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PROGRAMME OF WORK AND BUDGET 1990-91

APPLICATION OF THE LAPSE FACTOR

1. The lapse factor is the reduction made in the budgetary provision for established posts (salaries and common staff costs for Professional and General Service posts) to take into account the effects of turnover, separations and delays in recruitment, including those for newly established posts.
2. The lapse factor applied in FAO budgets is 5.5 percent. In the light of the practices seen in other organizations and with a view to permit the effective and efficient implementation of the Programme of Work and Budget, as approved by the Conference, the Director-General proposes that the lapse factor be reduced to 3 percent.
3. The Finance Committee made a preliminary review of the subject at its Sixty-fifth Session in May 1989 and considered the proposal in detail at its Sixty-sixth Session in September 1989. The Committee could not reach a definite conclusion and noted that the matter could be pursued in Council and Conference.
4. The Director-General accordingly submits herewith his proposal to the Conference in the form considered by the Finance Committee (document FC 66/2 Sup.1 attached as Appendix A). Attached as Appendix B is the extract of the report of the Sixty-sixth Session of the Finance Committee on the subject. The views of the Council, as expressed at its Ninety-sixth Session will be conveyed to the Conference as soon as they are available.

	منظمة الأغذية والزراعة للأمم المتحدة	FC 66/2 Sup.1 July 1989
	联合国粮食及农业组织	
	FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS	
	ORGANISATION DES NATIONS UNIES POUR L'ALIMENTATION ET L'AGRICULTURE	
	ORGANIZACION DE LAS NACIONES UNIDAS PARA LA AGRICULTURA Y LA ALIMENTACION	

RESTRICTED
(Special List)

SIXTY-SIXTH SESSION OF THE FINANCE COMMITTEE

18 - 29 September 1989

PROGRAMME OF WORK AND BUDGET 1990-91

APPLICATION OF THE LAPSE FACTOR

Introduction

1. At its last session, the Committee made a preliminary review of the application of the lapse factor in budgetary provisions.
2. It agreed to consider a fuller analysis of the issue and proposals to be submitted by the Director-General at its next session. The present document is submitted accordingly.

Background

3. As the Committee would recall, the lapse factor is the reduction made in the budgetary provision for established posts (salaries and common staff costs for Professional and General Service posts) to take into account the effects of turnover, separations and delays in recruitment, including those for newly established posts.
4. The lapse factor applied in FAO budgets is 5.5 percent. Before the above brief examination at its Sixty-fifth Session, the subject was last reviewed by the Finance Committee at its Thirtieth Session in September 1973.

- Rationale for the lapse factor

5. The concept of "established post" constitutes an authorization for each concerned FAO unit to have it filled for the duration of the biennium, for the implementation of approved programmes and activities. Accordingly, adequate provision needs to be made in the budget to cover the expected costs of established posts, as approved by the FAO Conference.
6. However, at the Organizational level, unless a policy of over-recruitment or advance recruitment were systematically pursued, not all established posts are filled for the whole of the biennium. Turnover of staff occurs for a variety of reasons (retirement at mandatory age, early retirement, transfer, resignation, death, dismissal, etc.). Many of the latter events are unpredictable. Even in the cases of foreseen vacancies

or new posts, despite all efforts to ensure timely action, some delays in filling posts unavoidably occur. Internal promotions and transfers, for instance, may lead to "domino" effects which take time to overcome.

7. In recognition of this, FAO Governing Bodies have endorsed the practice of a deduction to the provision for personal services, before budgetary appropriations are voted upon by the Conference.

- Application of the lapse factor in FAO

8. Several methods can be envisaged to effect the above-mentioned deduction. One could consider differentiated percentages of deductions, according to categories of staff (e.g. Professional versus General Service), location or type of posts (e.g. existing versus new posts). However, this would seem meaningful only if there were a solid basis or statistical evidence of differences in filling of posts, between various groups vis-à-vis vacancy rates and delays in recruitment.

9. One could also consider applying different percentages of reduction to the provisions for basic salaries and for common staff costs. For instance, a minor reduction could be applied to the provision for common staff costs on the grounds that the latter cover inter alia separation and recruitment costs, which are the components of total staff costs which are most sensitive to turnover.

10. In fact there is no ideal statistically-proven practice. FAO's practice has changed over the years. To start with the lapse factor was only 2 percent. It evolved over the years to the current practice of a uniform 5.5 percent reduction in the budgetary provision for all personal services costs, at the stage of the formulation of the budget.

