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**Executive Board  
First Regular Session**

**Rome, 20–23 February 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For consideration*

# **E**

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## **REVIEW OF ISC RATE MODALITIES**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for consideration.**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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## EXECUTIVE SUMMARY

When the Board considered the Biennial Management Plan (2006–2007), it approved the current Indirect Support Cost rate of 7 percent for another two years but indicated that it would reconsider the rate at the 2006 Annual Session.

This paper provides preliminary input for that review, covering the background of the current Indirect Support Cost rate modalities, in particular reviewing the role of the Programme Support and Administrative equalization account and the potential benefits and consequences of applying a fixed indirect support cost rate or a rate based on actual as opposed to estimated costs, as requested by the Board.

The paper outlines the rationale for the establishment of the Programme Support and Administrative equalization account in 2002 and its current importance to WFP as a reserve to minimize the negative impact of any shortfall in ISC funding. Maintaining a Programme Support and Administrative equalization reserve creates a more certain environment for the formulation of the Programme Support and Administrative budget.

The paper also presents the potential benefits and consequences of applying a fixed Indirect Support Cost rate or a rate based on actual as opposed to estimated costs. The preliminary conclusion is that while the move towards an Indirect Support Cost rate based on actual costs would ensure that the rate is more reflective of actual expenditure, it would also entail the introduction of more volatility to the Programme Support and Administrative planning process and possibly increase the risk of underfunding the Programme Support and Administrative budget when there is a decline in the level of operations.

The longer-term possibility of re-categorizing support costs is examined, and the advantages and disadvantages of this approach, as identified in the resource and long-term financing review, are presented.

## DRAFT DECISION\*

The Executive Board takes note of the document “Review of ISC Rate Modalities” (WFP/EB.1/2006/6-A/1) and looks forward to a more comprehensive and final review of the ISC rate to be presented to the Annual Session of the Executive Board in June 2006.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



## INTRODUCTION

1. WFP is funded entirely from voluntary contributions. As a result, and to ensure equity among donors, it applies a policy of full-cost recovery (FCR) to all contributions whereby each donor is expected to meet “the full operational and support costs of its contributions”.<sup>1</sup>
2. For “fixed overheads” this is particularly problematic. The Board approves the largely fixed Programme Support and Administrative (PSA) overhead budget before the beginning of each biennium; the revenue to fund this budget arrives as contributions are received during the course of the biennium. This is achieved by deducting a percentage from all contributions, which is referred to as the indirect support cost (ISC) deduction.
3. When the Board considered the Biennial Management Plan (2006–2007), it approved the current ISC rate of 7 percent for another two years but indicated that it would reconsider the ISC rate at the 2006 Annual Session.
4. This paper provides preliminary input for that review, covering the background of the current ISC rate modalities, in particular reviewing the role of the PSA equalization account, and the potential benefits and consequences of applying a fixed ISC rate or an ISC rate based on actual as opposed to estimated costs, as requested by the Board.

## Background

⇒ *1995 Review of Resource and Long-Term Financing (RLTF) Policies*

5. Prior to 1996, WFP’s fixed overheads were covered from regular cash contributions. However, as development resources and cash donations declined, the increasing emergency portfolio – which did not include an adequate overhead contribution – caused serious funding problems for support costs in particular.
6. The instability of support cost funding led to a formal review of WFP’s RLTF policies. The central tenet of the resulting policies was the FCR policy.
7. The General Rules<sup>2</sup> provide the modalities for applying this policy and, with regard to indirect support costs, state that a contribution should include a “percentage of direct costs as determined by the Board”.
8. This percentage – the ISC rate, currently 7 percent – is therefore deducted from all contributions and used to fund the PSA budget.
9. When approving this policy, the Board also approved the use of specific ISC rates for each programme category – emergency operations (EMOPs), protracted relief and recovery operations (PRROs), development operations (DEVs) and special operations (SOs).

