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## Subsidiary Body for Implementation

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Item 18(b) of the provisional agenda

**Administrative, financial and institutional matters**

**Other financial and budgetary matters**

## **Budgetary implications of UNFCCC mandates: standard costs**

**Note by the Executive Secretary**

### *Summary*

This report responds to a request from COP 24 to prepare, regularly update and publish before each session of the subsidiary bodies brief reports on standard costs and, if available, options for reducing the cost of activities where practicable. As this is the first report in response to this request, it includes an overview of standard costing practices in other parts of the United Nations system, as well as some options for different approaches to preparing and using standard costs for supporting decision-making in relation to new UNFCCC mandates under consideration by the governing or subsidiary bodies.

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## Contents

	<i>Paragraphs</i>	<i>Page</i>
Abbreviations and acronyms .....		3
I. Introduction .....	1–7	4
A. Mandate .....	1	4
B. Scope of the report.....	2–6	4
C. Possible action by the Subsidiary Body for Implementation .....	7	4
II. Definition of terms .....	8	4
III. Review of costing practices in other United Nations entities .....	9–14	5
A. Scope of the review .....	9–10	5
B. Costing practices.....	11–14	5
IV. Review of UNFCCC costing practices .....	15–26	6
A. Standard salary costs.....	15–16	6
B. Activity costing.....	17–20	6
C. Costing in the context of the biennial programme budget .....	21–23	6
D. Costing to support decision-making in the governing or subsidiary bodies ...	24–26	7
V. Advantages and disadvantages of using standard costing for decision-making .....	27–31	7
A. Advantages .....	30	7
B. Disadvantages .....	31	8
VI. Enhancing information on the financial implications of new mandates for the secretariat	32–39	8
VII. Recommendations .....	40–41	9
VIII. Next steps .....	42–43	10
<b>Annex</b>		
Example set of three standardized costs for workshops .....		11

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## Abbreviations and acronyms

COP	Conference of the Parties
DSA	daily subsistence allowance
FAO	Food and Agriculture Organization of the United Nations
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
ILO	International Labour Organization
IOM	International Organization for Migration
IT	information technology
PSC	programme support costs
SBI	Subsidiary Body for Implementation
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOG	United Nations Office at Geneva
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
WHO	World Health Organization
WIPO	World Intellectual Property Organization

## **I. Introduction**

### **A. Mandate**

1. COP 24 requested the secretariat to prepare, regularly update and publish before each session of the subsidiary bodies brief reports on standard costs and, if available, options for reducing the cost of activities where practicable.<sup>1</sup>

### **B. Scope of the report**

2. This report is the first to respond to this request, and as such, provides a list of terms and definitions for clarity, as well as an overview of standard costing practices and uses in other parts of the United Nations system.

3. In addition, the report describes the secretariat's current standard costing practices.

4. In particular, the report covers the advantages, disadvantages and opportunities in using standard costing to support decision-making on requests by the governing and subsidiary bodies for proposed new activities or outputs. The secretariat reviewed costing practices and requirements with its programme managers and weighed various options for improvement. The report reviews these options, with recommendations for future practice.

5. Information is also provided on reducing the cost of activities through providing more information to support the decision-making process.

6. This report is intended to inform Parties and enable them to provide guidance to the secretariat on improving budget processes in the future, rather than to support decisions directly.

### **C. Possible action by the Subsidiary Body for Implementation**

7. The SBI may wish to consider the information provided in this report as part of its consideration of this agenda item and to provide guidance on possible next steps, as appropriate.

## **II. Definition of terms**

8. To ensure clarity, the following definitions are provided for costing terms as used in this report:

(a) Standard cost: a standard cost is a predetermined estimated cost of producing or delivering a service, good or output, based on analysis of historical data and other estimated inputs or drivers of costs, such as inflation. Standard costs are normally used for either or both of the following purposes: (1) to support budgeting and decision-making at various stages, including the subsequent analysis of variance of actual results compared with budgeted amounts; and (2) to support the cost recovery or sale of services provided internally or externally;

(b) Direct cost: a direct cost is a cost that can be specifically traced to the output or service in question. For example, the direct cost of a laptop provided to a staff member is the purchase price of the laptop. Direct costs may include materials, salaries or other services, and are always fully assigned to the standard cost of an item. Direct costs generally vary depending on the volume of the output;

(c) Indirect cost: an indirect cost is a cost that cannot be attributed directly to the cost of an output or service. For example, in the case of providing a laptop to a staff member, indirect costs could include the cost of management support to approve the transaction, staff salaries to perform purchasing and set-up, and overhead costs such as space or utilities.

