

SECRETARIAT OF THE PACIFIC COMMUNITY**THIRTY-FOURTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Noumea, New Caledonia, 16-19 November 2004)**THE YEAR 2005 BUDGET AND ASSESSED CONTRIBUTIONS:
WITHDRAWAL OF THE UNITED KINGDOM FROM THE PACIFIC COMMUNITY**

(Paper presented by the Secretariat)

PURPOSE

1. This paper presents the background to the United Kingdom withdrawal's from the Pacific Community. It describes the financial impact of that decision on the Secretariat's budget and possible implications for the work programme of the Secretariat. It also summarises a number of other budget factors and efficiency measures that the Secretariat has put in place for 2005.
2. In order to maintain the overall level of assessed contributions, this paper recommends an increase in individual assessed contributions by the remaining members in proportion to their current percentage shares. Appendix 1 to this paper provides detailed information on current assessed contributions and proposed 2005 contributions.

INTRODUCTION

3. A founding member of the then South Pacific Commission, the United Kingdom had rejoined the Pacific Community on 1 January 1998, following a two-year lapse of its membership. At the 2003 meeting of CRGA, its representative indicated that his government was, for a second time, reviewing its membership of the Pacific Community. The Secretariat received confirmation of the United Kingdom's second withdrawal in December 2003 and informed the membership accordingly (see also the Director-General's Circular 04/03 to Representatives of Governments and Administrations dated 25 February 2004).
4. Having given due notice, the United Kingdom will withdraw its membership of the Pacific Community on 31 December 2004.

5. The UK has been a significant financial contributor to the Secretariat's budget. Its current assessed contribution is six per cent (CFP units 458,816) of the total approved assessed contributions by SPC member countries and territories¹.

CURRENT POLICY ON ASSESSED CONTRIBUTIONS

6. Traditionally, the five metropolitan members have collectively provided about 90 per cent of the total assessed contributions. The remaining ten per cent have come from the 22 island member countries and territories. The exact current split is 90.6 to 9.4.
7. It has been a policy that the two groups determine separately the individual contributions to those percentages (i.e. the metropolitan countries would discuss their individual shares of the 90 per cent, and the PICTs would do to the same for their 10 per cent).
8. Since CRGA 2000, PICT members' assessed contributions have largely been determined by the relative size of their government expenditure as reported in national budget statements. In line with their financial capacities, PICTs are assigned to four categories, each with its own percentage (current percentages are: Category 1: 0.7762 per cent; Category 2: 0.3547 per cent; Category 3: 0.3033 per cent and Category 4: 0.2473 per cent.). This formula applies to 8.4 per cent of the total assessed contributions. PICT contributions also include special grant levies of about one per cent, split between New Caledonia and Fiji Islands according to the number of SPC staff in either country.
9. Donor members do not have such a formula; rather they have traditionally determined their respective contributions through negotiations between each other.
10. The policy on assessed contributions was last reviewed in 2003. It is worth noting that that review, like the ones before it, was simply concerned with the *sharing* of a fixed amount, not the overall amount of funding. There has been no increase in overall government assessed contributions since the year 2000 budget, when the policy of automatic annual adjustment for inflation was abandoned.

¹ At present, one CFP unit equals 1 USD. A "CFP unit" is simply 100 CFP (French Pacific Franc, the local currency in French Polynesia, New Caledonia, and Wallis and Futuna and the operating currency of the Secretariat).

Current assessed contributions (year 2004) by group and country/territory

Metropolitan members	Percentage	CFP units
Australia	30.5940	2,339,507
France	18.1130	1,385,088
New Zealand	17.9250	1,370,712
United States of America	17.9680	1,374,000
United Kingdom	6.0000	458,816
	90.6000	6,928,123
Island members	(Range)	(Range)
	0.2473 to	18,911 to
22 PICTs	0.7762	59,353
Plus special host grants by		
Fiji Islands	0.3932	30,064
New Caledonia	0.5731	43,828
	9.4000	718,810
	Percentage	CFP units
All SPC members	100.00	7,646,933

THE 2005 BUDGET

11. The preparation of the 2005 budget started in June this year. Initial forecasts pointed to a total core budget deficit of approximately CFP units 700,000, largely as a result of the announced UK withdrawal (CFP units 458,816).