<sup>1</sup> General Regulation, Article XIII.2.

<sup>2</sup> General Rule XIII.4.



⇒ *1999 RLTF Review*

10. A review of the policies was undertaken in 1999, which resulted in a redefinition of certain cost categories, including PSA. The Board also decided that a single ISC rate be applied to all contributions, regardless of programme category.
11. At that time the consolidated rate was set at 7.8 percent, and the Board decided that it would be reviewed biennially.

⇒ *2002 Review of the Indirect Support Cost (ISC) Rate*

12. The first review of the single ISC rate was undertaken in 2002,<sup>3</sup> involving a comprehensive analysis of PSA expenditure and ISC income and the differences between the two, referred to as the “PSA gap”. It highlighted the fixed nature of PSA expenditure and the variable nature of ISC income, and concluded that in the uncertain environment in which WFP works, there was always likely to be a gap between the two.
13. As a result of this review and the forecast of 2003 expenditures, the Secretariat recommended a reduction in the ISC rate from 7.8 percent to 7.0 percent for 2003, which the Board approved. This rate was maintained in the 2004–2005 Management Plan on the basis of projected 2004–2005 PSA needs.

### **PSA Equalization Account**

14. In its decisions on the 2002 review of ISC, the Board also established the PSA equalization account, a subdivision of the General Fund to “record all PSA expenditures and all income applied to fund such expenditures”. This was intended to improve transparency and benefit the decision-making process for setting the ISC rate.
15. The PSA equalization account mechanism has isolated ISC income and PSA expenditure from the rest of the General Fund, ensuring that it can only be used with Board approval and that it is generally used for PSA expenditure or expenditure of a similar nature, for example for the Capital Asset Fund or capacity-building. The only exceptions have been transfers to the Immediate Response Account (IRA) and the Direct Support Costs (DSC) Advance Facility.
16. As the name suggests, the original purpose of the account was to equalize ISC income and PSA expenditure. By aiming to reduce the account balance to zero, WFP would ensure that all ISC income was used for PSA, in other words that the ISC deductions from donor contributions reflected actual PSA expenditure.

### **PSA Contingency Reserve**

17. Because WFP’s other fund balances and reserves are held for specific purposes or on behalf of individual donors, ISC income and the accumulated balance in the General Fund, including the PSA equalization account, are the only funds that can be used to cover indirect overheads.

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<sup>3</sup> See “Preliminary Review of the ISC Rate” (WFP/EB.A/2002/6-A/1) and “Final Report on the Analysis of the Indirect Support Cost (ISC) Rate” (WFP/EB.3/2002/5-C/1).



18. The unpredictability of ISC income, which results from the unpredictable level of operations, makes it impossible to be certain that sufficient ISC will be generated to cover PSA in a given period. Since the ISC concept was introduced, WFP has maintained a reserve to cover any potential ISC shortfall: until 2002 this reserve was the General Fund itself; since 2002 it has been the accumulated balance in the PSA equalization account.
19. Maintaining such a reserve is considered necessary because it:
- i) reduces the risk of WFP having insufficient resources to cover its fixed overheads; without such a reserve, WFP would have no certain means of dealing with cases where ISC income is lower than PSA expenditure, in which case it would have to seek additional funding from donors to meet its fixed overheads; and
  - ii) gives WFP some certainty in planning PSA: for example the 2006–2007 Management Plan foresees the use of the PSA equalization account if additional ISC income does not materialize from unforeseen emergencies, which means that WFP has been able to create the capacity to address up to three major emergencies; should these arise, this capacity will ensure a more effective response, and the emergencies will generate additional ISC and reduce the need to use the PSA equalization reserve; and
  - iii) gives WFP time to adjust its PSA cost structure if ISC income fails to materialize at the expected rate.