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<sup>1</sup> Decision 18/CP.24, paragraph 15.

Indirect costs are often fixed costs that do not vary directly with the provision of the service. They may or may not be allocated to standard costs, depending on the recovery or budgeting practice. Formulas to allocate indirect costs to a good or service may vary widely based on estimated percentages of space, time, cost or other drivers. For example, the fixed cost of the administrative services of an organization may be allocated to projects based on the number of staff members they employ, the size of their budgets, the number of their transactions or the square footage of their space in the organization. Any of these allocation factors may be valid depending on the organization; however, they will produce different results. Determining the most useful allocation factors for indirect and fixed costs may sometimes be difficult;

(d) Full cost: the full cost of delivering a good or service includes all direct and indirect costs. Depending on the nature of an organization's funding and whether costing is being used for budgeting or for service provision, it may or may not be appropriate to calculate the true full cost of an output. Some costs of the organization may already be budgeted or funded through sources other than service delivery, and it may be more important to budget or cost those areas separately. For example, it may not be appropriate to include the cost of executive leadership in the cost of delivering a service. In other cases, it may be important to calculate the full cost, including all possible inputs.

### **III. Review of costing practices in other United Nations entities**

#### **A. Scope of the review**

9. A review was conducted of over 40 publicly available budget and planning documents and programme budgets of 20 United Nations funds, programmes, secretariats and related specialized agencies and organizations. Informal discussions with planning personnel in several of the entities informed the understanding of the approaches taken by the entities.

10. The organizations other than UNFCCC whose documents were reviewed included FAO, IAEA, ICAO, ILO, IOM, UNDP, UNEP, UNESCO, UNFPA, UNHCR, UNICEF, the United Nations Secretariat, UNOG, UN Women, WHO and WIPO. The conventions reviewed were the Basel Convention, the Rotterdam Convention and the Stockholm Convention. The reports of the Joint Inspection Unit of the United Nations on budget and planning practices were also reviewed.

#### **B. Costing practices**

11. All entities whose documents were reviewed used standard costing for salaries to support budgeting. These costs were developed by analysing current costs of salaries and benefits for each office and duty station, applying factors to reflect exchange rates and step increases or inflation, and taking into account any benefit changes. Although the methodology might have varied slightly in different cases, usually as a result of differences in size or geographic structure, the principles applied were the same throughout all parts of the United Nations system surveyed, including the UNFCCC.

12. A few entities made reference to using standard costing for activities. For the most part, budget costing for activities was described as a bottom-up or zero-based methodology that requires estimation, at the local, programme or duty station level, of the requirements for the outputs being planned to achieve the objectives of the current biennium. This results-based methodology differs from past practices, when budgets were frequently based on historical allocations with or without standard increases. Nonetheless, several organizations used standardized assumptions for travel costs, taking into account the DSA.

13. A few entities used standard costing for the purpose of internal service delivery and cost recovery. UNOG uses standard costing for conference services and specific IT costs in order to attribute in a consistent manner the direct and some indirect costs of service delivery to voluntary contributions. It does not use these costs for budget purposes. Each major United Nations office determines its own costs and standard costing practices.

14. Most entities provided some cost information to support decision-making by governing bodies on proposed new activities and outputs that may arise during sessions as mandates for the entities. Entities usually provided a note containing any high-level financial implications of the proposed new outputs to the governing body, to enable the governing body to consider these financial implications as part of its deliberations. The note provided only a single annual or biennial figure for the output, or at most a breakdown between salary and activity costs. Some entities indicated the expected source of funds for an activity or output, and some indicated whether there are gaps in available funding to deliver the activity. None of the entities used standard costing for the activity portion of this costing.

