

Corporate Services Division

Programme Support Cost & Budget – STANDARD MANAGEMENT PROCEDURE

5 May 2017

I. INTRODUCTION

1. UN Environment's finance functions have gone through a major change in the past couple of years with 2014 being the first year of compliance to the International Public Sector Accounting Standards (IPSAS), and the roll-out in mid-2015 of the new enterprise resource planning system, Umoja. Following the same principles of enhancing efficiency, transparency and internal controls of all administrative transactions, UN Environment is adopting a new, simple, transparent and effective procedure for Programme Support Cost management.
2. This Standard Management Procedure on the use of the Programme Support Cost is to be read in conjunction with the Secretary General's Bulletins on Financial Regulations and Rules of the United Nations (ST/SGB/2013/4 and ST/SGB/2015/4) ; the bulletin of establishment and management of Trust Funds (ST/SGB/188) ; the Instruction on Programme Support Accounts (ST/AI/286) and the United Nations Finance and Budget Manual¹; as well as the relevant decisions of the UN Environment governing body². This Standard Management Procedure was developed in accordance with the recommendations of the Policy Memorandum sent by the UN controller to all UN Secretariat entities on June 8, 2012. While recalling the importance of working within the Programme Support Cost formula approved by the General Assembly resolution 35/217, the Policy Memorandum calls for:
 - (a) A clearer approach to the application of Programme Support Cost charges;
 - (b) The protection of average rates of cost recovery from the impact of reduced Programme Support Cost charges; and
 - (c) A clearer and more consistent approach to the allocation of Programme Support Cost resources.
3. This Standard Management Procedure establishes a coherent link between the authority and the responsibility in the management of these funds. It brings clarity and transparency, and the information with regards to generation and allocation of funds is now be directly accessible. This Standard Management Procedure highlights the common interest that Divisions and Multilateral Environmental Agreements, for which UN Environment provides the secretariat (Multilateral Environmental Agreements), have to promote Programme Support Cost generation. It also provides reassurance that proceeds from specific funds are not subsidizing the indirect support cost of other funds.
4. This Standard Management Procedure proposes a method for Programme Support Cost recognition, UN Environment Special Account for Programme Support Costs (called OTA) allocation, OTA use, and OTA/ Programme Support Cost reporting.

II. DEFINITION

5. The purpose of Programme Support Cost charges is to recover the incremental costs incurred when supporting activities financed from extra-budgetary contributions. Incremental costs can be divided into two basic categories: direct and indirect costs. Direct costs are those that can be clearly attributed, either wholly or in part, to an operation, programme or project financed from extra-budgetary contributions. Indirect costs are those that cannot be "traced unequivocally to specific activities, projects or programmes". Indirect costs are the only

¹ http://iseek.unon.un.org/webpgdept1745_18.html

² In particular, UNEA Resolution 2/18 on the "Relationship between UN Environment and the multilateral environmental agreements for which it provides the secretariat"

incremental costs that should be recovered by the support costs charge (Programme Support Cost). This charge is intended to ensure that the cost of supporting activities financed from extra budgetary contributions is not borne by the regular budget and/or other core resources that are central to the budget review and approval process of the United Nations Organizations. For UN Environment, the term "extra budgetary resources" refers to trust funds and earmarked contributions as distinct from budgetary resources³.

III. THE RECOGNITION OF PROGRAMME SUPPORT COST

1. Principle

6. The Programme Support Cost is generated by applying a charge of a defined rate to direct costs (commitments and actual expenses). By the closure of every accounting period, a batch runs and applies, to all expenditures incurred on "extra-budgetary" funding source during the period, the defined rate which triggers an additional charging to the project and generates an equivalent income to the UN Environment Special Account for Programme Support Costs ("OTA", being the fund that receives the programme support revenue). The volume of Programme Support Cost generated depends on the level of expenditures and the rate applied.

2. Administrative reference

7. In accordance with the United Nations General Assembly resolution 35/217 of December 17, 1980, the Programme Support Cost rate that applies to UN Environment transactions is 13%. However, in certain circumstances⁴, the 13% can be reduced to a lower rate. Any requests for reduced Programme Support Cost rates, from the standard 13%, must be accompanied by suitable justification. Corporate Services Division assesses the request and provide a recommendation to the UN Environment Executive Director on whether or not to approve such a request. Any such approval for a waiver or reduction of Programme Support Cost rate is made on an exceptional basis and must be approved in advance by the UN Environment Executive Director, being the only UN Environment authority with that capacity.

3. Limitations

8. The following principles may be considered in any request for waiver of the standard 13% Programme Support Cost rate:
 - (a) Any reduction of Programme Support Cost must be authorized by the Executive Director, in writing, prior to engaging with the donor on the same. The request for lowering Programme Support Cost can only be justified by elements in connection with the original scope of responsibilities covered by the Programme Support Cost and not by any other justification (Ref. ST/AI/286 of March 3, 1982). No assurances should be made to a donor for reduced Programme Support Cost charges until formally approved by the Executive Director.
 - (b) In accordance with the memo from the Controller the rate of 7% may be applied to all voluntary contribution in support of inter-agency and "Delivering as one" programmes. This includes United Nations development Group modalities and funding arrangements

³ There are three main sources of funding for UN ENVIRONMENT: the Environment Fund; the Regular Budget, and extra budgetary funding. The Environment Fund is approved by the governing body (previously Governing Council and currently UNEA) and the Regular Budget is approved by the General Assembly.

