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March 30, 2012

To: Members of the Committee on Executive Board Administrative Matters (Mr. Hockin, Chairman; Mr. Alkholifey, Mr. Chia, Mr. Mac Laughlin, Mr. Majoro, Mr. Nogueira Batista, Mr. Snel, Mr. Temmeyer)

From: Kenneth Meyers, Committee Secretary

Subject: **Formulation of the FY 13–15 Administrative Budget Envelope for the Offices of Executive Directors (OED)**

Attached please find a revised paper on the formulation of the FY 13–15 administrative budget envelope for the offices of Executive Directors (OED), which is being circulated to members of the Committee at the request of the Chairman. The revisions reflect a change in the global deflator from 0.3 percent to 0.6 percent, incorporated in the Fund's overall FY2013-FY2015 medium-term budget (EBAP/12/32, 3/30/12), based on higher than previously projected inflation in the latest World Economic Outlook. Nominal amounts in the paper have been adjusted accordingly. This paper is scheduled for consideration by the Committee on **Tuesday, April 3, 2012**.

Questions may be referred to Mr. Trines (ext. 35639) and Mr. Hatanpaa (ext. 35484) in OBP.

This paper will shortly be posted on the extranet, a secure website for the Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

# Formulation of the FY 13–15 Administrative Budget Envelope for the Offices of Executive Directors (OED)

March 30, 2012

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## I. INTRODUCTION

1. **This paper lays out, for consideration by the Committee on Executive Board Administrative Matters (CAM), a preliminary proposal for the FY 13–15 administrative budget envelope for the Offices of Executive Directors (OED)**. In line with the principles agreed in setting the medium-term budget, proposed resources have been budgeted to provide a level of resources sufficient to enable Executive Directors to meet their operational needs as determined by the policies and decisions that are currently in force or are expected to come into force over the course of the budget period. As set out below, the proposed budget would support the maintenance of a reasonable and stable operational activity of the Offices of Executive Directors.

2. **For FY 13-15, the implementation of governance reforms, including entitlements for Executive Directors representing seven or more members to appoint a second Alternate Executive Director, the prospective move to an all-elected Board of Directors, and the associated consolidation of constituencies is likely to have a significant, although difficult to quantify, impact on resource requirements**.[1] Similarly, possible changes arising from the review of the OED employment framework, which will be brought to completion in the period ahead, could have some cost implications. The aggregate carry forward for the OED, which is projected to exceed the maximum 20 percent limit in FY 12 for the second consecutive year, will initially play an important role in addressing these uncertainties.[2] Within the proposed budget envelope, unallocated funds remain in the OED center.

## II. PROPOSED OED FY 13–15 MEDIUM-TERM ADMINISTRATIVE BUDGET

3. **The maintenance of a stable budget envelope for FY 13, relative to FY 12, excluding some technical and temporary adjustments, would meet the objectives set out in the agreed budgeting principles**. As discussed below, the structural envelope seems adequate for the time being, i.e., at least until the impact of the 2010 governance reforms can be assessed. Keeping the OED envelope unchanged in real terms would also be consistent with the proposal—broadly endorsed by the Committee of the Budget—to keep the overall Fund budget unchanged in real terms.[3] Only two adjustments to the envelope would be

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[1] For a description of the agreed changes related to the prospective governance reforms, see *Proposals for Amendments to the Expenditure Framework for the Offices of Executive Directors* (EBAM/11/19, 8/25/11, and Cor. 1, 1/9/11).

[2] For FY 12, the maximum allowed aggregate carry forward for OED is $13.0 million, i.e., 20 percent of the approved net administrative budget of $65.2 million.

[3] See *Initial Proposals for the FY2013-FY2015 Medium-Term Budget and Income and Expense Outlook* (EB/CB/12/1, 1/27/12), discussed by the Committee on the Budget on February 16, 2012.

envisaged at this stage. First, it is proposed that a $0.16 million technical adjustment to cover expenditures arising from the devolvement of printing budget to OED be incorporated.[4] Second, a supplemental allocation would be made to accommodate OED travel to the Annual Meetings to be held in Tokyo.[5]

4. **The OED structural budget envelope needs to be sufficient to accommodate allocations prescribed under the OED expenditure framework**. Specifically, the real structural budget envelope can be deemed sufficient if the projected nominal budget envelope derived using the Fund's Global External Deflator (GED) exceeds or is equal to the sum of the projected budget allocations derived under the rules-based OED expenditure framework, including allocations resulting from the prospective governance reforms.

