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Proposed programme budget for 2023

Revised estimates: effect of changes in rates of exchange and inflation

Thirty-ninth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for 2023

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Secretary-General on the revised estimates: effect of changes in rates of exchange and inflation (A/77/632). During its consideration of the report, the Advisory Committee met virtually with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses dated 13 December 2022.

II. Recosting of the proposed programme budget

2. The Advisory Committee recalls that, in the context of the proposed programme budget for 2023, the Secretary-General provides information on the recosting methodology (A/77/6 (Introduction)). For comparability, the proposed programme budget for 2023 is presented at the same price levels and rates of exchange as the programme budget for 2022. The amount for 2023 is also presented after preliminary recosting to provide an indication of the resources for 2023 after adjustments for projected inflation.

3. The Secretary-General indicates that, after taking into consideration the recommendations of the Advisory Committee for the proposed programme budget for 2023, the cumulative effects of the updated rates on the expenditure sections would amount to a total of $91.4 million, or an increase of $22.5 million compared with the preliminary estimate of $68.8 million already included in the proposed programme budget as of May 2022 (A/77/632, summary and table 1). The preliminary estimate only took into consideration projections for inflation.

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4. The Secretary-General indicates that resource requirements were adjusted based on updated projections for inflation, changes in rates of exchange and updated estimates for posts that capture the latest decisions of the International Civil Service Commission (ICSC). The vacancy rates proposed for 2023 were 11 per cent and 10.2 per cent, for Professional and higher and the General Service and related categories, respectively, and remain the same as the rates used for the 2023 programme budget proposals (ibid., summary and paras. 31 and 32).

5. The Secretary-General indicates that, owing to time constraints, the recommendations of the Advisory Committee on revised estimates and statements of programme budget implications are not included in his report. If endorsed, they will be reflected in the final budget level of the programme budget for 2023 approved by the General Assembly. The Secretary-General proposed additional resources for 2023 amounting to $114.9 million, including staff assessment (ibid., summary and paras. 5 and 51–53, and table 13). The Committee recalls that the budgets of special political missions are not subject to recosting (A/76/593, summary and para. 5).

Post resources

6. In his report, the Secretary-General states that the recosting of post resources reflects: (a) updated salary scales for 2023 for the Professional and higher and the General Service categories; (b) projected post adjustment multipliers for 2023; (c) projected common staff costs for 2023; and (d) projected vacancy rates for 2023. The total recosting of post resources amounts to $32.2 million due to increases in salaries ($8.8 million), post adjustment multipliers ($27.2 million) and common staff costs ($12.6 million), offset in part by a decrease due to higher vacancy rates ($16.3 million) (A/77/632, para. 9).

7. In his report, the Secretary-General indicates that the salaries for the 5,067 Professional posts included in the proposed programme budget for 2023 were estimated at $401.2 million when costed at the approved rates for 2022. In the context of the present recosting, salaries for Professional staff were increased by 2.28 per cent, from $401.2 million to $410.3 million, due to the higher salary scales for 2023 announced by ICSC in 2022. Salaries for the Professional category increased by $9.1 million, which was attributed to inflation (ibid., paras. 10–13). The salaries for the 5,055 General Service posts included in the proposed programme budget for 2023 were estimated at $298.6 million. In the context of the preliminary recosting, the salaries of General Service posts were adjusted in line with the updated inflation for 2022 and the projected inflation for 2023, resulting in an increase of $11.5 million, excluding adjustments due to currency fluctuations (ibid., paras. 14–16).

8. As regards recosting due to changes in the post adjustment multiplier, the Secretary-General indicates that the post adjustment multiplier presented in the proposed programme for 2023 before recosting was estimated at $262.0 million. In the context of the preliminary recosting in May 2022, the post adjustment multiplier was adjusted to $295.4 million, representing an increase of $33.4 million. The increase reflects the prevailing post adjustment multiplier and projected inflation for the remainder of 2022 and for 2023. Under the present recosting, the projections for post adjustment multiplier were updated based on the latest post adjustment multiplier promulgated by ICSC in November 2022 and projected inflation for the remainder of 2022 and 2023, and take into account the latest exchange rate of local currencies relative to the United States dollar. As a result of these changes, the estimates for 2023 increased from $262.0 million to $289.2 million, an increase of $27.2 million, mainly due to inflation and a higher post adjustment multiplier in New York (ibid., paras. 18–22 and appendix III).

