C 2023/3 Web Annex 11: Cost increase methodology and estimates

Methodology and context

1. The methodology for calculating cost increases in the PWB 2024-25 follows the approach previously approved by the Finance Committee, Council and Conference. The cost increase estimates cover the recosting of Regular Programme inputs from 2022-23 to 2024-25 levels to deliver the Programme of Work, namely for personnel services and goods and services. The cost increase estimates are developed on a biennial basis from: actual cost adjustments that are occurring in the current biennium (biennialization); projected adjustments to unit costs that will take effect in the next biennium (inflation); and the lapse factor on established posts.

2. Biennialization is the financial effect in 2024-25 of staff cost adjustments that are occurring in the 2022-23 biennium. Biennialization is the consequence of two factors:

a) under- or over-budgeted costs in the current biennium (2022-23) - that is where actual staff costs per work month are at variance from the budgetary estimates prepared two years earlier.

b) cost adjustments that took or will take effect at some point during the 2022-23 biennium, whether budgeted or not, that have to be applied to a full 24-month period in the 2024-25 biennium.

3. As such, biennialization objectively reflects the financial impact of events that have already taken place or are expected to take place before the implementation of the 2024-25 budget. Most changes in staff costs implemented during the biennium are the results of the recommendations and decisions by the International Civil Service Commission (ICSC) and the General Assembly of the United Nations and the actuarial valuations of the staff-related liabilities. The movements of the US dollar against local currencies in those decentralized offices where staff costs incurred in national currencies are funded by the US dollar assessments also contributed to some extent to biennialization.

4. Accordingly, the financial implications of biennialization are essentially a matter of fact, not conjecture or long-range planning. The estimates for the current service cost of after-service staff benefits are based on the latest results of the actuarial valuation for the staff-related liabilities schemes (After-service Medical Coverage, Termination Payments Fund, Separation Payments Scheme, and Compensation Plan Reserve Fund). An actuarial valuation is carried out every year.

5. Inflation represents the cost impact in 2024-25 of those adjustments that are expected to take effect at various points in the next biennium. Inflation estimates for salaries, pension fund contributions and allowances are derived from the most recent external forecasts (consumer price index and nominal wage index) by the Economist Intelligence Unit (EIU), published data of authoritative bodies such as the ICSC and of independent verification.

Cost increases estimates

6. The cost increases for the proposed 2024-25 net appropriation are estimated at USD 44.0 million for personnel services. Biennialization is estimated as an increase of USD 18.4 million and inflation an increase of USD 26.0 million.

7. The inflation for total goods and services is estimated at USD 11.8 million to cover to some extent the dramatic increases experienced and foreseen in the cost of living including utility and travel costs.

Personnel services

8. Personnel services comprise all staff costs, including salaries, pension fund contributions, dependency allowances, social security and other staff-related entitlements and after-service benefits for both the professional and general service staff categories. The changes in personnel services costs derive from decisions regarding the United Nations common system, as reviewed and determined by the International Civil Service Commission and the United Nations General Assembly, independent verification, and other external factors such as prevailing market exchange rates. This last element is relevant to the estimation of the US dollar assessment for staff costs in those decentralized offices where local currencies fluctuate against the US dollar.

Personnel services – biennialization factors

9. Biennialization, estimated at USD 18.4 million for the cost of personnel services, can be broken down as follows:

a) The significantly higher-than-budgeted increase in the professional staff net remuneration at headquarters due to rising inflation, resulting in a biennialized increase of USD 21.7 million for 2024-25 in all locations (USD 16.5 million for headquarters and USD 5.2 million in decentralized locations). Increases at headquarters were 2.5 percent and 2.3 percent compared to 0.7 percent and 1.1 percent budgeted[1], with the first increase effective 1 February 2022 as part of the post adjustment classification review of the Group I duty stations[2] and the second increase effective 1 August 2022 as a result of the 2021 Cost-of-Living survey[3].

b) The higher-than budgeted increase in the pension contributions for professional staff reflecting the 3.6 percent increase effective 1 February 2022[4] compared to 1.5 percent budgeted, resulting in a USD 3.1 million increase in 2024-25.

c) The higher basic medical insurance plan (BMIP) cost mainly attributable to the higher claims made during 2022 and the appreciation of the US dollar resulting in a biennialized increase of USD 2.1 million in 2024-25.

d) The unchanged level of entitlement travel costs as the net effect of high increases expected for the post-COVID-19 pandemic period and savings experienced in the current biennium.

e) The reduction of USD 9.5 million due to the combined effects of other factors such as rental subsidy and general service staff net remuneration.

f) The higher-than-budgeted increase in the current service costs of the after-service staff benefits, based on the actuarial valuations as at 31 December 2021,[5] resulting in a biennialized increase of USD 1.0 million in 2024-25.

