

**LAPSE OF
TIME**

EB/CAM/22/1

April 11, 2022

To: Members of the Committee on Executive Board Administrative Matters

From: Gilles Bauche, Committee Secretary

Subject: **Offices of Executive Directors—Formulation of the FY2023–FY2025 Budget Envelope for the Offices of Executive Directors**

Committee Action: Executive Directors' **consideration** on a lapse of time basis

Deadline to Request a Board Meeting, after which Proposed Decisions Deemed Approved: **Thursday, April 14, 2022
12:00 (noon)**

Proposed Recommendations: Page 7

Questions: Mr. Bauche, SEC (ext. 36764)
Ms. Michaels, SEC (ext. 35451)
Ms. Llames, SEC (ext. 34524)

Additional Distribution: Members of the Executive Board



April 11, 2022

OFFICES OF EXECUTIVE DIRECTORS—FORMULATION OF THE FY2023-FY2025 BUDGET ENVELOPE FOR THE OFFICES OF EXECUTIVE DIRECTORS

EXECUTIVE SUMMARY

This paper presents the FY2023 administrative budget envelope for the Offices of Executive Directors (OED). At its meeting on April 7, 2022, the Committee on Executive Board Administrative Matters (CAM) considered the appropriate relationship between adjustments in the size of the Fund's administrative budget and the OED budget envelope, in view of changes in the Fund's mandate resulting in an augmentation of the administrative budget. Noting that the implications of these new mandates on the workload and resource requirements of the OEDs have yet to be assessed, the Committee has agreed at this time to recommend a budget envelope for FY2023 that is unchanged in real terms, as accumulated buffers remain high and OEDs appear to have adequate resourcing for their operational needs for the coming financial year. In line with the Fund's practice of presenting placeholder assumptions for the two outer years, a baseline of a flat real net administrative budget envelope is also assumed for FY2024 and FY2025. However, the CAM will continue to assess the situation and consider the case for adjusting the size of the OED envelope, and accordingly these assumptions may alter.

Projections indicate that all Offices will have substantial carry forward of unspent resources from FY2022, with at least two thirds of OEDs holding the maximum level of carry forward permitted under the OED budget framework.

In line with standard practice, the proposals for the preliminary allocations for individual Offices and center resources for contingency and OED group expenses shall be presented separately when structural adjustments in personnel costs following decisions by the Executive Board on staff compensation are known.

A proposed recommendation that the OED budget envelope for FY2023 remain unchanged in real terms relative to FY2022 is presented on page 7.

Prepared by Secretary's Department (Elena Michaels and Maria Llames) in consultation with the Office of Budget and Planning (Emre Alper and Cher Huo).

CONTENTS

| | |
|----------------------------------------------------------------------------|----------|
| INTRODUCTION | 3 |
| FY2023 OED BUDGET ENVELOPE | 3 |
| OED CENTRAL BUDGET | 4 |
| PROPOSED FORMULATION OF FY2023 INDIVIDUAL OFFICE BUDGET ALLOCATIONS | 4 |
| TABLE | |
| 1. Offices of Executive Directors: Proposed Budget Envelope, FY2023-FY2025 | 6 |
| APPENDIX | |
| I. Assumptions Underlying the FY2023–FY2025 Budget Envelope | 8 |

INTRODUCTION

1. **A nominal budget envelope of \$80.1 million is proposed for the Offices of Executive Directors (OED) in FY2023 to finance the operational costs of individual Offices and resources for group expenses and the various supplemental facilities held centrally.** Consistent with Fund budget practice, the proposal for FY2023 is presented in a three-year medium-term horizon, indicating the possible future development of the OED budget based on anticipated changes in external prices. For this purpose, projections in this paper assume that the OED budget will remain unchanged in real terms for FY2024 and FY2025. However, it is recognized that significant uncertainties remain about how evolving mandates will impact Fund operations, with possible downstream budgetary impacts. The Committee on Executive Board Administrative Matters (CAM) will continue to carefully monitor developments in spending patterns, identify emerging pressures as the result of evolving mandates, and carefully consider the size of the envelope for FY2024 and a case for changing the Office allocations to effectively support the work of OEDs.

2. **It is projected that all Offices will generate significant surplus in FY2022, with two thirds of the 24 Offices above the maximum level of carry forward permitted under the OED budget framework.** Consistent with past expenditure patterns, many Offices will have greater surplus than the amount they would be eligible to carry forward from FY2022 into FY2023. Under the OED budget framework, the carry forward limit is the greater of 20 percent of the Office's approved budget or the equivalent of the standard cost rate for two REG2 Advisors. Offices may utilize these resources in FY2023 to finance their additional operational needs that may not be fully covered by the budget allocation for the financial year.