5. **Preliminary projections shown in Table 1 suggest that** (for detailed assumptions, see Appendix I):

- **In FY 13, the proposed budget envelope would be sufficient to accommodate all projected budget expenditures.** The proposed OED FY 13 nominal budget envelope (Table 1, Line A) exceeds the projected FY 13 administrative budget allocations based on the current staffing entitlements (Table 1, Line B) by about $1.9 million (Table 1, Line C). This projected unallocated structural surplus is larger than the estimated (half a year) cost of the governance reforms under the high cost scenario that was discussed in the context of the amended OED expenditure framework (Table 1, Line D and footnote 5 in that table), resulting in a residual unallocated balance of some $0.7 million.[6,7,8]

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[4] TGS devolved the printing budget (printer usage and cost of paper and toner) to departments in FY 12. It is proposed that starting from FY 13, printing budgets will also be devolved to OED. Reflecting this, the budget envelope would be increased by about $160,000 to cover these expenditures. At least initially, the printing budget would be retained in the OED center, while reports on usage by office would be made available. In due course, the budget could be devolved to individual offices.

[5] An amount of $1.9 million has been included to provide for the direct costs of travel of the members of the Executive Board to Tokyo.

[6] See EBAM/11/19. The high cost scenario assumed that following the 2012 regular election 14 offices would have additional Alternate Executive Directors and 5 FTEs would be added due to the smoothing of the staffing norms for larger offices.

[7] The prospective adjustment in the FY 13 REG1 standard costs is based on the latest available 12-month change in the Washington-Baltimore CPI as of end-January 2012 (2.7 percent). If the salary increases for REG1 positions were to exceed this percentage, the FY 13 structural surplus would be smaller than projected in Table 1, while a lower than assumed salary increase would result in a larger than projected structural surplus.

[8] When amendments to the OED Expenditure Framework were considered in the fall of 2011, it was assumed that, following the completion of the 2012 Regular Election of Executive Directors, the increased costs of an

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- **From FY 14 onwards, the budget envelope might become insufficient to accommodate the costs arising from the governance reforms.** While the envelope would remain ample under the existing staffing entitlements, a structural deficit of about $0.5 million would emerge from FY 14 onwards (when the full-year impact of the reforms are expected to be felt) if the high cost scenario came to pass.

- **The exact cost implications of the governance reforms cannot be quantified with precision at this stage.** The size and composition of the individual offices, and consequently their budget allocations, will only be clear after mid-FY 13, i.e., following the 2012 Regular Election of Executive Directors. Considering the uncertainty surrounding the cost of reforms, it is proposed that, as a placeholder, the FY 14–15 administrative budget envelope will be kept unchanged in real terms relative to the FY 13 budget for the time being and the need to increase the budget envelope will be reassessed once there is more clarity about the cost of the governance reforms when the FY 14 budget will be formulated or earlier if warranted.

## III. TEMPORARY NEEDS

6. **The amended expenditure framework earmarked resources to meet temporary crisis-related personnel needs**. In recognition of resource constraints facing many offices, the Executive Board has agreed that temporary resources up to $3 million per year in FY 12 and FY 13 would be budgeted to address exceptional work pressures in offices most affected by the global financial crisis (see Appendix II in EBAM/11/19). In FY 12, requests for access to such temporary resources amounted to slightly over $0.5 million. Preliminary projections of the FY 12 outturn suggest that the central OED carry forward remains sufficient to finance requests for temporary resources up to the agreed $3 million limit.

7. **In light of concerns expressed in recent CAM discussions, part of the temporary resources earmarked for personnel could be repurposed to address crisis-related pressures on the travel budget**. Based on the experience in FY 12 it seems likely that a significant portion of temporary resources earmarked to additional personnel will remain unused in FY 13. At the same time, in the CAM's discussions on the travel allocation methodology, several Directors have indicated that the level of resources dedicated to travel in the OED budget is inadequate, given the elevated travel needs associated with the global

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additional Alternate Executive Director (AED) for the two sub-Saharan constituencies would be fully funded through an increase in the OED budget envelope. However, the projected unallocated structural surplus for FY 13 has subsequently increased (mainly due to lower than anticipated standards costs, see Appendix I) and it seems likely that these two additional AED positions can be fully funded in the latter half of FY 13, without an increase in the overall OED budget envelope and without displacing other OED spending needs. At the time when these additional costs cannot be accommodated within the existing resource envelope, additional resources will be provided.

financial crisis, which in some cases also involves increased G-20 related travel. Against this backdrop, consideration could be given to augmenting each office's travel budget allocation from the temporary resources previously earmarked for additional personnel needs. The exact modalities for allocating such additional resources could be further explored in the next discussion of the CAM on the travel budgets for Offices.

