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December 22, 1988

To: Members of the Executive Board

From: The Secretary

Subject: FY 1989 Midyear Review of Administrative
and Capital Expenses

There is attached for the information of the Executive Directors a memorandum by the Acting Managing Director on the midyear review of the Fund's administrative and capital expenses for FY 1989.

Mr. Wiesner (ext. 8241) or Mrs. Jackson (ext. 8986) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

To Members of the Executive Board

Date: December 21, 1988

From: The Acting Managing Director

Subject: FY 1989 Midyear Review of Administrative and Capital Expenses

This paper presents a midyear review of the Fund's administrative and capital expenses based on actual expenses for the first six months of FY 1989. The review is presented in terms of the ten "object of expense" categories (section I) and by the three capital project categories (section II); these are the classifications by which the Executive Board authorizes expenses. The Fund's income position for the current year (EBS/88/239, 11/23/88) was discussed on December 12, 1988. A preliminary outline of the major activities for FY 1990 will be presented in a separate paper to be issued later this month, for discussion by the Board in mid-January.

I. Administrative Budget

The Administrative Budget for FY 1989, as approved by the Executive Board on April 25, 1988 (EBM/88/65), amounted to \$247,230,000. Subsequently, two supplementary appropriations were approved by the Executive Board which resulted in a revised FY 1989 ceiling of \$252,530,000. The supplementary appropriations authorized were: (i) \$4,900,000 for the 1988 general salary adjustment (EBM/88/79, 5/18/88); and (ii) \$400,000 of additional expenses for a staff compensation survey (EBM/88/136, 9/1/88). At the midpoint of the current financial year, it is estimated that expenses for the full year may amount to \$248,030,000 which is \$4,500,000 or 1.8 percent less than the revised budget ceiling, as shown in Table 1. Within the total, there are two categories for which expenditures are expected to be more than budgeted, six categories for which expenditures are likely to be less than budgeted, and two categories for which expenditures are estimated to be as budgeted. Given the preliminary nature of the current estimates, it is not proposed to request any transfers of appropriations at this time. Rather, as has been the practice in the past, such a decision will be postponed until the third quarter review has been completed in February 1989, giving us more accurate estimates for each category. Estimates for each of the ten "object of expense" categories are presented in Table 1 and discussed in the following paragraphs.

Table 1. Midyear Revised Estimate for FY 1989
Compared with the Approved Budget

(in thousands of U.S. dollars)

Object of Expense Category	Approved Budget 1/	Midyear Revised Estimate	Estimate Compared with Budget	
			Increase + Decrease -	Percent Change
<u>Personnel Services</u>				
Salaries	112,590	110,940	-1,650	-1.5
Other personnel expenses	<u>59,840</u>	<u>57,900</u>	<u>-1,940</u>	<u>-3.2</u>
Subtotal	172,430	168,840	-3,590	-2.1
<u>Travel</u>				
Business travel	17,140	18,640	+1,500	+ 8.8
Other travel	<u>13,090</u>	<u>13,240</u>	<u>+ 150</u>	<u>+ 1.1</u>
Subtotal	30,230	31,880	+1,650	+ 5.5
<u>Other Administrative Expenses</u>				
Communications	6,660	6,660	--	--
Building occupancy	15,420	14,425	- 995	- 6.5
Books and printing	2,190	2,190	--	--
Supplies and equipment	5,170	5,020	- 150	- 2.9
Data processing	16,390	15,205	-1,185	- 7.2
Miscellaneous	<u>4,040</u>	<u>3,810</u>	<u>- 230</u>	<u>- 5.7</u>
Subtotal	49,870	47,310	-2,560	- 5.1
Total	<u>252,530</u>	<u>248,030</u>	<u>-4,500</u>	<u>- 1.8</u>

1/ Including supplementary appropriations of \$4,900,000 for the 1988 general salary adjustment and \$400,000 of additional expenses for a staff compensation survey.