FY2023 OED BUDGET ENVELOPE

3. **The proposed budget envelope of \$80.1 million for FY2023 is based on the FY2022 approved budget envelope, adjusted by the Fund's deflator of 4.8 percent (Table 1).** Each Office shall be provided a budget within this envelope that is according to the rules-based OED budget framework.

4. **In line with standard practice, the proposals for the preliminary allocations for individual Offices and center resources for contingency and OED group expenses shall be presented separately when structural adjustments in personnel costs following decisions by the Executive Board on staff compensation are known.** Later in the year, the preliminary personnel standard cost rates for FY2023 will be finalized pending the outcome of the Board of Governor's vote on the remuneration of Executive Directors and Alternate Executive Directors. Accordingly, Office allocations will also be finalized.

OED CENTRAL BUDGET

5. **The allocations for centrally managed resources will be based on the FY2022 approved budget and adjusted by the FY2023 Fund budget deflator.**¹ The level of resources for the central contingency reserve² and group expenses will generally be maintained at the same level as the FY2022 allocation and adjusted by the Fund deflator. While the central contingency reserve remains an important safeguard to provide additional resources to OEDs if needed, it is anticipated to remain untapped in FY2023 given the projected level of carry forward resources that will be held by all Offices in the coming financial year.

6. **As the personnel standard cost rates have not yet been finalized, any proposals for necessary reallocation of OED central resources will be included along with the proposals for the final individual Office allocations later in the year.** If the approved structural adjustments to OED compensation are lower than the GED, the resulting difference in actual prices and the nominal adjustment would be held at the OED center as unallocated surplus to be added as part of the central contingency resources. Conversely, if structural personnel costs increases are larger than the GED, it would be necessary to consider ways to accommodate them within an OED budget that remains flat in real terms, including possible reallocation of part of the OED central resources.

PROPOSED FORMULATION OF FY2023 INDIVIDUAL OFFICE BUDGET ALLOCATIONS

7. **Individual Office budget allocations will be formulated according to the rules-based OED budget framework and within the OED budget envelope for FY2023.** Preliminary budget allocations for individual Offices will be established after the Executive Board's approval of the OED budget envelope and as soon as the preliminary FY2023 personnel standard cost rates become available. Subsequently, individual Office allocations will be adjusted to reflect the final personnel allocations.

8. **Office budget allocations for personnel are based on the normative staffing that corresponds to the current constituency composition and personnel standard cost rates for each personnel category: REG1 (Executive Directors, Alternate Executive Directors, Senior Advisors); REG2 (Advisors); and REG3 (Administrative Assistants).** The standard cost rate for REG1 will be finalized when the outcome of the Board of Governors' vote on the remuneration of Executive Directors and Alternates is known later this year around late July/August.

¹ See *OED Budget Framework—Proposed Streamlining of OED Central Budget Accounts* (EBAP/20/24, 03/06/20).

² The central contingency reserve is the single source of financing for (i) temporary additional personnel during absences of regular Office employees arising from extended leave for exceptional reasons; (ii) temporary workload related to program/nonfinancial arrangements and/or Fragile and Conflicted States; (iii) smoothing or representation of countries between approved staffing norm thresholds; and (iv) Travel in the Interest of the Fund.

9. **Discretionary expenses, including individual Office travel allocations, will be held steady at the FY2022 approved allocations and adjusted by the Fund deflator.** It is expected that travel activity within the Fund will continue to remain limited in FY2023 especially in the first quarter of the financial year due to the broad travel limitations due to the ongoing COVID-19 pandemic. Given the uncertainty about the pattern and extent of staff travel, it is proposed that the travel allocation for individual Offices be held steady at the FY2022 level and adjusted by the Fund's FY2023 budget deflator. Due to lack of viable travel data, the rules-based OED travel allocation methodology³ cannot be applied effectively this year.

10. **Offices will receive a working budget adjustment in FY2023 for eligible surplus resources as carry forward from FY2022.** The Office carry forward will be determined after the financial books have officially closed in May. Any unspent FY2022 resources above the Office carry forward limit and unutilized resources held in the OED center will be made available to the Fund for utilization as transitional resource.⁴

³ The rules-based travel methodology requires the establishment of the pattern of area department travel for Article IV and UFR missions to the member countries for surveillance and use of Fund resources (see *Revision of Methodology for Allocating Travel Budget Resources to Individual Offices of Executive Director, and Provision of Temporary Additional Resources for OED Travel* (EBAM/12/6, 07/11/12)).

⁴ See *OED Budget Framework—Proposed Streamlining of OED Central Budget Accounts* (EBAP/20/24, 03/06/20).