Personnel services – inflation factors

10. An inflationary cost increase of USD 26.0 million is foreseen for personnel services, mostly from the application of modest inflation rates based on the EIU consumer price index (CPI) projections to the net remuneration and pension, and no increase for other staff cost components as follows:

a) An increase of 2.0 and 1.5 percent applied to professional staff net remuneration at headquarters in 2024 and 2025 each year taking into consideration the EIU CPI forecasts for Italy (2.1 percent and 1.9 percent for 2024 and 2025 respectively).

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[1] C 2021/3-WA10 paragraph 10 a)
[2] ICSC/CIRC/GEN/03/2022
[3] ICSC-PADJ-0822-01
[4] ICSC/CIRC/GEN/03/2022
[5] FC 191/4

b) An increase of 2.5 and 2.0 percent applied to general service staff net remuneration at headquarters in 2024 and 2025 each year in line with the latest EIU average nominal wage index at 2.5 and 2.1 percent based on the current methodology in place for interim adjustments between the comprehensive salary surveys until the results of the next survey become available in 2024.

c) High inflationary increases projected for professional and general service net remunerations in decentralized locations, taking into account factors such as rising inflations world-wide. The approach employed consumer price indexes slightly lower than the EIU forecasts in the region or country where FAO has large offices, ranging from 1.5 percent increase for FAO liaison offices to a maximum of 8.0 percent increase in Africa and Near East region.

d) No increase for the basic medical insurance plan (BMIP), taking account of the cost containment efforts continuously pursued by the Organization and the insurer.[6]

e) No increase for education grant taking into account the past decision of the UN General Assembly to defer its consideration of the ICSC recommendations on the revised sliding reimbursement scale and the boarding lump sum and its request to the ICSC to provide a detailed review, taking into consideration a maximum amount per household.[7] Further to the discussion of the Fifth Committee in 2022, the level will be reviewed in 2023-2024 as planned in the ICSC's Programme of Work.[8]

f) No increase for all other entitlements and allowances despite increases anticipated for travel costs.

g) No increase is projected for the current service cost of after service staff benefits in the future actuarial valuations. The estimates in the final actuarial valuation reports as at 31 December 2023 and 2024 will be the basis for 2024-25 expenditures. This remains a high-risk area to be managed during implementation.

11. The FAO governing bodies have been advised that staff costs are difficult to predict despite the refined information systems used to analyze current cost patterns and quantify trends and this leads to variances from the budgetary estimates prepared in advance of the budget implementation.[9]

12. For example, as noted above in point g), the actuarial variations at end-2023 and 2024 could introduce significant variances from the current assumptions. Similarly, inflation rates and exchange rate fluctuations for non-headquarters locations where the expenses in local currency are funded by the US dollar assessments are difficult to predict. Any variance must be managed within the budgetary appropriation for the biennium, requiring programme adjustments during the implementation cycle to manage any unbudgeted costs, and adjustments are reflected under biennialization for the following biennium.

Goods and services – expenditure breakdown

13. 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 is estimated at USD 11.8 million, equivalent to a 2.7 percent increase in the biennium which can be compared to the EIU CPI forecasts for the World (4.0 percent and 3.4 percent for 2024 and 2025 respectively) and Italy (2.1 percent and 1.9 percent for 2024 and 2025 respectively). It is expected to cover to some extent the rising increases in the cost of living including utility costs and duty travel

[6] FC 164/5; FC 191/4

[7] C 2021/3 WA-10 paragraph 10 e); A/RES74/255A-B II C; FC 180/8 paragraph 9; CL 163/3-WA2 paragraph 5.f); FC 178/7 paragraphs 7-8

[8] A/77/30 paragraph 7-13, Annex I paragraph 3 f)
A/77/671 Report of the Fifth Committee on UN common system for adoption by UNGA, 30 December 2022

[9] FC 113/10 Treatment of Staff Cost Variance

costs. Additional costs are also foreseen for the dangerous duty stations supplement for locally recruited non-staff human resources.