## IV. Other

8. **It is proposed that the personnel budgeting for OED will continue to be based on standard costs by grade groups, i.e., REGs**. Personnel budgeting for Fund departments shifted from using grade groups (B1–B5, A9–A15, and A1–A8) to standard costs by grade with the FY 11 budget. Under this methodology, departments are charged for staff based on the actual FTE usage by grade-specific standards costs. This change in accounting/pricing of resources was aimed at better reflecting actual resource consumption. Another reason for the move to budgeting by grade was to allow better costing of activities under the new Analytic Costing and Estimation System (ACES). It is proposed that OED personnel budgeting will continue to be based on REGs, at least for the time being:

- The relatively small size of the Offices combined with constraints arising from the OED staffing norms, and the external nature of the OED recruitment process (where selection of candidates often rests with capitals) reduces Offices ability to adjust the actual grade of their staffing mix. Therefore, more granular pricing of different personnel resources would offer relatively little benefits to OED.

- Unlike staff departments, OED do not report time using TRACES (i.e., Time Reporting to ACES) and consequently their resource usage cannot be assessed in ACES.

- Shifting to budgeting by grade would impact individual offices differently depending on their actual staffing positions relative to the established norms, and the number of Senior Advisors (and after the next regular election AEDs) that they are entitled to appoint under the OED staffing norms. Against this background, it would be difficult to determine the exact grade distribution that should be used in developing OED personnel budgets.

## V. Issues for Discussion

- *Do Directors agree with the proposal to keep the budget envelope unchanged in real terms (excluding the adjustments for Annual Meetings travel and devolution of printing expenses) for FY 13?*

- Is this level of resourcing deemed sufficient to meet projected levels of activity, including increased activity arising from the financial crisis, and the impacts of the governance reforms?

- Do they agree that anticipated resource stress can be adequately accommodated through the projected OED budget surplus and carry forward resources, including the possibility of using some of the expected central carry forward from FY 12 to finance additional temporary travel allocations in FY 13?

- *Do Directors agree that the size of the OED budget envelope should be reassessed when the FY 14 budget will be formulated and there is more clarity about the cost of the governance reforms (i.e., in advance of the existing agreement to review the full OED expenditure framework as part of the FY 15 budgeting process).*

**Table 1. Offices of Executive Directors: FY 12-15**
(In millions of U.S. dollars, unless otherwise indicated)

| | FY 12 | FY 13 1/ | FY 14 | FY 15 |
|---|---|---|---|---|
| **MTB Envelopes in Real Terms** | | (in FY 12 dollars) | | |
| IMF total | 985.0 | 991.2 | 985.0 | 985.0 |
| *Of which: OED* | *65.2* | *67.2* | *65.3* | *65.3* |
| **MTB Envelopes in Nominal Terms** | | (in current dollars) | | |
| IMF total | 985.0 | 997.5 | 996.7 | 1,002.1 |
| **A**. *Of which: OED* | *65.2* | *67.6* | *66.1* | *66.4* |
| Global External Deflator (percent) 2/ | | *0.6* | *0.6* | *0.5* |
| **Projected budget allocations** | | | | |
| *Regular Staff, Total FTEs 3/* | *236.2* | *236.2* | *236.2* | *236.2* |
| Group I - Regular Staff | 56.1 | 55.4 | 55.7 | 55.8 |
| Group III - Other Personnel | 1.8 | 1.8 | 1.8 | 1.8 |
| Group IV - Discretionary | 6.3 | 8.3 | 6.5 | 6.7 |
| *Of which : Business Travel* | *5.1* | *5.2* | *5.3* | *5.4* |
| *Annual Meetings* | | *1.9* | | |
| Group V - Centrally Managed 4/ | 1.2 | 1.4 | 1.4 | 1.4 |
| Total Groups I-V | 65.4 | 66.8 | 65.4 | 65.7 |
| Group VI-Receipts | (1.2) | (1.2) | (1.2) | (1.2) |
| **B. Total - Net Budgeted Expenditures** | **64.2** | **65.7** | **64.3** | **64.6** |
| **C. [A-B] Unallocated Surplus (+), Deficit (-) 5/** | **1.0** | **1.9** | **1.8** | **1.9** |
| **D. Est. Annual Cost of Governance Reforms 6/** | **-** | **1.2** | **2.4** | **2.3** |
| **E. [C-D] Balance After Estimated Reform Costs** | **1.0** | **0.7** | **(0.5)** | **(0.4)** |
| Memorandum item: | | | | |
| *Est. Central Carry Forward from the Prev. Year 7/* | >3.0 | | | |