Table 1. Offices of Executive Directors: Proposed Budget Envelope, FY2023-FY2025
(in millions of U.S. dollars, unless otherwise indicated)

| | FY2022 | Proposed | | Indicative | | | |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----|
| | | FY2023 | FY2024 | FY2025 | | | |
| Net administrative budget (FY 22 U.S. dollars) | 1,213.5 | 1,235.3 | 1,266.6 | 1,286.3 | | | |
| <i>Of which: Annual Meetings</i> | | | 6.0 | | | | |
| <i>OED</i> | 76.4 | 76.4 | 78.4 | 1/ | 76.4 | | |
| Net administrative budget (current dollars) | 1,213.5 | 1,294.6 | 1,359.3 | 1,410.8 | | | |
| A. Of which: OED | 76.4 | 80.1 | 84.0 | 1/ | 83.8 | | |
| Projected budget allocations (current dollars) | | | | | | | |
| Group I - Regular Staff | 63.3 | 65.4 | 2/ | 67.4 | 3/ | 69.3 | 3/ |
| Group III - Other Personnel | 2.2 | 2.3 | 2/ | 2.4 | | 2.5 | |
| Group IV - Discretionary | 8.2 | 8.6 | | 10.8 | | 9.0 | |
| <i>of which: Business Travel</i> | 6.7 | 7.0 | | 7.2 | | 7.3 | |
| <i>Annual Meetings</i> | | | | 2.0 | | | |
| Group V - Centrally Managed 4/ | 2.8 | 2.9 | | 3.0 | | 3.1 | |
| <i>of which: Official Contingency</i> | 1.3 | 1.3 | | 1.4 | | 1.4 | |
| Total Groups I-V | 76.6 | 79.3 | | 83.6 | | 83.9 | |
| Group VI - Receipts | -1.4 | -1.4 | | -1.5 | | -1.5 | |
| B. Total - Net Budgeted Expenditures | 75.1 | 77.8 | | 82.2 | | 82.4 | |
| C. [A-B] Unallocated Surplus (+) / Deficit (-) 5/ | 1.3 | 2.3 | | 1.9 | | 1.5 | |
| <i>Memorandum items:</i> | | | | | | | |
| Fund Deflator (percent) | 2.3 | 4.8 | | 2.4 | | 2.2 | |
| Regular Staff (FTEs) | 240.4 | 240.4 | | 240.4 | | 240.4 | |
| Total contingencies (nominal terms) | 2.5 | 2.6 | | | | | |

Source: Office of Budget and Planning.

1/ Includes additional travel allocations for Annual Meetings held overseas.

2/ Group I and III personnel budget formulation based on assumptions in salary increase and in calculating preliminary REG standard costs, pending outcome of the Executive Board's review of staff compensation and the Board of Governor's vote on the remuneration of Executive Directors and Alternate Executive Directors.

3/ FY2024 and FY2025 indicative budget formulation of REG standard costs are based on assumptions in salary increase, including using average of 2020-2022 Jan 12-month Washington-Baltimore CPIs for REG1 indicative standard costs formulation.

4/ Includes estimated the official central contingency, group expenses for all OED offices, the estimated additional allocation for the forfeiture of a portion of compensation by the ED and Alt. ED of the U.S. Office, and the voluntary savings of 0.4 FTE advisor by 9 offices.

5/ Estimated residual surplus/deficit.

Proposed Recommendations

It is proposed that the Committee on Executive Board Administrative Matters recommend the following decisions for adoption by the Executive Board:

Decision 1:

The budget envelope for the Offices of Executive Directors for FY2023 shall remain unchanged in real terms relative to FY2022, and as a placeholder assumption, the budget shall be kept unchanged in real terms for the outer years of FY2024 and FY2025.

Decision 2:

For FY2023, the travel allocation for individual Offices shall be based on the FY2022 approved travel resources and adjusted by the Fund's deflator of 4.8 percent instead of the OED travel allocation methodology due to limited staff travel data for FY2023.

Appendix I. Assumptions Underlying the FY2023–FY2025 Budget Envelope

1. The proposed nominal budget envelope was derived using the Fund’s deflator: 4.8 percent for FY2023; 2.4 percent for FY2024; and 2.2 percent for FY2025.

2. Translating real (FY2022) budget figures into nominal (current dollars) terms using these assumptions results in the figures shown in Line A in Table 1.

3. The main assumptions applied in deriving projected nominal FY2023 budgets for individual line items were as follows (unless otherwise noted, the same approach was used in developing estimates for FY2024 and FY2025):

(i) Personnel expenses were derived by multiplying the current OED staffing norms (in full-time equivalents, or FTEs) by the relevant preliminary standard costs, assuming continued voluntary savings of 0.4 Advisor FTEs by nine Offices. Taking into account the relevant salary increases for each REG group (see below) and changes in benefit mark-ups, the preliminary FY2023 personnel standard costs are estimated as follows: REG1 \$329,500, REG2 \$270,700, and REG3 \$141,600.

(ii) Non-personnel expenses. Travel and other expenses are assumed to increase in line with the GED.

(iii) External receipts to finance specific OED spending are assumed to increase in line with the approved structural increase in staff salaries.