

**FC 195/7 - Information Note 1**  
**Lapse Factor Methodology**  
**March 2023**

***Executive Summary***

*The Finance Committee at its 185th Session requested Management to update and refine the lapse factor methodology to ensure more accurate staff cost estimates, taking into account in particular the actual and forecasted staff occupancy situation.<sup>1</sup>*

*The lapse factor is a budgetary device aimed at reducing the budgetary provision for Regular Programme established posts to take into account the effects of vacancies arising from separations and usual delays in recruitment, including recruitment to new posts, on salaries and common staff costs expenditure. The lapse factor methodology was endorsed by the Council at its 107th Session and has been used for all budgets since 1996-97. The method takes into account historical turnover rates, standard recruitment times, and the extent to which separations are foreseen. In addition, new budgeted posts are costed only for the expected occupancy period.*

*The factors that influence the lapse factor are constantly monitored and the updated values are applied in the subsequent Programme of Work and Budget (PWB).*

*This Information Note provides an overview of the lapse factor methodology and its contribution to accurate staff cost estimates in the PWB.*

**History and scope of the lapse factor methodology in FAO**

The Conference at its Twenty-Seventh Session in November 1993 “recommended that the Finance Committee request the External Auditor to study this [lapse factor] issue in the coming biennium and to report on his findings. It also noted the study planned by the Joint Inspection Unit on lapse factor practices across the UN system.”<sup>2</sup>

The External Auditor undertook the requested study on the application of the lapse factor and presented its findings to the Finance Committee in September 1994. The External Auditor noted, *inter alia* that “the lapse factor should be seen as a technical device aimed at reflecting in the budgetary provisions the “savings” arising from vacancies caused by normal staff movements under the assumption of full programme implementation. Normal staff movements resulting in temporary vacancies of posts are separations and recruitments to new posts.”<sup>3</sup>

The Joint Inspection Unit’s 1994 report on *Staff turnover and delays in recruitment (the Lapse Factor)*<sup>4</sup> similarly recommended that “the long-applied practice of the lapse factor should be maintained as a useful instrument to reflect a natural phenomenon, producing fortuitous savings as a result of varying recruitment practices and constraints: however, it should not be forced as a mandatory adjustment to compel delay in filling of budgeted posts to the detriment of the programme.”<sup>5</sup>

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<sup>1</sup> [CL 166/10, paragraph 20 f](#)

<sup>2</sup> [C 93/REP, paragraph 207](#)

<sup>3</sup> FC 79/3 Rev.1, paragraph 4

<sup>4</sup> [JIU/REP/94/7](#)

<sup>5</sup> *Idem*, Recommendation 2

The Council at its 107th Session in November 1994<sup>6</sup> accepted the Finance Committee's recommendation to adopt the External Auditor's proposed operational definition of the lapse factor, that is:

*The lapse factor is a budgetary device aimed at reducing the budgetary provision for Regular Programme established posts to take into account the effects of vacancies arising from separations and usual delays in recruitment, including recruitment to new posts, on salaries and common staff costs expenditure. A Regular Programme established post is considered vacant when there is no incumbent against either the established post or against another post formally declared to be funded from the established post.*

The lapse factor methodology in FAO has been consistently applied to each biennial budget since 1996-97. Further detail on the methodology is presented below.

## **The lapse factor methodology**

### Guiding principles

As outlined above, the lapse factor methodology is a budgetary technique applied within the framework of a programme budget to reflect the fact that not all budgeted posts will be filled for the entire biennium as a result of staff movements.

The application of the methodology furthermore follows the guidance of Council in November 1994, namely that:<sup>7</sup>

- the lapse factor should be calculated as the turnover rate times the recruitment lead time and should be calculated separately for Professional and General Service categories;
- the impact of the establishment of new posts on budgetary provisions should be handled by costing them only for the period during which they are expected to be filled; and
- the lapse factor should not only reflect historical turnover rates but also changes in the policy of the Organization as might affect current recruitment practices.

The parameters which determine the lapse factor are closely monitored each biennium, and the resulting values of each parameter are used, at the Programme of Work and Budget (PWB) planning stage, to derive the proposed lapse factors for each biennium as reported to Members in the PWB.

### Calculation methodology for ongoing posts

The lapse factor methodology for ongoing posts is based on three factors:

- a) staff turnover rates, as measured through separations;
- b) standard recruitment times; and
- c) the extent to which separations are foreseen.

These three elements are further elaborated below.

*Staff turnover rates:* Staff movements for the determination of the lapse factor are based on Regular Programme budgeted posts.<sup>8</sup> The annual turnover rate is derived as separations divided by the number of

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<sup>6</sup> [CL 107/REP, paragraph 133](#)

<sup>7</sup> [CL 107/REP, paragraphs 134-136](#)

<sup>8</sup> The analysis excludes posts in Country and Liaison Offices, for which the Conference approved in 2009 the removal of the lapse factor adjustment.

budgeted posts. The staff turnover rate is calculated separately for Professional and General Service staff and is based on a five-year moving average.

Table 1 below presents in detail the methodology for arriving at the five-year moving average for staff turnover rates.

