

Information Note no. 1 – April 2013

Cost increase assumptions and estimates – Update and additional information

In its technical review of the PWB 2014-15 proposals, the Finance Committee reviewed in detail the anticipated cost increases and welcomed the additional information provided by the Secretariat, which it requested be made available to all Members (CL 146/3 paragraph 24b).

1. Document C 2013/3 MTP 2014-17/PWB 2014-15 was published on 9 February 2013, nearly 11 months before the beginning of the 2014-15 biennium to which it applies. The PWB 2014-15 includes anticipated cost increases¹, which form an integral part of the overall budget level of USD 1,070.1 million proposed for the biennium. In the months following the publication of the document, trends and decisions that could impact the estimated cost increases for 2014-15 are being 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 prior to the Conference, along with the impact on the proposed budget level. These updates are to be taken into consideration by Members in deliberating the PWB 2014-15.

2. One such set of information has become available in March 2013: the final *2012 Actuarial Valuation of Staff-Related Liabilities*². The Organization annually obtains from an external actuarial firm a valuation of all the staff-related after-service benefit plans, which enables the Organization to determine its overall liabilities associated with the plans and establish the annual related expenses. This note presents, in *Section I*, the significant impact of the final 2012 Actuarial Valuation of Staff-Related Liabilities on the cost increase estimates for personnel services published in C 2013/3. As a result:

- a) **the estimated cost increases for the 2014-15 biennium are revised downwards by USD 10.8 million from USD 54.4 million to USD 43.6 million; and,**
- b) **the proposed net budgetary appropriation (with cost increases) for the 2014-15 biennium is revised downwards from USD 1,070.1 million to USD 1,059.2 million (at the 2012-13 budget rate of exchange).**

3. *Section II* provides further information 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 2014-15.

4. Any further information on the effects of trends and decisions on estimated cost increases that becomes available before the Conference will be presented if and when available.

I. Impact on cost increases arising from final 2012 Actuarial Valuation of Staff-Related Liabilities

5. This section provides an overview of the published cost increase estimates for 2014-15 and the revised cost increase estimate arising from the impact of the final 2012 Actuarial Valuation of Staff-Related Liabilities related to the After-Service Benefit plans.

Overview of the published cost increase estimate: USD 54.4 million (9 February)

6. The document C 2013/3 MTP 2014-17/PWB 2014-15 includes an estimate of **USD 54.4 million** for cost increases in 2014-15 based on information available up to end-January 2013. The cost increase estimates result from the recosting of Regular Programme inputs (personnel, goods and

¹ C 2013/3 paragraphs 285 to 303

² FC 148/5



services) from 2012-13 to 2014-15 levels to preserve the purchasing power of the Net Appropriation. The published estimated cost increases for 2014-15 comprise **USD 46.6 million** for personnel services and **USD 7.8 million** for goods and services.

7. The cost increase estimates are developed on a biennial basis from actual cost adjustments that are occurring in the current biennium (*biennialization*), and projected adjustments to unit costs that will take effect in the next biennium (*inflation*). *Biennialization*, estimated at **USD 25.6 million**, is the incremental financial effect in 2014-15 of staff cost adjustments that are occurring in the 2012-13 biennium. *Inflation* represents the cost impact in 2014-15 of those adjustments that are expected to take effect from January 2014 through December 2015, estimated at **USD 28.8 million (USD 21.0 million** for personnel services and **USD 7.8 million** for goods and services). The breakdown of these costs as published in C 2013/3 is presented in Table 1 below.

