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To: Members of the Committee on Executive Board Administrative Matters

From: Gilles Bauche, Committee Secretary

Subject: **Offices of Executive Directors—Formulation of the FY2021–FY2023 Budget Envelope for the Offices of Executive Directors**

Committee Action:	Committee Members' consideration on a lapse of time basis
Deadline to Request a Committee Meeting, after which Proposed Recommendation Deemed Approved:	Tuesday, June 16, 2020 5:30 p.m.
Proposed Recommendation:	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



June 8, 2020

OFFICES OF EXECUTIVE DIRECTORS—FORMULATION OF THE FY2021–FY2023 BUDGET ENVELOPE FOR THE OFFICES OF EXECUTIVE DIRECTORS

EXECUTIVE SUMMARY

This paper presents the FY2021–FY2023 administrative budget envelope for the Offices of Executive Directors (OED) based on the medium-term budget that the Executive Board has approved on April 27, 2020 (EBAP/20/30, 03/24/20, and EBAP/20/30, Supplement 1, 04/21/20). A baseline of a flat real net administrative budget is assumed for FY2022 and FY2023. The net budgetary impact of the change in Fund priorities and intensified work demands on the Fund’s administrative budget as a result of the COVID-19 pandemic will continue to be monitored. For the time being, the proposed FY2021 OED budget is assumed to be sufficient to meet the projected operational costs and including taking into account the significant Office carry forward resources held by most individual Offices which can be deployed flexibly to meet additional needs. Furthermore, it is expected that travel spending in FY2021 will remain very limited given the travel limitations due to the pandemic.

The proposed FY2021 budget envelope is based on a reduced FY2020 budget in line with the streamlined OED budget framework (EBAP/20/24, 03/06/20) that is adjusted by the Fund’s Global External Deflator. The FY2020 envelope was reduced by \$2.4 million equivalent to the residual amount within the unallocated structural surplus after rebuilding the central contingency resources. This amount was released to the Fund’s general budget for reallocation to other priorities.

Proposals for the FY2021 interim budget allocation for individual OEDs will be presented in the coming weeks to the Committee on Executive Board Administrative Matters for its consideration and thereafter to the Executive Board for its approval. The final budget allocations will be proposed later in the year after the outcome of the Board of Governor’s vote on the remuneration of Executive Directors and Alternates is known.

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CONTENTS

INTRODUCTION	3
FY2021 OED BUDGET ENVELOPE	3
OED CENTRAL BUDGET	4
PROPOSED FORMULATION OF FY2021 INDIVIDUAL OFFICE BUDGET ALLOCATIONS	4
TABLE	
1. Offices of Executive Directors: Proposed Budget Envelope, FY2021-FY2023	6
APPENDIX	
I. Assumptions Underlying the FY2021–FY2023 Budget Envelope	8

INTRODUCTION

1. **A nominal budget envelope of \$74.7 million is proposed for the Offices of Executive Director (OED) in FY2021.**¹ In line with the revised OED budget framework, the FY2020 envelope was reduced by \$2.4 million equivalent to the residual amount within the unallocated structural surplus after rebuilding the central contingency resources.² A flat real net administrative budget is assumed at this time as baseline for FY2022 and FY2023. Set amid the ongoing coronavirus (Covid-19) pandemic and the global recession that has quickly unfolded, the proposed medium-term budget excludes any assumptions on the budgetary impact of the crisis on OED operations which remain uncertain.
2. **The proposed FY2021 OED budget is assumed to be sufficient to meet the projected operational costs of Offices and finance centrally managed accounts under the OED budget framework.** The OED central contingency reserve of \$1.25 million in FY2021 is expected to be sufficient to finance various supplemental facilities.
3. **Based on preliminary estimates and consistent with past expenditure patterns, it is projected that Offices will continue to generate a significant surplus greater than the amount they would be eligible to carry forward from FY2020 into FY2021.** Consistent with the OED budget streamlining decisions taken earlier this year, any unutilized individual OED budget allocations above the threshold Offices may hold as individual carryforward will be made available to the Fund's general budget account.

FY2021 OED BUDGET ENVELOPE

4. **The proposed nominal budget envelope of \$74.7 million (see Table 1) for FY2021 is based on a reduced FY2020 budget envelope that is adjusted by the Fund's Global External Deflator (GED) of 2.4 percent.**³ In line with the revised OED budget framework, the FY2020 envelope was reduced by \$2.4 million equivalent to the residual amount within the unallocated structural surplus after rebuilding the central contingency resources.
5. **For FY2021, the OED budget is assumed to be sufficient to meet the projected operational costs of Offices based on personnel allocations that correspond to the current constituency composition and non-personnel allocations under the agreed rules-based OED budget framework (see Appendix I for detailed assumptions).** The proposed budget envelope reflects personnel resource allocations based on preliminary standard cost rates for REG1 personnel

¹ See *FY2021-FY2023 Medium-Term Budget* (EBAP/20/30, 03/24/20) and *FY2021-FY2023 Medium-term Budget—Supplementary Information and Revised Proposed Decisions* (EBAP/20/30, Supplement 1, 04/21/20).