9. The Secretary-General indicates that, in the context of the proposed programme budget for 2023, common staff costs were estimated at $443.4 million, based on the rates approved for 2022, which included $310.7 million and $132.7 million for Professional and General Service staff, respectively. It is indicated that, in line with the established methodology, the preliminary recosting carried out in May 2022 did not adjust the estimates for common staff costs, since the uneven distribution of common staff costs over the budget period prevents an accurate estimate earlier in the year, as these costs tend to spike from June through September, owing primarily to a higher concentration of expenditures for appointments, home leave and education grants. In the context of the present recosting, common staff costs for 2023 are estimated at $455.9 million, comprising $326.7 million for Professional staff and $129.3 million for General Service staff, representing an increase of $12.6 million (ibid., paras. 26–30 and tables 5–8).

10. Upon enquiry, the Advisory Committee was informed that the methodology for the calculation of common staff costs was applied consistently to all entities with regular budget funding. The Committee was informed that expenditure information relating to common staff costs by duty station would require extensive work to collect and organize the data, including from entities that did not use the Umoja platform, such as the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the Office of the United Nations High Commissioner for Refugees and the International Court of Justice. Upon enquiry, it was further explained that the category of "other" common staff costs included rental subsidy and mobility incentive, education grant, assignment and appointment, hardship-related costs for the Professional and higher categories and other miscellaneous costs for both the Professional and higher and General Service and related categories. The Committee was informed that, following the change in the calculation approach initiated last year, the report included information that compared two years of common staff costs and that more information could be presented in future reports to provide the historical evolution of estimates for common staff costs.

11. **The Advisory Committee is of the view that a greater level of detail is necessary, including a breakdown of the elements included in common staff costs and the impact of the common staff costs by budget section. The Committee trusts that additional information regarding the methodology for the calculation of common staff costs and the historical evolution of estimates for common staff costs and related expenditures will be provided in future reports. The Committee will revert to this matter in the context of the performance report for 2022.**

12. Upon enquiry, the Advisory Committee was informed that, as for other items included in the calculation of common staff costs, separation costs were "backward looking" and based on the actual expenditure incurred in the payments to staff leaving the service of the Organization. The estimates for 2023 were based on actual expenditures incurred in 2022 and did not project departures of staff in 2023. **The Advisory Committee notes the projections of retirement on mandatory separation of service for a significant number of staff in the next 10 years and trusts that further clarity will be provided on the impact of these projections in the calculation of common staff costs.**

13. As regards recosting due to changes in vacancy rates, the Secretary-General notes that, in its resolution 76/245, the General Assembly approved a vacancy rate of 10 per cent and 9.2 per cent for Professional and General Service staff, respectively; and that in the context of the preliminary recosting, the rates were increased by 1 percentage point to 11 per cent and 10.2 per cent, respectively, which are retained as the projected vacancy rates for 2023 (ibid., paras. 33–34). The higher-than-approved vacancy rates contributed to a decrease of $19.1 million, comprising a

decrease of $11.2 million under Professional staff, $5.4 million under General Service staff and $2.5 million under staff assessment. The effects of vacancy rates on post resources are estimated at a decrease of $16.3 million. In addition, the proposed higher vacancy rates contribute to a non-post decrease under other staff costs and staff assessment in the amount of $2.8 million (ibid., paras. 35–36 and table 9).

14. Upon enquiry, the Advisory Committee was informed that, as a result of the hiring freeze imposed by the liquidity crisis, vacancy rates had increased and remained artificially high and had reduced gradually following the relaxation of the freeze. Vacancy rates for Professional staff had decreased from approximately 14 per cent to 12.5 per cent; it was assumed that a similar trend would continue into 2023, and a vacancy rate for the Professional and higher category of 11 per cent was proposed. The Secretariat proposed a vacancy rate of 10.2 per cent for the General Service and related category, as rates had fluctuated between 10 per cent and 10.5 per cent. The Committee was also informed that, considering that vacancy rates were budget tools used to estimate post costs, the vacancy rates proposed were deemed to be the most accurate to project post costs for 2023. The Committee was provided with the vacancy rates for the month of October 2022 and average vacancy rates for the first 10 months of 2022, as reflected in the table below.