Table 1: Summary of cost increases under the Net Appropriation in 2014-15 at 2012-13 budget rate of exchange (Table 7 in C 2013/3)

	(USD millions)					Percent of cost increase attributable to each cost component f
	PWB 2014-15 Proposed Net Appropriation at 2012-13 costs a	Biennialization b	Inflation c	Cost increases for 2014-15 d = b + c	Percent cost increase (biennial) e = d / a	
Personnel Services						
Salaries, Pension Fund Contributions and Allowances	715.5	5.0	21.0	26.0	3.6%	48%
After-service Benefits	52.6	20.6	-	20.6	39.2%	38%
Total Personnel Services	768.1	25.6	21.0	46.6	6.1%	86%
Total Goods and Services	247.5	-	7.8	7.8	3.2%	14%
Budget level for Net Appropriation and additional requirements	1,015.6	25.6	28.8	54.4	5.4%	100%

Revised cost increase estimate: USD 43.6 million (15 March)

8. The final 2012 Actuarial Valuation updates the assumptions made in preparing the estimated cost increases concerning After-Service Benefits³ of staff, as follows:

- a) In preparing the published PWB 2014-15 in January 2013, the biennial cost of the current service cost of After-Service Benefits was estimated at USD 73.2 million based on the 2011 Actuarial Valuation and a preliminary increase estimated during preparation of the 2012 Actuarial Valuation⁴, as shown in Table 2, row (c).
- b) Based on the final 2012 Actuarial Valuation that became available in early March and has been published in FC 148/5, the current service cost of After-Service Benefits for 2014-15 has been revised downwards to USD 62.4 million for the biennium, as shown in Table 2, row (f).

9. The valuation of the biennial current service cost of After Service Benefits as at end-2012 affects these costs in 2013 (managed within the 2012-13 appropriation) and the biennialization of these costs in the 2014-15 estimated cost increases. For 2014-15, the biennialized cost of After-Service Benefits is reduced from USD 20.6 million (Table 2, row b) to USD 9.8 million (Table 2, row e).

³ After-Service Benefits plans comprise: After-Service Medical Coverage (ASMC), Terminal Payments Fund (TPF), Separation Payment Scheme (SPS), and Compensation Plan Reserve Fund (CPRF)

⁴ C 2013/3 paragraph 287 and 294 a)

Table 2: Current service costs of after service staff benefits for Regular Programme (USD million)

		Annual	Biennial
C 2013/3 (9 February 2013)			
PWB 2012-13 ⁵	a		52.6
PWB 2014-15 cost increases (biennialization)	b		20.6
PWB 2014-15 total amount after cost increases⁶	c = a + b		73.2
Update based on 2012 valuation (15 March 2013)			
PWB 2012-13	d		52.6
PWB 2014-15 revised cost increases (biennialization)	e		9.8
PWB 2014-15 revised total amount after cost increases⁷	f = d + e		62.4
Total amount after cost increases			
C 2013/3 (9 February)	g = c		73.2
Updated (15 March)	h = f		62.4
Update based on final 2012 actuarial valuation	i = h - g		(10.8)
2012 actuarial valuation of staff-related liabilities - current service costs			
Regular Programme	j	30.2	60.4
Trust Fund	k	10.6	
Total (FC 148/5 Table 4)	l = j + k	40.8	

10. Table 3 below reproduces the cost increase table presented in the PWB document (Table 7) with the updated figures based on the 2012 Actuarial Valuation. Row 3, column (b) reflects the updated biennialization figure for After-Service Benefits of USD 9.8 million.

11. As highlighted in the cost increase assumptions⁸, the cost increase calculations assume that there will be no further increase in the current service cost of After-Service Benefits in the next two annual actuarial valuations (end-2013 and end-2014). Thus estimated inflation for After-Service Benefits in 2014-15 remains at zero, as shown in Table 3, row 3 column (c). Any variances from this assumption in the next two annual actuarial valuations would affect actual expenditure during 2014-15 and would need to be managed within the budgetary appropriation for the 2014-15 biennium and reflected under biennialization for the following biennium.