² See *OED Budget Framework—Proposed Streamlining of OED Central Budget Accounts* (EBAP/20/24, 03/06/20).

³ Effective FY2021, the Fund's GED will equal the projected U.S. CPI inflation as published in the most recent World Economic Outlook.

(Executive Directors, Alternate Executive Directors, and Senior Advisors). The standard cost rate for REG1 will be recalculated 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.

OED CENTRAL BUDGET

6. **Based on the revised OED budget framework, OED group expenses and centrally managed resources for various supplemental facilities shall be financed solely from the OED structural budget.** The OED central carry forward has been discontinued.⁴ Resources for 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 shall be drawn from the central contingency reserve. For FY2021, the allocation shall be set at \$1.25 million and thereafter to be adjusted annually in line with the GED.⁵

7. **As envisaged in the approved streamlining of OED central budget accounts, a surplus may likely regenerate as a result of differences between the nominal increase in the budget and the projected actual rise of costs due to a variety of factors including difference in the standard cost rates for personnel.**⁶ Any residual balance after financing the OED central budget shall be added to OED's surplus (it is expected that this amount will be small, perhaps in the region of \$10,000). In future years, the accumulation of residual resources shall be assessed by the Committee on Executive Board Administrative Matters including its appropriate treatment.

PROPOSED FORMULATION OF FY2021 INDIVIDUAL OFFICE BUDGET ALLOCATIONS

8. **Upon the Executive Board's approval of the budget envelope, and following past practice, an interim budget for individual Offices will be formulated on the basis of the FY2020 allocations adjusted by the deflator except for personnel allocations.** Following the OED budget framework, budget allocations for personnel will reflect the approved staffing budget norms for each Office adjusted by the personnel standard cost rate for each category of position: REG1 (Executive Directors, Alternate Executive Directors, Senior Advisors); REG2 (Advisors); and REG3 (Administrative Assistants). For the interim budget allocations, a preliminary standard cost rate for REG1 will be applied. The final standard cost rate for REG1 will be determined based on the final decision by the Board of Governors on the remuneration of Executive Directors and Alternate

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

⁵ The level of resources is expected to be sufficient to also finance the additional staffing resources should Andorra's entry into the Fund's membership take place within FY2021.

⁶ The level of structural surplus will depend on the final salary increase for REG1. A lower salary increase percentage than the assumed salary increase (preliminary) would result in a larger projected surplus and conversely if the final salary increase exceeds the assumed salary increase, the structural surplus would be smaller than projected.

Executive Directors. Upon the finalization of the REG1 standard cost rate, the final budget allocations that reflect the adjusted personnel allocations will be presented to the Executive Board for its approval. The personnel standard cost rate for REG2 and REG3 is already final and therefore shall be applied unchanged in setting both the interim and final personnel allocations.

9. **To provide Offices certainty about their travel resources, it is proposed that the travel budget allocations for all OEDs in FY2021 be held steady at the FY2020 level adjusted by the deflator for the full year.** Under the OED budget framework, the travel budget allocations for the OEDs are calculated after the first quarter of the financial year. Travel budgets are allocated to individual OEDs on the basis of an approved methodology that reflects the pattern of area department travel for Article IV and UFR missions to the member countries for surveillance and use of Fund resources.

10. **During the pandemic, there is continuing uncertainty about the timing and modalities for resuming official travel for Fund surveillance and program discussions.** The approved OED travel budget allocation methodology cannot be applied this year due to the absence of staff travel projections as at end-July. It is expected that travel spending within the Fund will remain very limited at least through the first quarter (Q1) of FY2021, and possibly beyond, and this critical benchmark would not be a reliable anchor for the pattern of OED travel.

11. **The suspension of Fund missions in early March has resulted in significant underspending on travel in FY2020 by Fund staff departments and OEDs alike.** For OEDs, the individual carry forward limit remains the higher of 20 percent of its approved budget or the dollar equivalent of the standard cost of two REG2 Advisors. OEDs will be able to carry forward travel savings from FY2020 within this limit, and may redeploy them as needed to other priorities. Carry forward for Fund departments, including all but a small percentage of department FY2021 travel budgets, are being held in the center and made available to help meet immediate crisis-related needs.

12. **The budgetary impact of the ongoing COVID-19 pandemic will continue to be closely monitored within the institution.**⁷ As discussed in the supplement to the FY2021-FY2023 medium-term budget, a full review of requirements will be undertaken in the coming months, and staff anticipate returning to the Board with a specific proposal for more sustained exceptional crisis funding in the fall, taking into account the degree to which needs can be met through internal reallocations. As this work continues in the institution, staff will continue to carefully monitor developments in OED spending patterns to identify any emerging pressures.

⁷ See *FY2021-FY2023 Medium-term Budget—Supplementary Information and Revised Proposed Decisions* (EBAP/20/30, Supplement 1, 04/21/20).