⁴ The memo from the Controller provides guidance in this regard.

with the European Commission. When contracting another UN entity for the execution of a project, the amount contracted only generates to UN Environment the level of Programme Support Cost comprised between the applicable rate and 7%.

- (c) Further to the same memo from the Controller, the rate of 3% may be applied to voluntary contributions for projects which are entirely implemented by other United Nations organizations, Non-Governmental Organizations or government services.

4. Process

- 9. The programme support cost batch runs on a monthly basis on grants funds and post revenue to programme support revenue account (OTA). By every closure of accounting period (monthly) UN Environment is able to monitor the revenue from extra budgetary resources. On the other hand, Programme support cost on Multilateral Environmental Agreement assessed funds are manually calculated and posted by United Nations Office at Nairobi accounting services on a quarterly basis. Such calculation requires inputs of the relevant Multilateral Environmental Agreements' to identify instances where funds would have been committed with an Implementing Partner requiring access to our Programme Support revenue in part or full. Corporate Services Division produces a quarterly report on the revenue level generated by each cost center. The cost center is the accounting code that links the operations (expenditures) with the accountability framework of the organization (delegated authority and responsibility for incurring the expenditures). The actual level of Programme support revenue generated during a year serves as a basis to determine the appropriation at the Cost Centers level for the following year as per the chapter IV below.

IV. THE APPROPRIATION AND ALLOTMENT OF OTA

- 10. Corporate Services Division issues the appropriation of OTA budget to Divisions, Regional Offices and Multilateral Environmental Agreements. Because UN Environment closes its annual books in the second quarter of the following year, Corporate Services Division is not in a position to finalize the appropriation of the yearly OTA to all UN Environment entities right from the beginning of the year.
- 11. By December 15 of every year, Corporate Services Division provides for the next year an appropriation to each cost center amounting to 50% of the allotment of the closing year.
- 12. Each cost center in receipt of OTA funding submits to the Executive Director, through Corporate Services Division their respective annual cost plan by commitment class that demonstrates the effective and efficient use of their appropriation. The cost centers must also draw attention in case of change in their respective commitments forecast resulting into a material modification of the OTA expenditure (anticipating material variation in +/- 10%).
- 13. For new cost centers, a simplified business plan against which the capacity of creating Programme Support Cost for the year needs to be submitted for assessment and appropriation (see annex 1).
- 14. On the basis of the appropriation, each cost center proceeds to the allotment of their respective appropriation over the staff and non-staff budget classes, within the Programme Support Cost framework (see annex 2).
- 15. After final closure of the annual account, Corporate Services Division adjusts the level of appropriation for cost center allotment to the maximum entitlement as follows:

- (a) For Divisions, Regional Offices, Multilateral Environmental Agreements and other entities which are embedded within the UN Environment Divisions and/or Regional Offices:
- (a) - 40% of the Programme Support Cost generated by the cost center in the previous year for its own management and use, or to the Division and/or Regional Office in which the Multilateral Environmental Agreement or the other entity is embedded,
 - (b) - 10% of the Programme Support Cost generated set aside to recognize work contribution supporting the entire institution but not necessarily yielding Programme Support Cost,
 - (c) - 50% assigned to the corporate support functions,
- (b) For the exhaustive list of Convention Secretariats' referred to in footnote⁵ and in line with the UNEA resolution 2/18, UN Environment provides a high level monitoring of compliance to prevailing rules and regulations, and participates to the proceedings of the respective governance mechanisms:

For Convention Secretariats as defined in ST/SGB 2006/13 (para 18.3) and including the secretariats for the Barcelona and the Cartagena conventions, Corporate Services Division retains Programme Support Cost up to 4.29% of the expenditures incurred on their assessed funds and trust funds (excluding GEF/AFB/GCF) while the balance is retroceded to the Multilateral Environmental Agreement. Similarly, because of the obligatory nature of the terms and conditions of the framework agreement between the United Nations and the European Commission, Programme Support Cost levied from expenditures incurred against grants of the latter is split, 33% for Corporate Services Division, and 67% for the Multilateral Environment Agreement. It is however the responsibility of the Multilateral Environment Agreement to build the case for this specific consideration.