11. Amounts for the lapse factor are deducted from budgetary provisions for each organizational unit. Therefore, at the stage of implementation, eventual deficits (i.e. if a unit does not experience any vacancy during the biennium) have to be compensated by eventual surpluses elsewhere (i.e. where the average vacancy rate experienced during the year is above 5.5 percent). By way of illustration, in the current Programme of Work and Budget, the provision for personal services (established posts) is set at US\$ 254 million, i.e. 94.5 percent of the amount of US\$ 268.8 million, which would have been required to cover the expected costs of all posts. In other words, the practice of the lapse factor deduction results in a budgetary provision lower by US\$ 14.8 million than the amount required to permit the filling of all established posts throughout the biennium.

12. It should be stressed that this high lapse factor has been applied despite a policy over many years, of reducing the complement of Regular Programme posts. Thus, not only has the number of posts been reduced but budgetary provision has been insufficient to fill those remaining at a level permitting full programme implementation.

13. Exceptional developments such as temporary freezes in recruitment, suspension of recruitment pending abolition of posts, changes in UN pension provisions, tend to push turnover rates abnormally high. Thus, there is no automatic correlation between actual vacancy rates in selected periods and what should be the normal lapse factor.

Practices in other organizations of the UN system

14. There is no standard practice in other organizations of the UN system, with regard to a lapse factor, or a vacancy rate deduction. Most of the smaller specialized agencies do not effect any deduction to the full budgetary requirements for posts, in view of very low turnover rates. Among the organizations comparable to FAO the practice varies widely. Where the lapse factor is expressed in percentage terms it ranges between 3 and 5 percent. At times the rate is different for Professional posts from General Service posts. At other times it is different between existing posts and new posts. Where it is not expressed in percentage terms, it is not readily possible to measure but can amount to a fraction of one percent. Rates may also be amended for specific biennia, e.g. to provide for a substantial staff reduction.

15. In order to permit some measure of comparability, the information concerning the organizations listed below refers to normal practices, without mentioning any temporary measures which might have been applied in special circumstances.

United Nations

The planned cost of Professional posts is "lapsed" at the 5 percent rate. No reduction is made for General Service posts.

ILO

There is no lapse factor percentage.

A downward adjustment for staff turnover is effected in the proposed budget, which is equivalent to about 0.7 percent of total staff costs.

Unesco

A lapse factor of 5 percent is applied for all established posts.

UNIDO

A lapse factor of 5 percent is applied for existing Professional posts and no reduction for General Service posts. New posts receive special treatment: the budgetary provision is reduced by 50 percent for new Professional posts and by 35 percent for General Service and other categories.

WHO

The estimates for all posts are calculated using a system of average cost factors established for various categories and locations. These averages (roughly equivalent to FAO standard rates) are based primarily on the actual cost of staff in the previous four years; they cover salaries, allowances and common staff costs.

The estimated costs for all posts also take into account the period for which they are expected to be required and, in respect of professional posts, anticipated delays in recruitment. Consequently, a uniform lapse factor for existing or new posts is not applied, since (a) past experience with respect to vacancies is automatically

incorporated in the average costs, and (b) budgetary provision is made only for the expected period of occupancy of a post.

The WHO practice is thus fluid. The de facto lapse factor built in average costs tends to vary with time and circumstances.

IAEA

A reduction of approximately 3 percent of staff costs is made to account for turnover.

Rationale for review

16. There is no ideal formula for effecting a lapse factor deduction. In any event, nothing suggests that a given formula should remain immutable. On the contrary, it would be reasonable to expect the application of the lapse factor to evolve and adapt to circumstances.

17. It is the prospect of a changing situation which prompts the Director-General to submit the following proposals.

Proposals for 1990-91

18. It is evident that FAO applies a higher lapse factor deduction than other comparable organizations. This unduly penalizes the implementation of FAO's Programme of Work and Budget. While implementation of the programme is conditional on the ensuring of established posts being filled, the budgetary provision is artificially reduced so as not to permit this.

19. In effect, should FAO units fill all posts throughout the biennium and not realize an organization-wide average vacancy rate of 5.5 percent required by the present lapse factor, there would result a shortfall in the budgetary provision which would have to be met by enforced cuts under other objects of expenditures. The self-defeating result is to have more staff being able to do less because of the shortage of operational funds at their disposal.

20. Beyond the excessively-cautious approach in FAO compared to others, another powerful spur to a lowering of the lapse factor should come from the expectation of lower vacancy rates in the future. As pointed out already, the last few years have been exceptional for turnover rates. These trying times thus do not provide a good yardstick on which to extrapolate.