14. The evolution of the estimated cost increases for 2024-25 is tabulated by main element in *Table 1*.

Table 1: Breakdown of 2024-25 cost increases by cost element and location (USD million)

	Proposed Net Appropriation at 2022-23 Cost	Biennialization	Inflation	Total Cost Increases	Cost Increase Percentage Biennial	Proposed Net Appropriation at 2024-25 Cost
	a	B	c	d = b+c	e = d÷a	f = a+d
Personnel Services						
Professional Staff						
Net Remuneration – Headquarters	233.4	16.5	6.5	23.0	9.9%	256.4
Net Remuneration – Non-Headquarters	141.9	5.2	12.2	17.5	12.3%	159.4
Pension	92.1	3.1	2.0	5.1	5.5%	97.2
Education Grant	29.6	0.7	(0.0)	0.7	2.4%	30.3
Entitlement Travel	14.1	0.0	0.0	0.0	0.0%	14.1
Medical Cost	12.3	0.8	(0.0)	0.8	6.9%	13.1
Other Allowances	47.1	(7.2)	(0.0)	(7.2)	(15.2%)	39.9
Dependency Allowance						
Recruitment and transfer Allowances						
Rental Subsidy						
Danger Pay						
Representation Allowance						
Total Professional Staff	**570.5**	**19.2**	**20.7**	**40.0**	**7.0%**	**610.4**
General Service Staff						
Net Remuneration – Headquarter	70.3	(0.2)	1.1	0.9	1.3%	71.2
Net Remuneration – Non-Headquarter	45.7	(1.1)	3.3	2.2	4.8%	47.9
Pension	22.8	0.5	0.9	1.4	6.3%	24.2
Medical Cost	14.0	1.3	0.0	1.3	9.0%	15.3
Other Allowances	10.6	(2.4)	(0.1)	(2.5)	(23.3%)	8.1
Dependency Allowance						
Danger Pay						
Total General Service Staff	**163.4**	**(1.9)**	**5.2**	**3.3**	**2.0%**	**166.8**
Personnel Services	**733.9**	**17.4**	**26.0**	**43.3**	**5.9%**	**777.2**
After Service Benefits	72.0	1.0	0.0	1.0	1.4%	73.0
Lapse Factor/New Post Adjustment	(12.4)			(0.3)	2.4%	(12.7)
Total Personnel Services	**793.5**	**18.4**	**26.0**	**44.0**	**5.5%**	**837.6**
Goods and Services						
Consultant	436.0		**11.8**	**11.8**	**2.7%**	**447.8**
General Operating Expenses						
Contract						
Travel						
Non-Expendable Procurement						
Supplies and Materials						
Total Goods and Services	**436.0**		**11.8**	**11.8**	**2.7%**	**447.8**
Total Income	**(224.0)**			**0.0**	**0.0%**	**(224.0)**
Grand Total	**1 005.6**	**18.4**	**37.8**	**55.8**	**5.6%**	**1 061.4**

Lapse factor

15. The lapse factor consists of a reduction in the budgetary provision for the estimated cost of established posts to account for the fact that some of them will be vacant for some time as a result of staff movements. The lapse factor methodology approved by the Council at its 107th Session as recommended by the External Auditor and endorsed by the Finance Committee for application in the 1996-97 budget, has been consistently applied to all budgets since then, that is:

> **The lapse factor is a budgetary devise 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.*

16. The parameters which determine the lapse factor are monitored and the resulting values of each parameter are indicated in the Programme of Work and Budget in order to derive the proposed lapse factors for each biennium.

17. The methodology for ongoing posts is based on three factors:

a) staff turnover rates, as measured through separations;
b) standard recruitment times to reflect historical turnover rates and changes in the policy as might affect current recruitment practices; and
c) the extent to which separations are foreseen, so that recruitment action can be anticipated, and the effective lead time thus reduced.

18. In accordance with the established methodology, a five-year moving average (i.e. 2018 through 2022 inclusive) has been applied to calculate staff turnover rates. This results in an average turnover rate of 5.02 percent for professional staff and 5.09 percent for general service staff. Compared to the five-year moving average used in the PWB 2022-23, the turnover rate has decreased for professionals by 0.90 percent and for general service by 0.68 percent.

19. The standard recruitment lead times applied are as follows: professional 26 weeks and general service 22 weeks. The extent of separations which can be foreseen is derived from a review of the reasons for separation, the results of which are summarized in *Table 2*.