The 2005 operational deficit (pre-UK withdrawal)

12. Various other budget parameters (in particular the impact of lower interest earnings, significantly higher utility costs, higher medical insurance payments and general inflationary pressures) also came into play. Collectively, these resulted in a deficit of about CFP units 242,000. The Secretariat has considered and begun implementing savings measures to overcome this operational deficit. These measures include abolishing positions in the Translation/Interpretation Section, the Maintenance Section and the Regional Media Centre and the sharing of support positions by programmes and sections. One position has been downgraded from professional to support staff. A fortuitous saving is expected to result from the continuing weakening of the SDR relative to the CFP. From current trends we would expect professional salaries in Noumea to be about two per cent lower than they were in 2004 and have budgeted accordingly. Other actions such as appointing new staff at entry level steps within the respective salary grades and the successful introduction of the new performance management system, which rewards good performance with annual bonuses instead of permanent salary increments, are also helping to contain cost.

13. The Secretariat is striving to minimise the impact of these actions on the delivery of our services to island countries and territories.

The structural deficit

14. The structural deficit (resulting from the UK withdrawal) would be very difficult to address at the Secretariat level. The UK core contribution is roughly equivalent to the total budget of a typical medium-size SPC programme e.g. Statistics, Demography/Population or CETC. In terms of positions it is equivalent to about five to seven professional posts, depending on seniority and other factors.
15. It is worth noting that the programme head positions are funded from the core budget while essentially all more junior positions are funded by the non-core budget. A cut of this magnitude and nature would not only force the Secretariat to curtail the work programme but also require negotiations with donors about moving senior SPC management positions from the core budget to the non-core budget.
16. For these reasons, the Secretariat is submitting a request to CRGA for an increase in individual contributions by the remaining members of the Pacific Community to maintain the same overall level of income from assessed contributions.

OPTIONS FOR ASSESSED GOVERNMENT CONTRIBUTIONS

17. The Secretariat is proposing that the budget shortfall (attributable to the UK withdrawal) be borne by all remaining members (i.e. metropolitan and island members) in accordance with existing percentages. This approach has the advantage of being simple and equitable.
18. Other options are possible and include scenarios in which the metropolitan countries, PICTs or individual countries are asked to fund all or most of the shortfall.
19. While no new negotiations about respective shares between members should be necessary, it is worth noting that there would be a small shift of the financing burden to the PICTs (the resulting split would be exactly 90:10, which had been the agreed policy until the United Kingdom rejoined the Pacific Community). The amount involved is just under CFP units 46,000, to be shared by 22 countries and territories.
20. The Secretariat has used the opportunity to simplify the funding formula by rounding percentages to two digits for the metropolitan countries, instead of the traditional four digits (e.g. 32.55 per cent instead of 32.5568 per cent). There is no material financial impact of this change.

Proposed Assessed Government Contributions

Metropolitan members	New percentage	Total (CFP units)	Increase (CFP units)
Australia	32.55	2,489,077	149,570
France	19.27	1,473,564	88,476
New Zealand	19.07	1,458,270	87,558
United States of America	19.11	1,461,329	87,329
United Kingdom	N/a	nil	- 458,816
	90.00	6,882,240	- 45,883
Island members			
Category 1	0.8257	63,140	4,100
Category 2	0.3773	28,852	1,927
Category 3	0.3227	24,677	1,271
Category 4	0.2631	20,119	966
Plus special host grants by			
Fiji Islands	0.4181	31,972	1,908
New Caledonia	0.6097	46,623	2,795
	10.0000	764,693	+45,883
	Percentage	CFP units	
All SPC members	100.0000	7,646,933	0

Appendix 1 provides the details on Approved Assessed Contributions in 2004 and Proposed 2005 Assessed Contributions by Country/Territory

RECOMMENDATIONS

21. CRGA is invited to consider and approve:

- a) the Secretariat's request for increased assessed government contributions, noting that this proposal would help maintain rather than raise the overall level of core income; and
- b) the new funding formula and contribution schedule (as per Appendix 1 to this paper) to become effective from 1 January 2005.

23 September 2004