Source: Office of Budget and Planning,

1/ Includes estimated cost of the 2012 Annual Meetings in Tokyo, Japan ($6.25 million). The estimated amount for OED is calculated assuming that OED's share of the total would be the same as in FY 10.

2/ For preliminary technical assumptions underlying the GED projections for FY 14 and FY 15, see Appendix I.

3/ Excluding additional staff financed from temporary resources. Excluding the impact of the governance reforms. Assumes that discretionary reduction in financing by equivalent of 0.4 FTE Advisors by 12 Executive Directors representing offices is maintained for the time being. It is recognized that these voluntary commitments may need to be reassessed in light of the outcome of the governance reform.

4/ Excluding the unallocated structural surplus, taking into account the estimated additional allocation for the forfeiture of a portion of compensation by the ED and AED to OEDUA.

5/ Excludes the official contingency of one percent of the net administrative budget.

6/ Based on High Cost Scenario presented in Table 2 of Proposals for "Amendments to the Expenditure Framework for the Offices of Executive Directors" (EBAM/11/19, 8/25/11). Assumes that following the 2012 election there will be 14 additional Alternate Executive Directors (of which 12 would be offset against Senior Advisor positions), 3 Additional Senior Advisors, and 2 additional Advisors compared with the current situation. For more details, see Appendix I.

7/ Preliminary projections for FY 12 budget outturn suggest that the central OED carry forward will be sufficient to finance requests for temporary resources up to the agreed $3 million limit.

## APPENDIX I. ASSUMPTIONS UNDERLYING THE PROJECTIONS

9. **The proposed nominal budget envelope was derived using the Fund's Global External Deflator (GED)**. The GED for FY 13 reflects the Executive Board decision that there will be no structure increase in Fund salaries on May 1, 2012, and April WEO projections for the U.S. CPI (2.0 percent). For FY 14 and FY 15, the projected GED is based on the following preliminary technical assumptions: (i) no change in the personnel component,[9] and (ii) the non-personnel component in line with the U.S. CPI in the latest WEO (1.8 percent for FY 14 and FY 15). Translating real budget figures into nominal (current dollars) terms using these assumptions results in the figures shown on Line A in Table 1.

10. **The cost increases for individual line items in the OED budget (summarized on Line B in Table 1) differ from the GED**. For instance, the share of personnel vs. non-personnel costs in OED is higher than for the Fund as a whole and the deflators used adjusting salaries differ between OED and the Fund (see below). Also, preliminary data suggest that, owing to a decline in the required benefit mark up, the standard costs for the FY 13 will increase considerably less than the GED, which contributes to a larger than anticipated unallocated structural surplus.[10]

11. **The main assumptions applied in deriving projected nominal FY 13 expenditures for OED were as follows** (unless otherwise note, the same approach was used in developing estimates for FY 14 and FY 15):

- **Personnel expenses** were derived by multiplying the current OED staffing norms (in FTEs) by the relevant standard costs, taking into account continued voluntary savings by twelve Offices.[11] Budgeted salary costs are assumed to rise as follows:[12] [13]

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[9] Established practice, in the absence of projections for the salary index, is to use the salary increase adopted for the current year as a placeholder for the outer two years of the MTB, without prejudicing future salary discussions. The resulting hypothetical FY 14 and FY 15 envelopes will be updated in the context of future budget discussions, reflecting the actual salary increases in the relevant years.