## ISC RATE OPTIONS IN THE CURRENT POLICY FRAMEWORK

20. The Board's decisions in the Biennial Management Plan (2006–2007) requested the Secretariat to outline the “potential benefits and consequences of applying a fixed ISC rate or an audited ISC rate based on actual as opposed to estimated costs”.
21. This section analyses these two alternatives:
- Alternative 1.** “Fixed” ISC rate: the Board continues to set the ISC rate based on periodic reviews such as that conducted in 2002; or
- Alternative 2.** The Board establishes a procedure for regular revision of the ISC rate on the basis of actual audited expenditures.
22. The planned introduction of annual audited financial statements<sup>4</sup> rather than the biennial financial statements means that WFP will have a comparatively recent set of audited financial statements<sup>5</sup> that could be used as the basis for determining an ISC rate based on actual audited expenditures.

<sup>4</sup> See “International Accounting Standards”, (WFP/EB.2/2005/5-C/1).

<sup>5</sup> In the biennial cycle, audited financial statements are 22–23 months old at the time of setting the PSA budget; in an annual cycle they would be 10–11 months old.



## Alternative 1. “Fixed” ISC rate

### ⇒ Introduction

23. This is the methodology currently used by WFP. It involves the Board setting the ISC rate periodically, following a review by the Secretariat.

24. The last such review in 2002, which was reported in “Final Report on the Analysis of the Indirect Support Cost Rate” (WFP/EB.3/2002/5-C/1), resulted in a reduction of the ISC rate from 7.8 percent to 7.0 percent with effect from January 2003. The review analysed the nature of ISC income and PSA expenditure and concluded that the variable nature of ISC income combined with the fixed nature of PSA expenditure would almost always give rise to a gap between the two, and analysed the differences between ISC income and PSA expenditures for the six preceding years, attributing them to:

➤ Structural imbalances:

- ◇ “accounting convention differences”, which arose primarily because of the different accounting policies for income and expenditure recognition that applied at that time; these types of difference have been significantly reduced by the subsequent change in the income-recognition policy;
- ◇ “price differences”, which are differences in ISC income generated by variations from the expected budgeted cost per mt; and
- ◇ “volume differences”, which are differences in ISC income generated by variations in the volume of operations; and

➤ Unforeseen differences:

- ◇ “PSA other-income difference”, which is unbudgeted income for PSA realized from other non-ISC sources such as government counterpart cash contributions (GCCC);
- ◇ differences in the amount of PSA expenditure incurred from the budgeted level; and
- ◇ differences due in the amount of ISC income generated from the budgeted level as a result of changes to the ISC rate.

25. Repeating this exercise for the period since the last review paper gives the following results:

<b>TABLE 1. ANALYSIS OF ISC INCOME AND PSA EXPENDITURE, 2002–2005</b>			
	<b>2002–2003</b>		<b>2004–2005</b>
ISC Income	353.4		364.0
GCCC	2.6		0.0
Additional income because of policy change	88.4		0.0
PSA expenditure	-232.2		-297.0
PSA expenditure – foreign exchange adjustment	0.0		-66.0
Adjustments to prior period obligations and other adjustments	18.4		0.0
<b>PSA gap</b>	<b>230.6</b>		<b>1.0</b>



<b>TABLE 1. ANALYSIS OF ISC INCOME AND PSA EXPENDITURE, 2002–2005</b>			
	<b>2002–2003</b>		<b>2004–2005</b>
A. Accounting convention/timing difference	1.4		-14.5
B. Price difference	4.3		9.5
C. Volume difference	165.8		63.6
D. PSA other income difference	19.0		0.0
E. Difference from increased PSA expenditure	-22.2		-57.7
F. Difference from ISC rate changes	-26.0		0.0
G. Additional income from change in accounting policy	88.4		0.0
<b>PSA Gap</b>	<b>230.6</b>		<b>0.9</b>