a. Salaries

This category covers the cost of remuneration for Executive Directors, their Alternates and Advisors, and salaries of assistants, as well as of staff, technical assistance experts, and consultants. It is estimated that expenses in this category will be \$1,650,000 (1.5 percent) less than the revised budget of \$112,590,000. Major factors contributing to the decrease are a higher average vacancy rate, reflecting increasing recruitment difficulties, 1/ as well as a lower average salary level (-\$1,400,000). The latter results from the replacement of departing staff with new recruits at lower initial salaries. Also contributing to the decrease are a smaller Staff Contingency Fund than budgeted (-\$220,000), and a lower estimate for cost-of-living allowances for staff assigned in the offices in Europe and Geneva (-\$120,000). Partially offsetting these decreases was the July 1, 1988 increase in remuneration for Executive Directors and their Alternates and Advisors (+\$200,000).

b. Other Personnel Expenses

This category covers other personnel expenses relating to Executive Board members, their Advisors and Assistants, staff, technical assistance experts, consultants, and participants in the IMF Institute training program. These expenses include Staff Retirement Plan contributions; tax, dependency, education, settlement, study, training, and overseas allowances; accrued unused annual leave and separation grants; termination incentives; medical and life insurance contributions; social and welfare expenses; the food services subsidy; and living allowances for IMF Institute participants. The revised estimate for expenses in this category is \$1,940,000 (3.2 percent) less than the approved budget of \$59,840,000. Primary factors contributing to the decrease are: lower than budgeted overseas allowances (-\$100,000); a reduced estimate for unused annual leave and separation grants to be accrued on April 30, 1989 over and above the amount accrued through FY 1988 (-\$550,000); reduced tax allowance payments (-\$570,000); and a reduction in Termination Benefits Fund payments because of fewer staff separating under this program (-\$400,000).

1/ A more complete analysis of the Fund's recent experience in recruiting and retaining staff is contained in the paper, "Recent Experience in Recruitment and Retention", EBAP/88/295; 12/5/88.

c. Business Travel

This category covers transportation costs, per diem allowances, and incidental costs of business travel of Governors, Executive Directors, and staff, including attendance at the Annual Meetings and meetings of the Interim and Development Committees. Expenditures are estimated to be \$1,500,000 (8.8 percent) more than the approved budget of \$17,140,000 (\$200,000 more on account of the Annual Meeting in Berlin and \$1,300,000 more for other business travel). The budget for other business travel provided for a 1 percent expansion in the volume of travel and an average increase in airfares and travel allowances of about 3 percent. Based on travel for the first six months of FY 1989, it is not expected that the volume of travel will significantly exceed the estimate made at the beginning of the year, in part because of continuing efforts to contain the volume of travel. However, the rate of increase in the cost of an average business trip (both hotel and airfares) is estimated to be higher than anticipated (9 percent vs. 3 percent), largely because of the weakening of the United States dollar. The additional expense also reflects the full impact of the increase in travel allowances which became effective January 1988.

d. Other Travel

This category covers nonbusiness travel of Executive Directors, staff, technical assistance experts, IMF Institute participants and, for selected courses, their spouses. It also covers the travel costs of officials and nonofficials attending Fund-sponsored seminars. Types of travel included are settlement (appointment and repatriation), home leave, education, study, emergency travel, and the "points" travel of spouses. It is expected that expenses in this category during FY 1989 will be \$150,000 (1.1 percent) higher than the approved budget of \$13,090,000. The estimated overrun is attributed to higher costs for settlement travel and home leave travel.

e. Communications

This category covers the cost of postage and freight and of telephone and telegraph services. It is estimated that expenses will be within the original budget of \$6,660,000.