Table 3: Summary of revised cost increases under the Net Appropriation in 2014-15 at 2012-13 budget rate of exchange (revision to Table 7 in C 2013/3)

	(USD millions)					Percent of cost increase attributable to each cost component f
	PWB 2014-15 Proposed Net Appropriation at 2012-13 costs a	Biennialization b	Inflation c	Cost increases for 2014-15 d = b + c	Percent cost increase (biennial) e = d / a	
1. Personnel Services						
2. Salaries, Pension Fund Contributions and Allowances	715.5	5.0	21.0	26.0	3.6%	60%
3. After-service Benefits	52.6	9.8	-	9.8	18.6%	22%
4. Total Personnel Services	768.1	14.8	21.0	35.8	4.7%	82%
5. Total Goods and Services	247.5	-	7.8	7.8	3.2%	18%
6. Budget level for Net Appropriation and additional requirements	1,015.6	14.8	28.8	43.6	4.3%	100%

⁵ C 2011/3 Information Note 4 based on 2010 valuation

⁶ C 2013/3 based on 2011 actuarial valuation and includes the estimated termination costs of USD 2 million for the population above age 55 and more than 5 years of service that are not in actuarial valuations.

⁷ Based on 2011 actuarial valuation and includes the estimated termination costs of USD 2 million for the population above age 55 and more than 5 years of service that are not in actuarial valuations.

⁸ C 2013/3 paragraph 295 g) and 296

12. In summary, due to the downward revision of the biennialized cost of After-Service Benefits for 2014-15:
- a) **overall cost increase estimates are revised downwards by USD 10.8 million from USD 54.4 million to USD 43.6 million and are restated in Table 3.**
 - b) **the proposed net budgetary appropriation (with cost increases) for the 2014-15 biennium is revised downwards from USD 1,070.1 million to USD 1,059.2 million (at the 2012-13 budget rate of exchange).**

II. Further detail on anticipated cost increases

13. This *Section II* provides further information on inflation factors and breakdown of goods and services so as to facilitate a more detailed review of the cost increase figures presented in the PWB 2014-15, elaborating on the information in PWB Section C relating to anticipated cost increases, in particular Table 7 (inflation column) and paragraphs 292 to 299. Further details are provided on inflation factors for *personnel services* and for *goods and services*, including a breakdown of estimated inflation by expenditure category.

14. It is recalled that inflation represents the cost impact in 2014-15 of those adjustments that are expected to take effect from January 2014 through December 2015. The cost increase section of the PWB 2014-15 document also covers biennialization, which is the incremental financial effect in 2014-15 of staff cost adjustments that are occurring in the 2012-13 biennium. Most of the biennialization for 2014-15 is due to After-Service Benefits, which has been treated in *Section I* above.

Personnel Services – inflation factors

15. *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.

16. Table 4 below provides a breakdown of the inflation factors used to arrive at the inflation cost increase of USD 21.0 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.

Goods and Services – inflation factors and expenditure breakdown

17. *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 2014-15, estimated requirements for goods and services are generally based on their expected contribution to achieving the Organizational Outcomes. In developing the cost increase estimates for goods and services, a further analysis was undertaken of likely expenditure patterns by cost category.

18. Table 4 below provides further information on the inflation factors used to arrive at the inflationary cost increase of USD 7.8 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 4: Breakdown of total cost increases by cost element and location (USD million)