Table 1. Offices of Executive Directors: Proposed Budget Envelope, FY2021-FY2023
(in millions of U.S. dollars, unless otherwise indicated)

	FY 20	Proposed		Indicative	
		FY 21	FY 22	FY 23	
Net administrative budget (FY 20 U.S. dollars)	1,158.4	1,158.4	1,164.4	1,158.4	
<i>Of which: Annual Meetings</i>			6.0		
OED	75.3	73.0 1/	75.0 2/	73.0	
Net administrative budget (current dollars)	1,158.4	1,186.2	1,220.9	1,242.6	
A. Of which: OED	75.3	74.7	78.6 2/	78.3	
Projected budget allocations (current dollars)					
Group I - Regular Staff	61.7	63.2	64.4	65.7	
Group III - Other Personnel	2.1	2.2	2.2	2.3	
Group IV - Discretionary	7.6	8.0	10.2	8.4	
<i>of which: Business Travel</i>	6.2	6.5	6.7	6.9	
Annual Meetings			2.0		
Group V - Centrally Managed 3/	2.0	2.8	2.8	2.9	
<i>of which: Official Contingency</i>	0.5	1.3	1.3	1.3	
Total Groups I-V	73.3	76.1	79.7	79.2	
Group VI - Receipts	-1.4	-1.4	-1.4	-1.5	
B. Total - Net Budgeted Expenditures	72.0	74.7	78.3	77.8	
C. [A-B] Unallocated Surplus (+) / Deficit (-) 4/	3.4	0.0	0.3	0.5	
<i>Memorandum items:</i>					
Carry Forward Limit from Previous Year	14.8	15.1 5/			
<i>of which: Central Carry Forward</i>	4.7	6/			
Global External Deflator (percent)	2.6	2.4	2.4	2.3	
Regular Staff (FTEs) 7/	238.4	238.4	238.4	238.4	
Total contingencies (nominal terms)	5.1	2.5			

Source: Office of Budget and Planning.

1/ Reflects a reduction of \$2.4 million in streamlining measures from OED to the Fund's general administrative budget (EBAP/20/24).

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

3/ Includes 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.

4/ Residual surplus/deficit.

5/ Maximum amount that can be carried forward from FY 20 to FY 21.

6/ Per streamlining measures adopted in FY 20, central carry forward will be discontinued in FY 21 and made available to the Fund's general budget in future years.

7/ Assumes changes in staffing profiles following the 2018 Board election constituency changes as well as that the reduction in financing by the equivalent of 0.4 FTE Advisors will be maintained by 9 offices for the time being.

Proposed Recommendation

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

For FY2021, \$1.25 million shall be allocated for the central contingency reserve within the \$74.7 million budget envelope.

For FY2021, the travel allocation for individual Offices shall be based on the FY2020 approved travel resources and adjusted by the Fund's Global External Deflator of 2.4 percent. Due to the exceptional circumstances of broad travel limitations related to the COVID-19 pandemic, the OED travel allocation methodology will not be used for FY2021.

Appendix I. Assumptions Underlying the FY2021–FY2023 Budget Envelope

1. The proposed nominal budget envelope was derived using the Fund’s Global External Deflator (GED).¹ The GED is 2.4 percent for FY2021, 2.4 percent for FY2022, and 2.3 percent for FY2023.
2. Translating real (FY2020) 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 FY2021 budgets for individual line items were as follows (unless otherwise noted, the same approach was used in developing estimates for FY2022 and FY2023):

(i) **Personnel expenses** were derived by multiplying the current OED staffing norms (in full-time equivalents, or FTEs) by the relevant standard costs, assuming continued voluntary savings of 0.4 Advisor FTEs by nine Offices:

- 1) Taking into account the relevant salary increases for each REG group (see below) and changes in benefit mark-ups, the **preliminary FY2021 personnel standard costs** are estimated as follows: REG1 \$326,100, REG2 \$252,900, and REG3 \$142,000.
- 2) **Preliminary salary increases are as follows:**
 - a) **For REG1 personnel** (Executive Directors, Alternate Executive Directors, and Senior Advisors), 1.6 percent based on the January 12-month change Washington-Baltimore CPI inflation.² It is expected that the final REG1 standard cost would be determined after the Board of Governors has determined the FY2021 remuneration of Executive Directors and their Alternates. Salary adjustments for Senior Advisors have traditionally followed those of Alternate Executive Directors.

¹Effective FY2021, the Fund’s GED will equal the projected U.S. CPI inflation as published in the most recent World Economic Outlook.

² To be revised, as needed, once the May 12-month change Washington-Baltimore CPI is available and approved by the Board of Governors in the context of REG1 staff remuneration.

- b) **For REG2 personnel** (Advisors), 2.7 percent, consistent with the approved structural increase in Fund staff salaries.
 - c) **For REG3 personnel** (Administrative Assistants), by 2.7 percent consistent with the approved structural increase in staff salaries.³
- 3) Contractual expenses and corresponding revenues in Group III are assumed to increase in line with the 3.6 percent approved single salary increase for Fund contractual employees.

(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.

³ See *2020 Review of Staff Compensation* (EBAP/20/28).