[10] Benefit expenditures relative to the salary costs in FY 12 are projected to be lower than assumed when the FY 12 standard costs were formulated, reflecting, *inter alia*, savings from the changes adopted in Staff Retirement Plan (SRP) grossing up formulas. Also, the average actual salary for REG 3 in FY 12, which is used as a basis for developing the FY 13 standard costs, is projected to be lower than assumed earlier, reflecting turnover effects (i.e., higher than average paid assistants leaving and new ones being hired at below-average salaries).

[11] As part of the FY 09–11 restructuring efforts 12 offices (AU, BE, CO, FF, GR, IT, JA, NE, NO, SZ, UA, and UK) agreed to renounce 0.4 Advisor FTEs to which they would have been entitled. Directors representing these offices have agreed for now to continue these voluntary savings. (See EBAM/11/19, 8/25/11, and Cor. 1, 1/9/11). The projections assume that these savings would be maintained throughout the MTB period. It is

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- For REG1 personnel (Executive Directors, Alternate Executive Directors, and Senior Advisors) by 2.7 percent, corresponding to the latest available (end-January 2012) 12-month change in the Baltimore-Washington CPI. (It is expected that the final REG 1 standard cost would be determined after the Board of Governors has determined the FY 13 remuneration of Executive Directors and their Alternates).[14]

- For REG2 personnel (Advisors), no change in salaries, consistent with no structural increase in staff salaries (i.e., no change in the personnel component of the GED).

- For REG3 personnel (Administrative and Staff Assistants) salaries are assumed to increase 0.5 percent, consistent with no structural increase in staff salaries, plus an allowance of 0.5 percent to reflect merit increases and possible promotions of OED REG3 staff.[15]

On this basis, and taking into account the changes in the benefit mark-ups, the preliminary FY 13 standard costs are as follows: REG1: $300,300, REG2: $208,900, and REG3: $123,000.

- **Non-personnel expenses**: Travel and other expenses are assumed to increase in line with the non-personnel component of the GED (2.0 percent), which is based on the April 2012 WEO projection for the U.S. CPI. (The counterpart to revenues in Group III is assumed to increase in line with the personnel component of the GED, see below.)

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recognized that these voluntary commitments may need to be reassessed in light of the outcome of the governance reform.

[12] For the outer years, i.e., FY 14-15 it was assumed that REG1 and REG salaries would not change, consistent with the preliminary technical assumption used for the personnel component of the GED, while the REG3 salaries were assume to evolve slightly faster, i.e., the personnel component of the GED plus 0.5 percent.

[13] No allowance is made at this stage for the costs that may arise as a result of the review of the OED employment framework,

[14] In recent years, the *Standing Joint Committee on the Remuneration of Executive Directors and their Alternates (JCR)* recommended increases (approved by the Board of Governors) in the salaries of Executive Directors and their Alternates have been based on the 12-month change in the Washington-Baltimore CPI at end-May. The salary adjustment for Senior Advisors traditionally has followed those of Executive Directors.

[15] For staff, merit increases are budget neutral, reflecting the mid-point control. No such control exists for OED REG 3 personnel. If the actual cost of REG 3 merit increases and promotions will fall short of the 0.5 percent allowance included in the standard cost, it will be reflected in the outturn numbers that will form the basis of formulating the following year's standard cost.

- **External receipts** to finance specific OEDs spending are assumed to remain unchanged in nominal terms, in line with the personnel component of the GED.

- **Assumptions regarding the prospective governance reforms** (high cost scenario) were as follows:[16] (i) staffing changes would become effective on November 1, 2012; (ii) the smoothing of the staffing norms would result in 3 additional Senior Advisor positions and two additional Advisor positions compared with the current situation following the 2012 election;[17] and (iii) twelve constituencies (in addition to the two African constituencies) would be eligible for a second Alternate ED. With the exception of OEDAE and OEDAF, additional Alternate ED positions would be offset against one less Senior Advisor. As a result, total FTEs after the reforms would be 243.2, if the voluntary savings described in (iii) above were maintained, and 248 FTEs if the voluntary savings were unwound.

[16] Actual costs will depend on post-2012 constituency composition. For more details, see EBAM/11/19.

[17] The smoothing of the staffing norms became effective retroactive to May 1, 2011, but this has not yet had any impact on the actual staffing entitlements of OEDs.