f. Building Occupancy

Included in this category are the cost of maintaining and operating the Fund buildings, the cost of utilities, building alteration expenses, and the rental of commercial office space. Also included are payments received from the World Bank for joint facilities housed in Fund premises,

and payments made to the World Bank for joint facilities located in World Bank premises. Expenditures in FY 1989 are expected to be \$995,000 (6.5 percent) less than the budgeted amount of \$15,420,000. The underrun reflects lower maintenance and operating costs at headquarters (-\$170,000), lower utility costs (-\$180,000), and reduced rental costs (-\$540,000). The latter results from the renegotiations of rent for space in the International Square building.

g. Books and Printing

This category covers the cost of books and periodicals for the departments and the Joint Library as well as the contractual printing costs of Fund publications. It is estimated that expenditures will not exceed the original budget estimate of \$2,190,000.

h. Supplies and Equipment

This category includes expenditures for the provision and maintenance of furniture and equipment (excluding data processing or communications equipment), and for the Fund's use of expendable office supplies. It is expected that expenditures will be \$150,000 (2.9 percent) less than the budget of \$5,170,000, reflecting less equipment acquisition and reduced equipment rental and maintenance costs, partially offset by higher expenses for supplies. The decision to convert from leased to owned photocopiers in FY 1988 has also contributed to lowering the costs of photocopying in FY 1989, while the rising price of paper is mainly responsible for the higher than budgeted increase in supply costs.

i. Data Processing

This category includes the cost of equipment, software, and related expenses for services provided by companies. Based on the level of expenditure for the first six months, it is estimated that expenditures for the year will be \$1,185,000 (7.2 percent) less than the budget of \$16,390,000. This reflects the realignment of staffing resources (i.e., the use of less expensive individual contractors rather than companies with overhead costs) as project requirements have become more clearly defined in the course of the year. In addition, the reduction reflects the adoption of a funding technique for major development projects that releases funds for a ensuing stage of the overall project only when it has been demonstrated that the objectives of the previous stage have been met. With regard to production activities, an underrun is expected due to the implementation of a policy that carefully reviews any requests for ad hoc enhancements. The combined effect of both procedures is a more deliberate schedule for project implementation and the disbursement of funds.

j. Miscellaneous

This category provides for the cost of representation, insurance, miscellaneous contractual services, and sundries. It is estimated that expenses for this category will total \$3,810,000 which is \$230,000 (5.7 percent) less than the budgeted amount of \$4,040,000. Preliminary indications are that the amount budgeted for various reviews and studies will not be fully utilized in this financial year.

II. Capital Budgets

In accordance with the Executive Board decision at EBM/86/186 on November 21, 1986, appropriations for capital projects are proposed on a multiyear basis separately from the annual administrative expenses. The first capital budget was approved by the Executive Board at EBM/87/60, April 15, 1987 for capital projects scheduled to begin in FY 1988, and a second capital budget was approved at EBM/88/65, April 25, 1988 for projects beginning in FY 1989. Subsequently, at EBM/88/169 (11/21/88) the Executive Board authorized management to proceed with the proposal to acquire the Western Presbyterian Church property on the basis of the plan outlined in Part IV of EBAP/88/197 (8/9/88).

1. FY 1988 Capital Budget

The Executive Board approved \$8,775,000 in the FY 1988 Capital Budget. The revised budget provides \$4,313,000 for four building projects at headquarters including the construction of a mainframe Computer Center, the renovation of two IMF Institute lecture rooms, the purchase of bulk storage equipment, and the replacement of the headquarter's front doors; \$3,410,000 for three building projects at other locations, comprising improvements to leased space at International Square, renovations to the Concordia Apartments, and building improvements at the Bretton Woods Recreation Center; and \$1,052,000 for the purchase of IBM and Unisys data processing equipment. These projects are substantially complete; at this stage, it is estimated that total capital expenses for these projects will be \$8,520,000 which is \$255,000 or 2.9 per cent less than the approved budget (Table 2).