21. The prospects point to much greater stability in the short and medium term. Firstly, it is hoped that the erosion of conditions of service can not only be stopped but, with guarded optimism, be gradually reversed. Secondly, the inflow of younger staff and the planned energetic efforts at filling vacancies (see below) will mean a rate of "natural" turnover considerably below past assumptions.

22. Most importantly, the Director-General hopes that the financial situation of the Organization will permit the full implementation of the next Programme of Work and Budget. The disruptions to programme implementation brought about by successive budgetary cuts cannot be allowed to continue.

23. The Director-General is determined to pursue a course of action which would restore capacity in all units to deliver their approved programmes effectively and efficiently. It is essential that vacant established posts be filled as early as possible. There is a limit to the use of consultants and temporary assistance to cope with workloads and backlogs. In the circumstances, the 5.5 percent lapse factor reduction would represent a serious impediment to restoring such capacity.

24. With the basic concern in mind of permitting the orderly implementation of the eventually-approved programme in the next biennium, the Director-General considers it necessary to propose a modification of the current practice for the Programme of Work and Budget 1990-91.

25. In the light of the practices seen in other organizations and the above considerations, he proposes that the lapse factor be reduced to 3 percent. An overall percentage better meets the requirements for transparency and ease of application than a formula distinguishing between Professional and General Service posts or between posts continuing from one biennium to another and new posts.

26. The Director-General is conscious of the impact of such a proposal on the eventual budget level for 1990-91, as proposed in the Programme of Work and Budget. The issue, however, is for Member Nations to have an approved Programme of Work and Budget which can be implemented and is not vitiated from the outset because a reduced budgetary provision will not permit the complement of staff in established posts.

27. Should the Finance Committee agree to recommend this course of action to the Council and subject to the Council's own reaction to the proposal, a supplement to the Programme of Work and Budget document would be prepared for the Conference to take a final decision on the matter.

Extract from: Report of the Sixty-sixth Session of the Finance Committee
(18-29 September 1989)

Programme of Work and Budget 1990-91

- Application of the Lapse Factor

3.13 Following a preliminary review of the application of the lapse factor in budgetary provisions, the Committee, at its Sixty-fifth Session, had agreed to examine a further analysis of the issue, together with proposals to be submitted by the Director-General at its next session. The Committee reviewed the document now submitted 1/.

3.14 The Committee discussed the rationale for the application of the lapse factor deduction, which was based on the recognition that, despite all efforts to ensure timely action, some delay in filling posts occurred, be they new posts or vacancies resulting from staff turn-over. It was largely on that basis that the FAO Governing Bodies had endorsed the practice of a deduction from the budgetary provision for personal services.

3.15 The Committee also considered the modalities under which such a lapse factor could be applied and recognized that there was no ideal, statistically proven practice to determine either a percentage reduction, or the part of the staff costs to which such a percentage would be applied. It noted that in FAO the reduction had varied over the years from a 2 percent rate to the current rate of a uniform 5.5 percent reduction in the budgetary provision for all staff costs which had been in application for many years.

3.16 The Committee was informed that the standard practice in other UN organizations with regard to the lapse factor varied widely. It took note of the fact that the lapse factor applied by FAO was higher than that of most other comparable organizations.

3.17 The Committee was informed that this high lapse factor had been applied in FAO despite a policy, over many years, of reducing the complement of Regular Programme posts. The Committee was also informed that this high lapse factor negatively affected the implementation of FAO's Programme of Work and Budget, which was linked to the timely availability of the necessary staff resources. The impact of the present lapse factor on the proposed Programme of Work and Budget 1990-91 resulted in a budgetary provision which fell short, by US\$ 20 million, of the amount required to cover the cost of all posts.

3.18 The Committee noted that the basic concern of the Director-General, which led him to propose a change in the lapse rate reduction from 5.5 percent to 3 percent, was to restore the capacity of all units to ensure full implementation of the approved programme effectively and efficiently. It noted, however, that the potential impact of such a change would be to increase the proposed budget level by US\$ 9.3 million.

3.19 Members of the Committee expressed different views on the acceptability and timeliness of the proposal ranging from readiness to accept the Director-General's proposal, to readiness to consider the application of a lapse factor rate of between the present 5.5 percent and the proposed 3 percent, to not being in a position to accept the proposal. The Committee could not reach a definite conclusion and noted that the matter could be pursued in Council and Conference.