Vacancy rates for the month of October 2022 and average vacancy rates as at 31 October 2022

	Vacancy rate by category of staff (percentage)		*Before recosting*				*After recosting*			
Vacancy rate applied	*Professional and higher*	*General Service and related*	*Salaries*	*Post adjustment*	*Common staff costs*	*Total*	*Salaries*	*Post adjustment*	*Common staff costs*	*Total*
Full provision (no vacancy)	–	–	777.9	292.0	492.5	1 562.3	788.0	322.7	508.2	1 618.8
Approved vacancy rate for 2022	10.0	9.2	699.7	262.0	443.4	1 405.1	708.5	289.2	455.9	1 453.6
Vacancy rate for October 2022	12.6	10.6	–	–	–	–	692.8	281.0	443.9	1 417.8
Average vacancy rate for 2022 as at 31 October 2022	12.8	10.0	–	–	–	–	694.2	280.2	444.3	1 418.7
Proposed vacancy rate for 2023	11.0	10.2	–	–	–	–	701.1	285.9	450.3	1 437.3

15. **The Advisory Committee notes the approved vacancy rates for 2022 and the higher vacancy rates used in the recosting exercise. Recalling its observations and recommendations made in the context of its first report on the proposed programme budget for 2023, the Committee considers that budgeted vacancy rates should be realistic and based on the actual vacancy rates experienced during the previous periods. The Committee trusts that detailed explanations will be provided to the General Assembly during its consideration of the present report and included in future budget submissions (A/77/7, para. 51).**

Non-post resources

16. The Secretary-General indicates that non-post provisions are updated on the basis of currency use and related inflation, and that the total under non-post resources subject to this recosting amounts to $757.2 million (excluding special political missions and temporary positions of a continuing nature). In the preliminary recosting for the 2023 proposed programme budget, recosting adjustments for non-post resources were estimated at $40.3 million. The overall increase of $58.6 million reflects mainly the application of an adjustment factor of 8.5 per cent to 81.5 per cent of the non-post provisions, which are consumed in United States dollars. These provisions were adjusted on the basis of inflation only. The 8.5 per cent increase in

United States dollars reflects the combined effect of higher inflation in 2022 (8 per cent estimated in November of 2022 versus 3.2 per cent projected in December of 2021), and the projected inflation for 2023 of 3.7 per cent (A/77/632, paras. 37–40 and appendix I, sect. A).

17. Upon enquiry, the Advisory Committee was informed that the proposed programme budget for 2023 included 159 general temporary assistance positions of a finite duration (or temporary positions of a continuing nature), with an estimated resource requirement of $23 million (before recosting). The Committee recalls that, in its financial report and audited financial statements for the year ended 31 December 2021, the Board of Auditors noted the insufficient disclosure of general temporary positions and indicated that, as at 31 December 2021, there were 1,098 encumbered general temporary assistance and temporary assistance for meetings positions (excluding those in special political missions), which was 11.73 per cent of the total staff under regular budget resources. In addition, there were 57 encumbered general temporary assistance positions under other assessed and 1,209 encumbered general temporary assistance and temporary assistance for meetings positions under extrabudgetary resources (A/77/5 (Vol. I), chap. II, summary and paras. 100–105 and 274). **The Advisory Committee recalls its observations and recommendation that the General Assembly request the Secretary-General to disclose in all future budget submissions all the general temporary assistance positions and trusts that an analysis and recosting based on the actual number of general temporary assistance will be provided in future recosting reports (A/77/574, para. 46).**

18. As regards forward contracts for the purchase of Swiss francs and euros, in November 2022, the Secretariat purchased 277 million Swiss francs using forward contracts at an average rate of 0.9272 Swiss francs for each United States dollar (the previous rate of exchange was 0.9235). Similarly, the Secretariat purchased 109 million euros using forward contracts at an average rate of 0.949 euros for each dollar (the previous rate of exchange was 0.883). The amount of foreign currency purchased took into account the anticipated volume and timing of the need for Swiss francs and euros in 2023. Of the total $58.6 million in non-post recosting, an amount of $64.9 million is attributable to inflation; the stronger United States dollar contributed to a decrease of $6.3 million (A/77/632, paras. 41–43).