Table 2. Review of FY 1988 Capital Budget
and Revised Estimate of Expenses

(in thousands of U.S. dollars)

	Original Budget	Revised Budget <u>1/</u>	Revised Estimate	Estimate Compared with Revised Budget Increase + Decrease -	Percent Change
<u>Building Space Facilities</u>					
Headquarters	4,583	4,313	4,217	- 96	-2.2
Other locations	3,140	3,410	3,410	--	--
<u>Equipment Systems</u>					
Computing	<u>1,052</u>	<u>1,052</u>	<u>893</u>	<u>-159</u>	<u>-15.1</u>
Total	<u>8,775</u>	<u>8,775</u>	<u>8,520</u>	<u>-255</u>	<u>-2.9</u>

1/ Transfer of appropriations approved at EBM/88/51 (3/28/88).

2. FY 1989 Capital Budget

The Executive Board approved \$3,425,000 in the FY 1989 Capital Budget of which \$2,915,000 was provided for four building projects at headquarters. On the Concourse level improvements will be made to the Records Division, the Communications Division, and to several offices adjacent to the new Data Center. On the Red level improvements will include a new records depository and a new microcomputer equipment testing and repair room. Other building improvements include office conversions for relocated staff and additional heating, ventilation, and air conditioning systems on the ground floor of the headquarters building. In addition, \$375,000 was approved for the replacement of old water and sewerage systems at the Bretton Woods Recreation Center, and \$135,000 was approved for the purchase of IBM data processing equipment. Recently, the Executive Board authorized management to enter into and, if possible, complete arrangements for the acquisition of property

adjacent to the headquarters building and to secure appropriate zoning and other municipal approvals on the basis of the plan outlined in Part IV of EBAP/88/197 (8/9/88) at a cost not to exceed \$30,000,000. Table 3 summarizes the original budget, the revised budget, and the revised estimate at this point in time for total project expenses.

Table 3. Review of FY 1989 Capital Budget
and Revised Estimate of Expenses

(in thousands of U.S. dollars)

	Original Budget	Revised Budget	Revised Estimate	<u>Estimate Compared with Revised Budget</u> Increase + Percent Decrease - Change	
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<u>Building Space Facilities</u>					
Headquarters					
(1) Concourse level	950	950	950	--	--
(2) Red level	785	785	785	--	--
(3) Office conversions	840	840	840	--	--
(4) Ground floor	340	340	340	--	--
(5) WPC property 1/	<u>-</u>	<u>30,000</u>	<u>30,000</u>	<u>--</u>	<u>--</u>
	2,915	32,915	32,915	--	--
Other Locations	375	375	375	--	--
<u>Equipment Systems</u>					
Computing	<u>135</u>	<u>135</u>	<u>132</u>	<u>-3</u>	<u>-2.2</u>
Total	<u>3,425</u>	<u>33,425</u>	<u>33,422</u>	<u>-3</u>	<u>--</u>

1/ Western Presbyterian Church property as approved at EBM/88/169 (11/21/88).

a. Projects at headquarters

The building improvement projects on the Concourse and Red levels are well underway, and construction is scheduled to be completed in the latter part of FY 1989 for space assigned to the Secretary's Department, and early in FY 1990 for the Bureau of Computing Services. The conversion of offices on a number of other floors in connection with the relocation of the staff of these departments should also be substantially completed early in FY 1990, as will the installation of heating, ventilation, and air conditioning equipment on the ground floor. Altogether, it is estimated that total expenses for these headquarters projects will be as budgeted, although better data will be available once competitive bids are received during the month of December.

The property acquisition project recently approved by the Executive Board at EBM/88/169 (11/21/88) allows for a cost of up to \$30,000,000. A report on the progress of this project will be included in subsequent budget reviews.

b. Projects at other locations

The replacement water and sewerage systems at the Bretton Woods Recreation Center are scheduled to be completed near the end of FY 1989 based on the expected approval of municipal permits and assuming satisfactory weather conditions; expenses are estimated to be as budgeted.

c. Computing equipment

IBM computing equipment was purchased for \$132,000 which is \$3,000 or 2.2 per cent less than the approved budget.

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