	PWB 2014-15 (C 2013/3)					Update	Reference / Source Inflation for 2014 and 2015
	Proposed NAP at 2012-13 cost a	Biennial zation b	Inflation c	Total Cost Increases d = b+c	Annual Inflation for 2014 & 2015 e	Revised total cost increases f	
Personnel services							
Professional staff							
Salary	237.4	8.1	6.0	14.0	2.0% 2.0%	14.0	HQ: EIU CPI Italy 1.9% and 2.1%
	123.6	0.5	6.3	6.9	1-4% 1-4%	6.9	Non-HQ: EIU CPI <ul style="list-style-type: none"> • Europe (non-HQ): Euro Area 2.0% and 2.1%; Hungary 3.7% and 4.2%; Turkey 7.2% and 6.6% • Africa & Near East Region: Egypt 7.6% and 7.5%; Tunisia 3.4% and 3.3%; Ghana 7.8% and 8.0% • Asia & Pacific Region: Asia and Australasia excl. Japan 4.9% and 4.5%; ASEAN 4.9% and 5.0%; Thailand 3.2% and 4.3%; South Asia 8.1% and 7.2% • Latin America and Caribbean: Latin America 5.8% and 5.6%; Mercosur 8.1% and 7.7%; Andean Community 3.3% and 3.3%; Chile 3.3% and 3.2% • Liaison Offices: USA 2.5% and 2.2%
Pension	71.1	3.8	1.6	5.5	2.5% 2.2%	5.5	EIU CPI USA 2.5% and 2.2%
Education Grant	28.7	(1.6)	0.8	(0.8)	0.0% 3.0%	(0.8)	Trend of ICSC recommendations on maximum education grant and ceilings for boarding costs and exchange fluctuation
Entitlement Travel	14.6	(1.8)	0.4	(1.4)	2.0% 2.0%	(1.4)	EIU CPI and exchange rate fluctuation CPI World 3.5% and 3.4%
Medical Cost	14.5	0.3	0.9	1.2	4.0% 5.0%	1.2	Medical inflation as per end-2011 actuarial valuation
Other Allowances	29.5	(1.6)	1.1	(0.5)		(0.5)	Various
Total - professional staff	519.4	7.8	17.1	25.0	4.8%	25.0	
General Service staff							
Salary	100.7	(2.4)	0.0	(2.4)	0.0% 0.0%	(2.4)	HQ: unchanged salary scale effective 1 November, 2010
	45.7	(0.5)	2.2	1.7	1-4% 1-4%	1.7	Non-HQ: In addition to CPI, ANW used where available. EIU ANW Hungary 4.2% and 4.3%; Turkey 8.0% and 7.0%; Egypt 8.0% and 8.0%; Tunisia 3.4% and 3.2%; Thailand 5.0% and 6.0%; Chile 6.0% and 7.0%
Pension	28.4	(0.2)	0.4	0.2	1-4% 1-4%	0.2	Same increases as salary apply.
Medical Cost	17.8	0.0	1.2	1.2	4.0% 5.0%	1.2	Medical inflation as per end-2011 actuarial valuation
Other Allowances	3.6	0.3	0.1	0.4		0.4	Various
Total – general service staff	196.2	(2.8)	3.9	1.0	0.5%	1.0	
Personnel services	715.5	5.0	21.0	26.0	3.6%	26.0	
After service benefits	52.6	20.6	-	20.6	39.2%	20.6	End-2011 actuarial valuation and a preliminary estimated increase for end-2012 valuation
<i>Update</i>					-20.6%	(10.8)	
<i>Revised</i>					18.6%	9.8	Update: end-2012 actuarial valuations
Total personnel services	768.1	25.6	21.0	46.6	6.1%	35.7	

	PWB 2014-15 (C 2013/3)					Update	
	Proposed NAP at 2012-13 cost	Biennial zation	Inflation	Total Cost Increases	Annual Inflation for 2014 & 2015	Revised total cost increases	Reference / Source Inflation for 2014 and 2015
	a	b	c	d = b+c	e	f	g
Goods and services							
Consultant	80.9	-	1.2	1.2	1.0% 1.0%	1.2	EIU CPI Italy 1.9% and 2.1% EIU CPI World 3.5% and 3.4%
General Operating Expenses	83.7	-	2.6	2.6	1.5%	2.6	
Contract	57.6	-	1.6	1.6	2.0%	1.6	
Travel	52.6	-	1.5	1.5		1.5	
Non-Expendable Procurement	21.2	-	0.6	0.6		0.6	
Supplies and Materials	5.5	-	0.2	0.2		0.2	
Corporate Income and Cost Recoveries (net)	(54.0)	-	-	-		-	
Total goods and services	247.5	0.0	7.8	7.8	3.2%	7.8	
Grand total	1,015.6	25.6	28.8	54.4	5.4%	43.6	