26. Table 1 shows that a surplus has accumulated in the PSA equalization account for the following reasons:

➤ **Structural imbalances:**

- ◇ “Accounting convention differences”: the change in the accounting policy for income recognition, which also resulted in a one-time adjustment of US\$88 million ISC in 2003 (see below), has reduced but not eliminated the differences between ISC income and PSA expenditure arising from differing accounting conventions; the difference between the timing of income recognition at the point of confirmation of contribution and that of expenditure recognition at the point of obligation means that ISC income is US\$13.1 million less than expected during the two biennia;
- ◇ “Price differences”: the higher-than-expected average cost per mt for both biennia has increased the amount of resources required for operations, and consequently led to US\$13.8 million additional ISC income; and
- ◇ “Volume differences”: the higher-than-expected operational level in both biennia<sup>6</sup> has had the most significant impact on the PSA gap, leading to an increase in the amount of resources required for operations and generating US\$229.4 million additional ISC income during the two biennia: US\$64 million for 2004–2005 and US\$166 million for 2002–2003.
  - In 2004–2005, an additional US\$64 million ISC was generated by the higher operational level as a result of two compensating events:
    - unforeseen emergencies that were not included in the 2004–2005 Management Plan; including Iraq (US\$788 million), it is estimated that unforeseen emergencies added US\$1.7 billion to the operational workload, generating an additional US\$117 million ISC income; and
    - the programme of work outlined in the 2004–2005 Management Plan was not fully funded: it is estimated that there was a 17 percent funding shortfall for the 2004–2005 operational budget, which led to ISC income being US\$53 million less than expected.

<sup>6</sup> Budgeted volume in 2002–2003 was 5.471 million mt; actual tonnage was 9.753 million mt, an increase of 78 percent. Budgeted volume for 2004–2005 was 8.967 million mt; actual volume is expected to be 10.779 million mt, an increase of 20 percent.





- The operational budget for 2002–2003 was prepared on a resource-driven basis rather than a needs-driven basis and therefore included a projection for unforeseen emergencies, but this amount is not separately identifiable. However, an analysis of these two issues for 2002–2003 indicates that of the additional IUS\$166 million ISC generated by the higher operational level in 2002–2003:
  - the funding shortfall for activities in the 2004–2005 operational budget led to ISC income being US\$33 million less than expected; and
  - activities not budgeted in the 2002–2003 Management Plan led to unforeseen ISC income of US\$199 million; this significant difference between the budgeted level of operations and the actual level was one of the reasons for the move to a needs-driven operational budget with effect from 2004–2005.
- Unforeseen differences:
  - ◊ unbudgeted additional income for PSA in 2002–2003 contributed US\$19 million to the surplus in the account;
  - ◊ PSA expenditures of US\$79.9 million above the original budgeted amounts were incurred, reducing the size of the PSA equalization account surplus;
  - ◊ the reduction in the ISC rate to 7 percent from 7.8 percent led to a reduction of ISC income of US\$26 million in 2003; and
  - ◊ the change in the accounting convention on income recognition gave rise to a one-off US\$88.4 million addition to the PSA equalization account.

⇒ *2002–2003 Analysis Summary*

27. The surplus in the PSA equalization account was created in 2002–2003, primarily by the 78 percent higher-than-expected level of operations and the one-off additional ISC income resulting from a change to the accounting policy on income recognition.
28. These two factors, which together generated US\$254.2 million additional ISC, were more than sufficient to cover the increased PSA expenditures of US\$22.2 million during the biennium and the US\$26 million reduction in ISC income resulting from the lower ISC rate introduced on 1 January 2003.

⇒ *2004–2005 Analysis Summary*

29. The US\$364 million ISC income generated during the biennium is expected to be US\$1 million in excess of PSA expenditures, including the additional PSA expenditures arising because of the weakened US dollar.
30. Following this methodology, the Board would use the above information as the basis for making a decision on the ISC rate.



