

**C 2011/3 - Medium Term Plan 2010-13 (Reviewed) and
Programme of Work and Budget 2012-13**

Information Note no. 3 – April 2011

*Anticipated cost increases
Additional information on inflation factors and breakdown of goods and services*

1. This information note responds to the request of the 138th Session of the Finance Committee (21-25 March 2011) to provide further information to the Council on inflation factors and breakdown of goods and services so as to facilitate a more detailed review of the cost increase figures as presented in the PWB 2012-13.¹
2. The note elaborates on the information in the PWB 2012-13 section III.A *Anticipated cost increases*, in particular Table 16 (inflation column) and paragraphs 227 to 233. Part I of the note extracts PWB paragraph 230 and provides further details on inflation factors for personnel services. Part II of the note provides details on inflation factors for goods and services, including a breakdown of estimated inflation by expenditure category.
3. It is recalled that inflation represents the cost impact in 2012-13 of those adjustments that are expected to take effect from January 2012 through December 2013. The cost increase section of the PWB 2012-13 document also covers biennialization (estimated at USD 2.5 million), which is the incremental financial effect in 2012-13 of staff cost adjustments that are occurring in the 2010-11 biennium. The Secretariat will continue to monitor developments and report on any significant changes to the cost increase assumptions and estimates prior to the Conference in June 2011.

I. Personnel Services – inflation factors

4. 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 increases in personnel services costs derive from decisions regarding the UN common system, as reviewed by the ICSC and approved by the UN General Assembly, and other external factors such as prevailing market exchange rates. The ICSC increases apply by location and staff category when they occur.
5. (PWB paragraph 230). Inflationary cost increase of USD 32.0 million is foreseen in 2012-13 for personnel services based on estimates for the various components, including:
 - a) an increase of 2.5 percent foreseen for Professional and General Service staff salaries at headquarters in both 2012 and 2013, in line with the Average Nominal Wage index forecasts for Italy (2.5 and 3.0 percent respectively);
 - b) significant inflationary increases projected for Professional and General Service salaries in decentralized locations, taking into account various factors such as

¹ CL 141/9 paragraph 35

inflation, exchange rate fluctuation and recent past patterns of increases. EIU CPIs and Average Nominal Indexes forecast increases ranging from 2 to 9 percent per annum for 2012-13 for various regions and locations where FAO has a significant presence. For example, inflation rates in Egypt, where FAO has both a regional and subregional office, are forecasted at up to 9.3 percent for 2012 and 8.1 for 2013;

- c) an increase of USD 2.2 million for the after-service staff benefits based on the 31 December 2010 actuarial valuation, which became available after the calculation of the preliminary anticipated cost increases presented to the Finance Committee in February 2011. The increase is mainly for current service costs of After-service Medical Coverage (ASMC);
- d) increases of 2.6 and 3.6 percent were applied to pensionable remuneration of Professional staff in 2012 and 2013 respectively, in line with the EIU Average Nominal Wage index forecasts for the USA;
- e) a 5.0 percent of annual increase for the medical costs as per the medical inflation in the actuarial valuation;
- f) a 5.0 percent annual increase projected for entitlement travel costs, taking into account as an average the increase in the cost of travel forecasted by the travel industry for the next year at 5 to 12 percent due to the consolidation and re-pricing of air fares; and
- g) an increase of 5.0 percent for the education grant costs based on the past trend and the revision in the level of education grant and boarding cost recommended by ICSC to the UN General Assembly.

6. Table 1 below provides a breakdown of the inflation factors used to arrive at the inflation cost increase of USD 32.0 million for personnel services in the Professional and General Service staff categories. The inflation factors are provided by staff cost element and where appropriate by location. They are derived from external forecasts by the Economist Intelligence Unit (EIU), such as Consumer Price Index (CPI), Average Nominal Wage (ANW) Indexes, and exchange rates by location; published data of authoritative bodies such as the ICSC; and independent verification. The references and sources used are indicated in the last column of the table.