Table 2: Extent to which recruitment action can be foreseen

Categories of Separations	Professional		General Service	
	Percent of population	No. of weeks foreseen	Percent of population	No. of weeks foreseen
Foreseen separations (e.g. mandatory retirements)	16%	26 or more	3%	22 or more
Foreseen separations for a limited period (e.g. resignation with notice)	52%	10	46%	7
Unforeseen separations	32%	0	51%	0

20. The 2024-25 lapse factor is 1.61 percent for professional (was 1.75 in 2022-23) and 1.78 percent for general service costs (same as in 2022-23). The impact of the lapse factor adjustment in 2024-25 is a decrease of USD 11.6 million to budgeted staff costs when applied to all locations except country and liaison offices, which are exempt. Given the overall minimal change, the net impact of the new lapse factor moving from 2022-23 to 2024-25 is an increase of staff costs of USD 0.8 million.

21. In accordance with the lapse factor methodology, several new posts have been costed in the programme budget for only part of the 2024-25 biennium, where the expected incumbency period is less than the full biennium. This adjustment generated a USD 2.5 million reduction in budgeted staff costs in 2024-25. The net effect, after adjusting for the new posts from 2022-23, is a reduction of staff costs of USD 1.1 million.

22. Therefore, the lapse factor adjustment of USD 11.6 million combined with the adjustment for new posts of USD 1.1 million results in a reduction of staff costs of USD 12.7 million in 2024-25, with a net impact compared to 2022-23 of minus USD 0.3 million as shown in *Table 1*.

23. *Table 3* provides an overview of the proposed net appropriation by Budgetary Chapter before and after cost increases, at the 2022-23 budget rate of exchange.

Table 3: 2024-25 Net Appropriation by Chapter before and after cost increases *(USD thousand)* *(at the 2022-23 budget rate of exchange of Euro 1 = USD 1.22)*

Budgetary Chapter	Net Appropriation before cost increases	Cost Increases	Net Appropriation after cost increases
1.1	41 006	2 327	43 333
1.2	33 344	1 832	35 176
1.3	30 646	1 589	32 236
1.4	33 615	1 834	35 449
1.5	18 120	956	19 077
1	**156 732**	**8 538**	**165 270**
2.1	36 205	2 095	38 300
2.2	23 905	1 381	25 285
2.3	28 184	1 411	29 595
2.4	14 538	858	15 396
2.5	26 909	1 450	28 359
2	**129 741**	**7 194**	**136 935**
3.1	44 955	2 623	47 578
3.2	19 377	1 023	20 401
3.3	40 005	2 064	42 069
3.4	13 976	799	14 775
3	**118 313**	**6 510**	**124 823**
4.1	12 732	727	13 459
4.2	28 207	1 535	29 742
4.3	20 411	851	21 262
4.4	38 722	2 199	40 921
4.5	500	7	507
4.6	23 205	2 424	25 629
4	**123 778**	**7 743**	**131 520**
5.1	45 874	1 831	47 705
5.2	9 636	879	10 516
5.3	3 393	135	3 528
5.4	3 911	(94)	3 817
5.9	8 500	0	8 500
5	**71 314**	**2 751**	**74 066**
6.1	4 444	305	4 749
6.2	136 344	7 506	143 850
6 – TCP	**140 788**	**7 811**	**148 600**
7.1	29 496	1 499	30 996

Budgetary Chapter	Net Appropriation before cost increases	Cost Increases	Net Appropriation after cost increases
7.2	26 370	1 478	27 848
7.3	15 099	1 384	16 484
7	**70 965**	**4 362**	**75 327**
8.1	35 173	1 552	36 725
8	**35 173**	**1 552**	**36 725**
9.1	16 362	1 123	17 485
9.2	10 608	814	11 421
9.3	32 717	2 357	35 074
9	**59 687**	**4 294**	**63 980**
10.1	9 516	1 303	10 819
10.2	4 116	588	4 704
10.3	48 491	2 407	50 898
10	**62 123**	**4 298**	**66 420**
11.1	600	0	600
11 - Contingencies	**600**	**0**	**600**
12.1	14 000	206	14 206
12 - Capital Expenditure	**14 000**	**206**	**14 206**
13.1	8 705	212	8 916
13.2	13 716	320	14 036
13 - Security Expenditure	**22 421**	**532**	**22 952**
Total	**1 005 635**	**55 791**	**1 061 426**