⇒ *Advantages of “Fixed” ISC Rate (Alternative 1)*

31. The advantages of a “fixed” ISC rate methodology include the following:

- The Board’s decision on the ISC rate is based on a long-term analysis: because WFP’s workload and the required indirect overhead both vary over time, an analysis covering several biennia provides the required perspective and reduces the impact on ISC of one-off variations in the level of operations.
- A less volatile ISC rate and better planning: setting the rate periodically gives greater predictability to the funding of ISC, allowing the PSA level to be set on the basis of underlying needs in a relatively stable environment.

⇒ *Disadvantages of “Fixed” ISC Rate*

32. The disadvantages include the following:

- the rate may not reflect the actual cost structures for a single financial period; and
- a fixed rate may not give the Board a fully transparent starting point for the ISC rate such as audited financial statements would provide.

**Alternative 2: The Board establishes a procedure for regular review of the ISC rate on the basis of actual audited expenditures.**

⇒ *Introduction*

33. Instead of reviewing the rate periodically, the Board could decide to introduce procedures for regular revision of the ISC rate.

34. One option in doing this would be to utilize the latest available set of audited financial statements as a base for setting the ISC rate for the next PSA budget cycle. This would involve the following as part of the budget preparation exercise:

- Step 1. An analysis of the last available audited financial statements to determine the actual PSA costs incurred as a percentage of the overall cost of the programme; the result of this would be the starting point for an ISC rate discussion to be presented in the Management Plan.
- Step 2. An evaluation of the likely funding level for the forthcoming biennium, which would be needed to evaluate whether the ISC rate arrived at in above should be recommended to the Board:
  - ◇ if, for example, the latest financial statements reflected a comparatively high level of contribution income, as was the case in 2004, funding a high level of direct costs, the Secretariat may recommend that the Board adjust the ISC rate to reflect this; the Secretariat would also have to analyse changes in the cost structure as well as any new activities funded through the indirect support cost rate;
  - ◇ the balance on the PSA equalization account would have to be considered to determine the acceptable level of risk that could be taken.
- Step. 3. Determine and recommend final ISC rate to the Executive Board.



35. As an example, the un-audited financial statement results for 2004, together with the latest projections for 2005, are outlined Table 2.

<b>TABLE 2. EXAMPLE: SETTING THE ISC RATE FOR 2006–2007</b>			
	<b>Unaudited Accounts</b>	<b>Projected</b>	<b>Projected*</b>
	<b>2004</b>	<b>2005</b>	<b>2004-05</b>
Commodities	1 565	1 211	2 776
Ocean transport and related costs	335	248	583
Landside transport, storage and handling (LTSH)	530	575	1 105
Other direct operational costs (ODOC)	140	330	469
Direct support costs (DSC)	305	338	643
<b>Total direct expenditures</b>	<b>2 875</b>	<b>2 701</b>	<b>5 576</b>
PSA	173	<b>190</b>	363
Capital and capacity funds	25	<b>25</b>	49
<b>Total indirect expenditure</b>	<b>198</b>	<b>214</b>	412
<b>Total expenditure</b>	<b>3 073</b>	<b>2 915</b>	<b>5 988</b>
<b>Indirect expenditures as a percentage of direct</b>	<b>6.9%</b>	<b>7.9%</b>	<b>7.4%</b>

\* Source: WFP Biennial Management Plan (2006–2007).

36. For illustration purposes, these figures will be used as the basis for determining the ISC rate for 2006–2007 following the above methodology.

⇒ *Step 1: Ratio of PSA and Indirect Expenditures*

37. The table indicates that PSA indirect expenditure accounted for 6.9 percent of direct costs for 2004. The starting point for the 2006–2007 Management Plan would therefore have been an ISC rate of 6.9 percent. If WFP had already moved to annual audited financial statements, these figures would have been available to the Secretariat in Spring 2005 in the early preparation stages of the Management Plan.