## **IV. Review of UNFCCC costing practices**

### **A. Standard salary costs**

15. The UNFCCC currently uses standard costing for salaries, in keeping with the rest of the United Nations system. The methodology follows the same principles applied in other United Nations entities and is based on historical cost, with provisions for step increases, exchange rate fluctuations and post vacancies. The costs determined for each position level are used to develop the salary cost portion of the biennial budget.<sup>2</sup>

16. Given that staff costs represent approximately 75 per cent of the core budget, standard costing ensures that a significant cost factor is standardized.

### **B. Activity costing**

17. Many activities, including the provision of technical reports or expert reviews and workshops, are individually budgeted based on historical information for regularly occurring outputs or events, or on more detailed costing of inputs for new outputs. Programmes are individually responsible for developing their initial cost assumptions, which are subsequently centrally reviewed and validated.

18. In keeping with other United Nations entities, the secretariat suggests using some average cost assumptions for travel and for meeting participation when developing the biennial programme budget.

19. The ICT programme maintains a service catalogue for standard internal services, including some standardized costing. New ICT projects may vary greatly in size and complexity and require detailed costing based on well-understood requirements. Although some of the inputs to such projects may have standardized costs, such as the hourly rate for a staff business analyst, the total number of hours of effort required for the project will not be known without a detailed estimation based on the requirements. Even frequently delivered ICT development projects such as web portals may vary widely in cost, depending on the number of users, amount and type of data, number and type of search functions and life-cycle costs including training, support and data hosting.

20. The cost of holding the annual sessions of the UNFCCC governing bodies is estimated in detail based on the location, estimated number of participants, requirements for translation, ICT support, security and other elements.

### **C. Costing in the context of the biennial programme budget**

21. The process of preparing the programme budget continues to improve incrementally in the secretariat and continues to support cost control.

22. While results-based planning and budgeting support both effective use of resources and results achievement, preparing a biennial programme budget presents costing challenges. Outputs and activities can be planned two years in advance, but not in full detail, and not all

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<sup>2</sup> See document FCCC/SBI/2019/4.

costs will remain constant. Nonetheless, the over- and under-implementation tend to balance out over two years.

23. For the 2020–2021 budget, resource requirements were reviewed through a cross-programme peer-review process and harmonized for similar types of output across programmes. The harmonization was designed to establish a level playing field.

#### **D. Costing to support decision-making in the governing or subsidiary bodies**

24. When the governing or subsidiary bodies consider proposals for new mandates, including new activities or outputs, they receive costing information on the financial implications of such proposals. These costs are prepared on an ad hoc basis by programme managers in response to the proposals and then provided to the bodies for their consideration during negotiations. The process calls for identifying costs covered by the core budget or that can be absorbed by the secretariat separately from costs that cannot be absorbed and need funding from supplementary contributions. The process used to provide this information is similar to that of other United Nations organizations.

25. In preparing the costings, programme managers rely on already available standard costs for salaries and estimate the cost of the activities individually. As proposed mandates are new, and negotiations may be ongoing, it may be difficult to foresee the scale and level of support that will be required for the output, and estimating costs accurately is difficult without knowing these parameters. For example, a newly mandated technical paper may require a relatively low-cost review of available research or a much higher level of research requiring specialized consultants. There may also be little relevant historical data to rely on, depending on the nature of the output. Lack of detail during rapidly evolving negotiations may impede the costing effort, and lack of costing information may limit the awareness of choices during negotiations.

26. In addition to efforts made to provide information for governing and subsidiary body decision-making, there is a desire to ensure this process is more transparent to those involved.

#### **V. Advantages and disadvantages of using standard costing for decision-making**

27. Producing an estimated costing of any new output or activity is required for budget purposes. Budget costings support a transparent approach to approving activities, whether in a biennial budget, a project proposal or a newly proposed activity or output under consideration in governing and subsidiary body sessions. Costings are needed to manage funds, set priorities and support accountability.

28. In looking at the best approach to support management and governing body decisions, it is useful to consider what information would be most helpful to understand the financial implications. Options include standardized costing based on historical data and inputs for similar activities, a costing calculated individually from the bottom up for each case, or indications given in advance of options or ranges for activities, depending on parameters.

29. The best approach depends on the available data, historical consistency of the activity, how well known the inputs are for the approach, or how new or innovative the approach may be as an activity.

