

# **Web Annex 2:**

## **Cost increase assumptions – update**



1. The PWB 2020-21 includes anticipated cost increases, which form an integral part of the overall budget level. In the months following the publication of the document, trends and decisions that could impact the estimated cost increases for 2020-21 continue to be monitored by the Secretariat. Any significant changes to the cost increase assumptions and estimates arising from new information or decisions are reported to the governing bodies.

2. The Finance Committee undertook a detailed technical review of the anticipated cost increases, estimated at USD 19.8 million with USD 14.1 million for personnel services and USD 5.7 million for goods and services, at its session in April 2019.<sup>1</sup> The Conference encouraged continued monitoring of cost increase assumptions and further review of opportunities for savings and efficiency measures.<sup>2</sup>

3. This *Web Annex* provides an update on the estimated cost increases for 2020-21.

#### *Changes in personnel services*

4. The Organization has assessed the impact on staff costs of implementing recent decisions and recommendations of the International Civil Service Commission (ICSC) (Annual Report for 2019) as well as recent policy decisions of the Director-General. Six areas were identified that resulted in changes, both increases and decreases, to the estimated staff costs as summarized in *Table 1*. Three of the areas result in actual staff cost adjustments in the current 2018-19 biennium and thus impact the biennialization component of the estimated 2020-21 cost increases. The other three that will become effective in 2020 are adjusted under inflation.

**Table 1: Overview of staff cost element changes and impact on 2020-21 cost increases (USD million)**

Staff Cost Element		Impact		
		Biennialization	Inflation	Total
1.	After Service Staff Benefits (FAO)	(6.7)		(6.7)
2.	Net Remuneration of Professional Staff in Rome (ICSC)	(2.1)		(2.1)
3.	Pensionable Remuneration of Staff in Professional and Higher Categories (ICSC)	1.8		1.8
4.	Basic Medical Insurance Plan (BMIP) (FAO)		3.0	3.0
5.	Entitlement Travel New Calculation Methodology for Lump Sum Payment (FAO)		(0.7)	(0.7)
6.	New Scale for Education Grant (ICSC)		0.4	0.4
<b>Total</b>		<b>(7.0)</b>	<b>2.7</b>	<b>(4.3)</b>

5. The USD 4.3 million decrease reflects the combined effect of increases and decreases, as follows:

- a) The cancellation of the USD 6.7 million increase for the after service staff benefit taking into account the decrease experienced in the most recent actuarial valuation of staff-related liabilities<sup>3</sup> and the unpredictable nature of the future valuations that will become the basis for the 2020-21 expenditures;
- b) The cancellation of the 1 percent budgeted increase or USD 2.1 million for the net remuneration of professional staff in Rome for 2019 based on the results of the post adjustment classification review of group I duty stations;<sup>4</sup>

<sup>1</sup> CL 161/4 paragraphs 21 b) and 22 b)

<sup>2</sup> C 2019/REP paragraph 70 d)

<sup>3</sup> FC175/4 Rev.1 2018 Actuarial Valuation of Staff Related Liabilities

<sup>4</sup> ICSC/CIRC/GEN/02/2019 ICSC 60-2

- c) The USD 1.8 million increase arising from the unbudgeted increase of 2.2 percent in the scale of pensionable remuneration for professional staff effective 1 February 2019 which reflects the results of the above-mentioned post adjustment classification review for New York;
- d) The USD 3.0 million estimated increase in the Basic Medical Insurance Plan (BMIP) for the new insurance contract effective 1 January 2020;
- e) The marginal savings estimated in 2020-21 upon implementation of the new lump sum payment calculation method for the entitlement travel in replacement of the IATA<sup>5</sup> benchmark fares withdrawn (USD 0.7 million); and
- f) The USD 0.4 million increase for the revised scale the ICSC decided to recommend to the UN General Assembly for Education Grant from the school year in progress on 1 January 2020.<sup>6</sup>

6. The downward adjustment of USD 4.3 million brings the estimated staff cost increases for the 2020-21 biennium from USD 14.1 million to USD 9.8 million. Any variance during implementation will be managed within the budgetary appropriation and adjustments communicated through budgetary performance reporting.

#### *Changes in goods and services*

7. *Goods and services* include other non-staff human resources (e.g. consultants), travel, general operating expenses, contracts and other (e.g. furniture and equipment). The inflation for these items, estimated at USD 5.7 million in the PWB 2020-21, is now estimated at USD 4.6 million or a 1.1 percent increase in the biennium. While EIU CPI forecasts have also gone down in the months following the publication of the PWB document, this remains a conservative estimate compared to the EIU CPI forecasts for the World (3.4 percent and 3.2 percent for 2020 and 2021 respectively) and Italy (1.1 percent and 1.3 percent for 2020 and 2021 respectively).

#### *Summary*

8. Given the above elements, the overall cost increase estimates are revised downwards by USD 5.4 million from USD 19.8 million to USD 14.4 million. *Table 2* presents an overall summary of the revised estimated cost increases for 2020-21.

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<sup>5</sup> International Air Transport Association

<sup>6</sup> FC 178/7 paragraph 8 Recommendations and Decisions of International Civil Service Commission and the UN Joint Staff Pension Board to the General Assembly (including Changes in Salary Scales and Allowances)

**Table 2: Summary of cost increases under the Net Appropriation in 2020-21 (USD million)**

	Adjusted PWB 2020-21 Net Appropriation at 2018-19 Costs	Biennialization	Inflation	Total Cost Increases	Adjusted PWB 2020-21 Net Appropriation at 2020-21 Costs	Percent Cost Increase (Biennial)
	a	b	c	d = b + c	e = a + d	f = d ÷ a
<b>1. Personnel Services</b>						
2. Salaries, Pension Fund Contributions and Allowances	<b>675.1</b>	(10.6)	20.4	<b>9.8</b>	<b>684.8</b>	1.5%
3. After-service Benefits	<b>66.8</b>	0.0	0.0	<b>0.0</b>	<b>66.8</b>	0.0%
<b>4. Total Personnel Services</b>	<b>741.9</b>	<b>(10.6)</b>	<b>20.4</b>	<b>9.8</b>	<b>751.6</b>	<b>1.3%</b>
<b>5. Total Goods and Services</b>	<b>414.9</b>	<b>0.0</b>	<b>4.6</b>	<b>4.6</b>	<b>419.5</b>	<b>1.1%</b>
<b>6. For Reallocation</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.4</b>	<b>-</b>
<b>7. Corporate and Other Income</b>	<b>(170.9)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(170.9)</b>	<b>0.0%</b>
<b>8. Budget Level for Net Appropriation</b>	<b>985.8</b>	<b>(10.6)</b>	<b>25.0</b>	<b>14.4</b>	<b>1,005.6</b>	<b>1.5%</b>