⇒ *Step 2: Funding Projections, Costs Structures and PSA Equalization Account.*

38. The step outlined above would involve an analysis of factors such as funding projections, cost structures or the balance in the PSA equalization account to determine whether the ISC rate identified in Step 1 above would be appropriate.
39. The contribution level may have been comparatively high in 2004, leading to a higher level of activity and a lower ISC rate for that year. Taking into account a projection of a slightly lower contribution level for 2005 could have led the Secretariat to propose an upward adjustment to the actual rate
40. In the 2006–2007 Management Plan, the major change to the PSA cost structure was the addition of resources to country and regional offices:



- small country offices: an additional staff position was made available to certain country offices, but to fund it a new three-tiered structure for country offices was introduced, and the PSA for larger country offices was reduced; and
  - movement of resources to the field: an additional 77 posts were added to the regional and country offices, but these changes were funded by a reduction of 97 posts in Headquarters.
41. These changes to the PSA cost structure were therefore self-funded: they had a neutral impact on the overall PSA cost structure.
42. The PSA Equalization account forecast balance at 31 December 2005 during the preparation of the Management Plan 2006–2007 was US\$78 million.

⇒ *Step 3: Recommendation of ISC Rate.*

43. Following the methodology above, an ISC rate of 6.9 percent could have been recommended with a potential upward adjustment for funding projections and a potential downward adjustment because of the PSA equalization account balance.
44. In reality, the recommendation of the Secretariat in the 2006–2007 Management Plan to continue with a rate of 7 percent took these factors into account. The 2006–2007 Management Plan funding projections of US\$5 billion indicated a lower level of activity than 2004. However, the expected US\$78 million surplus in the PSA equalization account together with the potential ISC to be generated from unforeseen emergencies meant that no recommendation was made to increase the ISC rate.

⇒ *Advantages and Disadvantages of Regular Review of ISC Rate Based on Actual Audited Expenditures (Alternative 2)*

45. The advantages of this methodology include:
- the ISC rate would be based on actual audited expenditure from the latest financial statements;
  - the introduction of annual audited financial statements with effect from 2006 means that the base period for a given biennium will be more up-to-date: for example the 2006 audited financial statements could be used as the base for setting the 2008–2009 ISC rate; and
  - the Board would be fully informed about the establishment of the rate proposed by the Secretariat, with a well defined starting point in the audited financial statements.
46. The disadvantages of this methodology include:
- the ISC rate set is based on shorter-term analysis: such a methodology would set an ISC rate reflecting the cost and income pattern over a limited period, accentuating the impact of once-off changes in the operational level;
  - increased volatility of ISC income: changing the rate on a regular basis could introduce another variable into already unpredictable ISC income, which would make PSA and its funding even more difficult to plan; and
  - an ISC rate based on recent actuals may be distorted by the level of turnover in the base period, for example setting the ISC rate based on a period where turnover was unusually high would result in an ISC rate that might be insufficient to generate adequate ISC income for the coming period.



47. This methodology could increase the risk of not funding PSA in periods where there is a decline in the level of operations. Not only could such a decline result in lower ISC income because of lower contribution levels, but the impact would be reinforced by a lower ISC rate.

⇒ *Preliminary Conclusion*

48. The introduction of procedures and a timetable for regular review of the ISC rate as outlined in Alternative 2 would ensure that the ISC rate is more reflective of actual expenditure patterns for a given financial period. However, this entails the introduction of more volatility to the PSA planning process and possibly increases the risk of under-funding PSA when there is a decline in the level of operations.