Table 1: Calculation of staff turnover rates

Year	PWB posts				Weights		Separations				Annual turnover rates				Staff turnover rate			
	HQ		Field		HQ	Field	HQ		Field		HQ		Field		Annual weighted average		5-year moving average	
	P	GS	P	GS			P	GS	P	GS	P	GS	P	GS	P	GS	P	GS
	2018	879	566	373	342	0.67	0.33	63	32	21	19	7.17	5.65	5.63	5.56	6.66	5.62	6.29
2019	879	566	373	342	0.67	0.33	58	14	14	14	6.60	2.47	3.75	4.09	5.66	3.01	6.24	6.76
2020	925	525	382	336	0.67	0.33	42	22	13	19	4.54	4.19	3.40	5.65	4.16	4.68	5.92	5.77
2021	925	525	382	336	0.67	0.33	40	25	7	15	4.32	4.76	1.83	4.46	3.50	4.66	5.20	4.79
2022	944	522	383	336	0.67	0.33	49	40	19	24	5.19	7.66	4.96	7.14	5.12	7.49	<b>5.02</b>	<b>5.09</b>

**Legend to columns**  
PWB posts: Number of PWB-budgeted posts (excluding Country/Liaison Offices).  
Weights: PWB posts at HQ and Field divided by the total number of PWB posts  
Separations: HR statistics  
Annual Turnover Rates: Separations divided by PWB posts times 100  
Staff Turnover Rate  
*Annual weighted average*: Sum of HQ and Field Annual Rates times their Weights  
*5-year moving average*: Sum of five years Annual Weighted Average divided by 5

*Standard recruitment times*: A review of the various stages of recruitment shows that it currently takes 26 weeks to recruit a Professional staff member and 22 weeks to recruit General Service staff.

*Extent to which separations are foreseen*: Separations occur for a number of reasons, some of which can be fully foreseen (e.g. mandatory retirement) and some of which cannot be foreseen (e.g. sudden death), with a number of other situations falling somewhere in the middle (for example, resignation with advance notice).

Table 2 groups the 219 separations that took place in 2021-22 by the extent to which recruitment action could be foreseen.

Table 2: Extent to which recruitment action can be foreseen for 2021-22 Separations

	2021-22 Separations		Percent of population		Recruitment time (weeks)		Recruitment time (years)	
	P	GS	P	GS	P	GS	P	GS
Foreseen Separations	18	3	16%	3%	0	0	0.00	0.00
Foreseen separations for a limited period	60	48	52%	46%	16	15	0.31	0.29
Unforeseen separations	36	53	32%	51%	26	22	0.50	0.42
<b>Weighted average recruitment time (years)</b>							<b>0.32</b>	<b>0.35</b>

The lapse factor is calculated as: 5-year average staff turnover rate x average recruitment lead time (expressed as a proportion of the year) as shown in *Table 3*.

*Table 3: Lapse factor calculation*

<i>Calculation</i>	<i>P</i>	<i>GS</i>
Average recruitment time (years) ( <i>Table 2</i> )	0.32	0.35
5-year moving average turnover rate ( <i>Table 1</i> )	5.02	5.09
<b>Lapse Factor (average recruitment time x 5-year moving average turnover rate)</b>	<b>1.61</b>	<b>1.78</b>

*Calculation methodology for new posts*

New posts in the budget also generate “savings” due to the time necessary to select and appoint staff. All new posts in the budget are reviewed and costed only for the part of the biennium in which they are expected to be filled.

**Accuracy of Budgeted Staff Costs and the application of the lapse factor**

To ensure accuracy of staff costs, differentiated standard rates are developed for each post grade and for each location, taking into account the distinct cost rates and cost trends in the various major locations where the posts are located.

In developing the budget in the PWB, the lapse factor is then applied to these differentiated standard rates based on the methodology outlined above. In addition, work months are reduced for new posts.

*Table 4* below gives an overview of the budgetary “savings” resulting from the application of these two elements in the budget.

*Table 4: “Savings” in the budget from the application of the lapse factor and new post adjustment*

PWB	Lapse Factor (%)		Lapse Factor (USD million)			Adjustment for new posts (USD million)			Total
	Prof	GS	Previous biennium	Change	Current biennium	Previous biennium	New posts	Current biennium	
2018-19	1.39	1.79			<b>10.6</b>			<b>0.0</b>	<b>10.6</b>
2020-21	1.52	1.92	10.6	0.8	<b>11.4</b>	0.0	2.0	<b>2.0</b>	<b>13.4</b>
2022-23	1.75	1.78	11.4	1.0	<b>12.4</b>	-2.0	1.4	<b>-0.6</b>	<b>11.8</b>
2024-25	1.61	1.78	12.4	-0.8	<b>11.6</b>	-1.4	2.5	<b>1.1</b>	<b>12.7</b>

Budgets are issued at standard rates adjusted for the lapse factor (lapsed rates). During implementation, budget holders are charged at the unlapsed (higher) standard rates and are required to “absorb” the lapse factor by managing any budgetary shortfall resulting from the difference between the lapsed and unlapsed rates.