Processing Services category (a new data processing contractual services account).

16. In the light of the revised estimates summarized in paragraph 14 and the change in accounting for data processing contractual services proposed in paragraph 15, I recommend approval by the Executive Board of the following additional appropriations and transfers of appropriations between categories:

	<u>Approved Budget</u>	<u>Transfer of Appropriations</u>	<u>Revised Budget</u>
<u>(In thousands of U.S. dollars)</u>			
I. <u>Personnel Expenses</u>			
A - Salaries	83,980	- 230	83,750
B - Other Personnel Expenses	55,830	+1,800	57,630
II. <u>Travel Expenses</u>			
C - Business Travel	13,710	-	13,710
D - Other Travel	11,115	- 290	10,825
III. <u>Other Administrative Expenses</u>			
E - Communications	6,380	+ 430	6,810
F - Building Occupancy	9,255	+ 180	9,435
G - Books and Printing	2,050	- 180	1,870
H - Supplies & Equipment	4,300	+ 160	4,460
I - Data Processing	6,160	+4,375	10,535
J - Miscellaneous	<u>5,460</u>	<u>+ 15</u>	<u>5,475</u>
	198,240	+6,260	204,500