Table 1: Personnel Services - Inflation Factors by Cost Element and Location used in PWB 2012-13

	2012-13 Inflation (USD mil)	2012	2013	Reference/Source
Professional staff				
Salary	7.7	2.5%	2.5%	HQ: EIU ANW Italy 2.5% and 3.0%; CPI Italy 1.8% and 2.1%
	0.5	3.0%	3.0%	Europe (non-HQ): EIU CPI Euro Area 1.6% and 1.6%; Hungary 2.5% and 2.1%; Turkey 5.6% and 5.5%
	4.2	6.0%	6.0%	Africa & Near East Region: EIU CPI Sub-Saharan Africa 7.3% and 6.9%; Middle East and North Africa 7.3% and 7.3%; Egypt 9.3% and 8.1%; Tunisia 3.3% and 3.4%; Ghana 8.7%
	1.2	4.0%	4.0%	Asia & Pacific Region: EIU CPI Asia and Australasia excl. Japan 4.1% and 4.1%; ASEAN 4.8% and 4.8%; Thailand 2.2% and 2.4%; South Asia 5.3% and 5.4%
	1.0	3.0%	3.0%	Latin America and Caribbean: EIU CPI Latin America 6.6% and 5.9%; Mercosur 9.4% and 8.3%; Andean Community 3.7% and 3.3%; Chile 3.6% and 3.4%
	0.1	1.0%	1.0%	Liaison Offices: EIU CPI US 1.9% and 2.5%; Japan 1.0% and 1.1%; Belgium 2.4% and 2.4%; Switzerland 1.0% and 1.3%
Pension	1.8	2.6%	3.6%	EIU ANW US
Education Grant	1.3		5.0%	Trend of ICSC recommendations on maximum education grant and ceilings for boarding costs
Entitlement Travel	1.1	5.0%	5.0%	Air fare forecast by travel industry
Medical Cost	1.0	5.0%	5.0%	Medical inflation as per actuarial valuation
Other Allowances	1.1			Various
Total - Professional staff	21.0			
General Service staff				
Salary	3.2	2.5%	2.5%	HQ: EIU ANW Italy 2.5% and 3.0%
	2.9			Non-HQ: In addition to CPI, ANW used where available. EIU ANW Euro area 2.0% and 2.4%; EU 27 2.8% and 3.3%; Hungary 5.0% and 5.5%; Turkey 6.5% and 7.0%; Egypt 9.0% and 9.0%; Tunisia 3.5% and 3.5% and Thailand 4.0% and 4.0%; Chile 5.0% and 4.8%
Pension	1.2	2.5%	2.5%	Same increases as salary apply
Medical Cost	1.3	5.0%	5.0%	Medical inflation as per actuarial valuation
Other Allowances	0.2			Various
Total - General Service staff	8.7			
After service staff benefits	2.2			Actuarial Valuation as at 31 Dec 10
Total - personnel services	32.0			

II. Goods and Services – inflation factors and expenditure breakdown

7. Goods and services include other non-staff human resources (i.e. consultants), travel, general operating expenses, contracts and other (e.g. furniture and equipment). In preparing the PWB 2012-13, units estimated their requirements for goods and services generally based on their expected contribution to achieving the Organizational Results. In developing the cost increase estimates for goods and services, a further analysis was undertaken of likely expenditure patterns by cost category based on actual 2010 expenditure.

8. Table 2 provides a breakdown of actual expenditures for goods and services in 2010. The expenditure pattern in 2012-13 for goods and services is assumed to be similar to that of 2010.

Table 2: 2010 Gross Expenditures on Goods and Services under General Fund (unaudited)

Cost category	(USD mil)
Travel	29.3
General Operating Expenses	43.6
Contract	25.8
Consultant	42.1
Other	13.0
Total	153.9

9. Table 3 provides further information on the inflation factors used to arrive at the inflationary cost increase of USD 11.8 million for goods and services by cost category. The estimates are derived from the Economist Intelligence Unit (EIU) Consumer Price Indexes (CPI) and independent verification from other sources. The presumed breakdown of the cost increases by the five expenditure categories is also shown.

Table 3: Goods and Services – Inflation Factors and cost increase breakdown used in PWB 2012-13

Cost category	2012-13 Proposed Net Appropriation at 2010-11 costs	2012-13 Inflation (USD mil)	Reference/Source
Travel	51.4	3.9	HQ: EIU CPI Italy 1.8% (2012) and 2.1% (2013); Non-HQ: EIU CPI World 3.0% (2012) and 3.2% (2013)
General Operating Expenses	76.5	3.0	
Contract	45.2	1.7	
Consultant	73.8	0.6	
Other	22.7	2.6	
Total - goods and services	269.7	11.8	