19. The report indicates that the recosting of the provisions for travel and energy was subject to a more detailed analysis, as their price changes far exceeded the normal recosting adjustments based on the applicable consumer price index (ibid., paras. 45–48 and table 11). The 2022 baseline for travel costs, which is used as the basis for the projected 2023 inflation, was adjusted by 9.3 per cent, in line with the overall increase in airfares and daily subsistence allowance experienced in 2022 beyond the approved inflation projections. Subsequently, the United States dollar-based projected inflation of 3.7 per cent was applied for 2023 (ibid., paras. 49–50 and table 12).

20. Upon enquiry, the Advisory Committee was informed that the application and selection of the indices of inflation used for recosting were based on established practices and that many of the consumer price index rates from the *Economist* were sourced by the International Monetary Fund (IMF). The Committee was informed that, currently, there was no energy price index available on the *Economist's* website and that the Secretariat had researched alternate data sources and opted to use the energy price index published by the World Bank. Travel, airfare and daily subsistence allowance data was sourced from the United Nations Travel Dashboard, which included data on all air travel processed through Umoja. **The Advisory Committee is of the view that a review of data sources could be considered and notes that the World Bank and IMF publicize information on inflation rates based on an established methodology that may prove useful as sources of data for the**

Secretariat. The Committee trusts that further options will be presented in the Secretary-General's next report for the General Assembly's consideration.

21. Upon enquiry, the Advisory Committee was informed that the provisions for travel had been adjusted by 9.3 per cent, in line with the overall increase in airfares and daily subsistence rates experienced in 2022. Although prices between 2021 and 2022 had increased by just over 20 per cent, prices had not increased between 2019 and 2021. Recosting had added nearly 10 per cent to the existing baseline provisions over the period 2019–2022. The Committee was informed that, instead of increasing by 20 per cent as per the normal calculation approach (i.e., the difference in prices between 2022 and 2021) the Secretariat had added a more modest increase of 9.3 per cent to align travel provisions with prevailing market prices. The Committee was further informed that the amount presented as the recosting adjustment applied to 2022 prices for travel was to be understood as inflation recosting, which would be presented in the context of the performance report for 2022. The Committee was further informed that the expenditures for energy costs in 2023 would be monitored closely through separate commitment items and that detailed guidance to offices would be included in the upcoming budget guide.

22. Upon further enquiry, the Advisory Committee was informed that the approach to adjust travel resources was in line with the standard methodology applied when actual and projected inflation were different. Although the adjustment of inflation for the current period was normally based on the actual consumer price index, in the light of the much higher actual inflation for travel costs than the actual consumer price index, a more tailored approach for travel costs (and energy costs) had been adopted. The Committee was informed that that approach had been similarly applied in 2021, for instance, when provisions for medical costs had been adjusted using a tailored actual and projected inflation, and that such an approach improved the alignment between the projected recosting and the actual impact of recosting parameters, and therefore increased the accuracy of budget estimates.

23. **The Advisory Committee notes the efforts of the Secretariat to isolate and track expenditure classes with higher inflationary dynamics for enhanced accuracy and to provide further information regarding travel and energy costs. The Committee trusts that a more detailed account of the approach used in the calculation of energy requirements, taking into account efforts to improve energy efficiency, and additional information regarding significant variations impacting other budgetary objects of expenditure, including adjustments to the baseline, will be included in future reports. The Committee further trusts that additional clarification regarding the methodology applied to arrive at the adjustment to the 2022 baseline of 9.3 per cent will be provided to the General Assembly at the time of its consideration of the present report.**

24. **The Advisory Committee notes the increased number of tables and information in the report to address the recommendation of the Committee (A/76/7/Add.32, para. 13), as endorsed by the General Assembly in its resolution 76/246, as well as the additional information provided to the Committee. The Committee also recalls its recommendation in its first report on the proposed programme budget for 2023, currently before the General Assembly, that efforts should be made to systematically review the actual impact of recosting compared with the estimated impact (see A/77/7, chap I., para. 25; and A/77/7/Add.18, para. 66). Subject to the Assembly's consideration of the related proposals of the Secretary-General and the recommendations and conclusions of the Committee regarding revised estimates and statements of programme budget implications, the Committee has no objections to the present report on the revised estimates: effect of changes in rates of exchange and inflation for 2023.**