##### **A. Advantages**

30. Advantages of standard costing include:

(a) Increased consistency of costing across similar outputs that may encourage programme managers to look for ways to lower costs to remain within the standard;

(b) Availability of information in advance for decision makers, not only to support the decision being made but also to potentially aid in adapting the proposal to reduce its cost once options are better understood, for example by choosing a less costly location or fewer inputs;

(c) Ease of use for programme managers and reduced need to analyse every output in depth in order to produce a cost;

(d) Increased analysis and management of exceptions, and potentially better cost control due to its effectiveness in variance analysis;

(e) Increased accuracy that is similar to individual or ad hoc bottom-up costings and requires less time to prepare when significant amounts of statistically valid historical data are available and inputs are well known (for example, salaries in the United Nations system or DSA rates).

## **B. Disadvantages**

31. Disadvantages of standard costing include:

(a) Increased complexity and effort: in some cases, it may be more time-consuming to prepare the analysis for standard costs than to do budgeting and costing for new activities individually, particularly for those with low volume or where adequate historical data or details to support a standardized analysis are lacking;

(b) Rapid obsolescence: standard costs, especially across multiple geographic locations, may quickly go out of date owing to exchange rate fluctuations, local inflation or other variables;

(c) Wide range of activities: activities may vary widely in their structure and level of input, such that statistical averages do not accurately represent reality. A costing tool that allows the entry of multiple inputs may provide a more accurate result than standard costs based on averages. For example, inputs to cost a meeting might include location or venue cost, number of participants, place of origin of participants, level of IT and translation support needed, level of catering needed and security;

(d) Risk of error: new or innovative activities may not follow a historical pattern of costs, and wide variation in costs may lead to issues in over- or under-implementation, funding availability or financing. Some outputs, such as IT systems or databases, may have such widely variable requirements that only a detailed examination, a feasibility study or a prototyping exercise can lead to useful costing;

(e) Reduced planning: without the requirement to perform an in-depth costing of each new activity, there may be less detailed analysis done in advance, which may reduce the quality of advance planning and the careful consideration of possible options in delivering the output. Less detailed analysis in some cases, particularly IT projects, may lead to the acceptance of unrealistic deadlines or budgets or to a misunderstanding of requirements and wasted effort;

(f) Wider variances: actual costs may vary more from the budget than when individualized costings are done for each activity, because budgeted costs were based on averages rather than the actual parameters used in individual costing. Costs that vary more than expected may lead to unnecessary concern over variances, even when the actual costs were cost-effective in the given circumstances.

## **VI. Enhancing information on the financial implications of new mandates for the secretariat**

32. This chapter deals with what has been taken into account when considering how best to improve transparency and information in decision-making.



33. The process for decision-making on newly proposed activities and outputs during the sessions of the governing and subsidiary bodies could become more useful to Parties by providing in advance more information on the financial implications of the outputs most commonly proposed;

34. During sessions of the governing and subsidiary bodies, the outputs most frequently proposed as new mandates are the following:

- (a) Workshops;
- (b) Technical reports;
- (c) Constituted bodies;
- (d) Expert reviews;
- (e) Development of web platforms or portals;
- (f) Development of specific IT systems such as databases or registries;

35. While new mandates for the secretariat often include requests for similar types of activities and outputs, they nonetheless involve a potentially high number of parameters that lead to a potentially wide range of costs. Parameters could include location, number of participants, level of expertise needed to support a workshop, need for a technical report or an expert review, extent of data and other complex requirements involved in IT systems. An average cost of these types of activities may not represent the actual costs of the activities;

36. Although costing each activity individually and taking into account the parameters involved would best represent the estimated actual cost of an activity, there may be insufficient time or information available during the sessions of the governing and subsidiary bodies to develop and provide such a cost;

37. Given the specific environment of the sessions of the governing and subsidiary bodies, and the nature of rapidly evolving negotiations that take place in these sessions, the most useful way to provide accurate information to support the sessions would be to develop a range of costs for typical activities and outputs, showing the types of input and parameters that would affect the cost and enabling Parties to have a sense of the magnitude of cost differences without focusing too much on a detailed costing. Providing a range of potential costs could be helpful to Parties needing to choose an optimal level of inputs and costs during negotiations. The selected level could then be costed using the current process in order to confirm and support the ultimate decision of the body;