### **Re-Categorization of Support Costs**

49. As an additional step, WFP could review the composition of PSA with a view to identifying costs that vary with the level of operations and that could be attributed directly to operations. Such costs could be reclassified to DSC, with a corresponding reduction in PSA. In the 2002 study, it was concluded that approximately one quarter of PSA was variable. On the assumption that this is still the case, approximately US\$92 million of 2006–2007 PSA would be variable, a large portion of which could potentially be re-categorized to DSC.
50. This issue was examined in the RLTF review and the following advantages were identified:
- “It is more 'forward-oriented'”. It adapts to the trend in cost recovery by linking costs to operations as much as possible, thereby ensuring a structure more flexible to expand and contract according to the level of resources.
  - Support functions remaining under the PSA would be more clearly of an indirect nature.
  - This option would establish a “... lower ISC rate, which would appear 'competitive' by most standards”.
51. Some of the disadvantages identified included:
- “WFP would have to take a high risk of incurring DSC expenditures when donors may or may not direct their contributions...”.
  - The risk involved in committing DSC funds “... would be significantly higher”.
  - “Heavy administrative and system requirements. ”
52. Such a re-categorization of support costs should be done in tandem with the review of the Financial Policy Framework and would involve significant system changes. It should therefore be viewed as a potential longer-term solution.



<b>ANNEX: PSA GAP ANALYSIS FOR 2002–2003 AND 2004–2005</b>						
				<b>2002/03</b>		<b>2004/05</b>
ISC Income				353.4		364.0
GCCC				2.6		0.0
Additional income resulting from policy change				88.4		0.0
PSA expenditure				-232.2		-297.0
PSA expenditure - FOREX adjustment				0.0		-66.0
Adjustments to prior period obligations and other adjustments				18.4		0.0
<b>PSA gap</b>				<b>230.6</b>		<b>1.0</b>
<b>A. Accounting convention difference (US\$ million)</b>						
ISC income				353.4		364.0
Actual direct costs x actual ISC rate (accrual basis) (US\$ million)						
2002	1,592.2	@ 7.8 %	124.2			
2003	3,254.7	@ 7.0%	<u>227.8</u>			
2004– 2005	5,407	@ 7.0 %				
				352.0		378.5
Income difference resulting from accounting conventions				<b>1.4</b>		<b>-14.5</b>
<b>B. Price difference</b>						
Average budgeted direct cost per mt (US\$)				486.9		486.5
Less: average actual direct cost per mt (US\$)				497.0		501.6
Average direct cost per mt difference (US\$)				10.0		15.2
Multiplied by budgeted thousand mt				5,471.0		8,967.0
Total direct cost price difference (US\$ million)				54.9		135.9
Increased ISC income resulting from direct cost price difference				<b>4.3</b>		<b>9.5</b>
<b>C. Volume difference</b>						
Budgeted volume in thousand mt				5,471.0		8,967.0
Actual volume in thousand mt				9,753.0		10,779.0
(Increase) decrease in thousand mt				4,282.0		1,812.0
Average actual direct cost per mt (US\$)				497.0		501.6
Increase in direct costs (US\$ million)				2,128.0		908.9
Increased ISC income because of volume difference				<b>165.8</b>		<b>63.6</b>
<b>D. PSA other income difference</b>						
Other income per budget (US\$ million)				0.0		0.0
Other income – actual				19.0		<u>0.0</u>
Additional other income (US\$ million)				19.0	<b>19.0</b>	0.0
						<b>0.0</b>



<b>ANNEX: PSA GAP ANALYSIS FOR 2002–2003 AND 2004–2005</b>						
		2002/03				2004/05
<b>E. Difference due to increased PSA expenditure</b>						
Original PSA expenditure budget (US\$ million)	210.0			305.3		
Actual PSA expenditure (US\$ million)	<u>232.2</u>			<u>363.0</u>		
Additional PSA expenditure		-22.2	<b>-22.2</b>		-57.7	<b>-57.7</b>
<b>F. Difference due to ISC rate changes</b>						
Actual direct costs x budgeted ISC rate (US\$ million)	378.0					
Actual direct costs x actual ISC rate (US\$ million)	352.0					
Reduced ISC income resulting from ISC rate difference			<b>-26.0</b>			
<b>G. Additional income resulting from change in accounting policy</b>			<b>88.4</b>			
PSA gap per analysis		<b>230.6</b>				<b>0.9</b>