The 4.29% are covering the UN Environment's central administrative functions that support the Convention, including those performed by United Nations Office at Nairobi or United Nations Office at Geneva on behalf of UN Environment, the United Nations Office of Internal Oversight Services (OIOS) and the Board of Auditors. The 4.29% is utilized by UN Environment to provide Multilateral Environmental Agreements" with the following central administrative functions unless there is a specific bilateral Memorandum of Understanding which provides otherwise:

- Staff recruitment, classification and selection process;
- Payroll and administrative processing of staff entitlements including education grants, medical insurance , home leave, installation and repatriation grants;
- The United Nations financial disclosure programme (billed by United Nations Headquarters in New York);
- Accounting and finance functions, including statement preparation, recording of accounts payables/receivables, cash-flow management, treasury and contributions receipt and recording;
- Administration of end-of-service and post-retirement benefits including the administration of pension fund deductions and After Service Health Insurance (administration does not cover the premium payment to the insurance scheme);
- Non-expendable property asset management;
- Internal audit, investigation, inspection and external audit;

⁵ Exhaustive list being: CMS, CBD, CITES, BRS, Ozone Secretariat, Barcelona Convention, Cartagena Convention. The Multilateral Fund Secretariat (MLF) shall be dealt separately.

- Participation in the administration of the United Nations justice system, including support to mediation and the United Nations Dispute Tribunal;
 - Office Shipping and pouch;
 - Access to corporate United Nations/UN Environment intranet/internet and mail systems;
 - Participation in the funding of the network of the United Nations Resident Coordinators; and
 - Legal counselling, clearance of legal instruments and agreements, risk management and ultimate financial liability.
16. Should the business case of a cost center dramatically change during the year (deviation by +/- 10% from the original business plan), an ad-hoc review to reassess the OTA budget can be requested by the recipient entity or Corporate Services Division at any time during the year.

V. USE OF FUNDS FROM THE SPECIAL ACCOUNT FOR PROGRAMME SUPPORT COSTS

17. Once the budget has been appropriated to the cost center, the authority and responsibility to manage the funds falls under the head of the cost center, and need to be exercised in full compliance with the prevailing rules and regulations, including ST/AI/286 and annex 2. The management of the OTA budget is recognized and is part of the Delegation of Authority Policy and Framework.
18. Decisions on recruitment, promotion, replacement, non-renewal, travel, etc. are entirely and exclusively left at the discretion of the responsible authority with the condition that all expenditure are contained within the limits of the appropriation and as per the list of eligible cost categories stated in annex 2 or in the chapter 3-B of the ST/AI/286:
- (a) Posts – Professional and General Services,
 - (b) Consultants,
 - (c) Temporary assistance, overtime,
 - (d) Travel,
 - (e) Rental of space,
 - (f) Office supplies and materials,
 - (g) Office equipment, and
 - (h) Miscellaneous expenses.
19. The cost center processes its transactions against its OTA budget allocation. Any budget overrun whether from staff cost or otherwise has to be met by alternate sources of funding within the same cost center.
20. Positive balances at the close of an accounting year are rolled over to the cost center, in addition to the released budget for the following year.
21. Corporate Services contributes and manages an operating reserve of US\$ 4.5 million and a working capital reserve of minimum US\$ 3 million that needs to be established and maintained under the OTA account.
22. The working capital reserve may be used, by decision of the Executive Director, to cover for UN Environment's corporate responsibility in connection with risk mitigation or treasury facility for elements within the scope of OTA coverage. Should the working capital reserve be put to contribution, its funding position is to be reconstituted as a matter of priority.

VI. REPORTING ON OTA/PROGRAMME SUPPORT COST

- 23. By February 1st of each year, every cost center provides Corporate Services Division with a progress report of its OTA updated budget, representing a brief outlook of decisions taken during the closing year with a potential recurring impact on OTA charging.**
- 24. The progress report is accompanied with a more forward looking business plan that would support the foreseen management decisions and justify the level of anticipated Programme Support Cost generation.**
- 25. Any observed deviation from the prevailing rules, regulations and administrative instructions in the use of the OTA is accounted for by the recipient of the Delegation of Authority.**

Annex 1

ANNEX 1: BUSINESS PLAN - FORECAST INCOME AND EXPENDITURE														
		Fund 1				Fund 2				Fund 3				Total
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	
Income														
Expenditure														
Staff Cost														
Operational Cost														
Travel														
Contracting	With UN entity													
	With Non UN													
Procurement														
Total Expenditure														
PSC rate														
PSC Generated														
	Total Exp. with PSC													

Annex 2

Programme Support Cost resources may be used to finance indirect costs under the following categories:

- (i) **Central administration:** staff in the human, financial, physical and Information and Communication Technology resources management areas that support operations, programmes and projects financed from extra-budgetary contributions; rent, maintenance, operating expenses, furniture and equipment relating to these staff.
- (ii) **Central programme/departmental administration:** staff in the human, financial, physical and Information and Communication Technology resources management areas that support operations, programmes and projects financed from extra-budgetary contributions; rent, maintenance, operating expenses, furniture and equipment relating to these staff.
- (iii) **Other internally and externally provided services:** Information Technology, legal, security and oversight (the Office of Internal Oversight Services and the Board of Auditors); UN-wide initiatives (e.g. Umoja and International Public Sector Accounting Standards IPSAS) and centrally managed charges.
- (iv) **Programme/departmental programme services:** central planning, resource mobilization, donor relations, monitoring, evaluation, reporting and programme development.

Signed: _____



Ibrahim Thiaw, Deputy Executive Director

Date _____

5 May 2017