38. The costing of workshops, technical reports, constituted bodies and expert reviews could be standardized for ranges of cost, based on the most common parameters, to provide useful information to Parties, with lower risk of poor estimation leading to budget issues;

39. IT development, including web portals, databases and registries, is so wide-ranging regarding the nature of the requirements and the associated costs that it is impractical to develop ranges in advance without accepting too great a risk of misunderstanding and facing negative budget implications. The nature of these outputs depends on a clearer understanding of requirements than a range could suggest. A different approach needs to be considered to provide advance information on the financial implications of IT projects.

## VII. Recommendations

40. Taking into account the factors noted in chapter VI above, the following approaches are recommended to enhance information on the financial implications of possible new mandates received from the governing and subsidiary bodies (should Parties agree that this approach is helpful, costing ranges will be provided for additional outputs in subsequent notes to the SBI):

(a) For workshops, technical reports, constituted bodies and expert reviews, the secretariat will provide in advance a simplified table showing a range of usual costs at three levels of each typically requested output, based on the most likely parameters, to support early negotiations. Once the negotiation moves to a preferred description of the output, the

secretariat will follow up with individual costing using the current financial implications process. An example of the proposed method of providing three standardized cost levels is provided in the annex. Depending on the analysis and review of this proposal and its subsequent usefulness to Parties in practice, this approach could be extended to other outputs;

(b) For ICT development projects, including portals, databases and registries, the potential complexity of requirements does not support providing a standard cost or even a range. The current process of individual estimations during negotiations should continue to be followed. However, estimated costs produced during negotiations should be seen as preliminary, pending the opportunity to examine them in more detail for greater accuracy and to validate feasibility through a brief requirements workshop, prototype exercise or analysis of requirements.

41. Furthermore, on the basis of the factors noted in chapter VI above and the nature of the activities and outputs of the secretariat, the following should be noted:

(a) Providing a list of standard costs for typically requested outputs is not recommended since most outputs are highly variable, are based on a wide variety of parameters and inputs, and do not lend themselves well to standard costs. The risk of inaccurate or misleading costs is thus too great;

(b) Providing detailed costing tools to allow for multiple inputs and enabling governing bodies to choose inputs to change costs is not recommended. The wide range and complexity of parameters and the high level of detail involved in preparing outputs could result in too great a focus on cost at the expense of quality, with insufficient time during negotiations to thoroughly weigh the impact of the details.

## **VIII. Next steps**

42. The SBI may wish to consider the information provided in this report, including the recommendations, and to provide guidance on possible next steps, as appropriate.

43. The secretariat will monitor the usefulness of the provided workshop costing in the coming months, and should it prove helpful, will provide updated examples of costing ranges for additional outputs in subsequent reports to the SBI.

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## Annex

### Example set of three standardized costs for workshops

1. This annex presents an example set of three standardized costs for workshops, all taking place in Bonn, as an indication of the range of possible costs, depending on the various parameters and inputs related to the output. It is hoped that this estimation will help to inform related decisions. The actual cost of any workshop will vary depending on the specific parameters involved.
  2. If this approach proves useful to Parties, similar costing ranges will be provided in the next costing paper on additional outputs.
  3. The example set of three standardized costs is as follows:
    - (a) Workshop A: assume a three-day workshop with 15 funded participants, no consultant support, no translation requirements, standard venue, and logistics and ICT support. Estimated cost inclusive of PSC: EUR 64,000;
    - (b) Workshop B: assume a four-day workshop with 50 funded participants, one month of consultant time to support the preparation of material and other parameters as in workshop A (see para. 3(a) above). Estimated cost inclusive of PSC: EUR 215,000;
    - (c) Workshop C: assume a five-day workshop with 100 funded participants, three months of consultant time to support the preparation of material, translation requirements and other parameters as in workshop A (see para. 3(a) above). Estimated cost inclusive of PSC: EUR 465,000.
  4. Factors in estimates for workshops in Bonn include changes in the number of participants, different venue costs, participants' travel costs depending on place of origin and exchange rate fluctuations that affect the DSA.
  5. Factors additional to those in paragraph 4 above in estimates for workshops outside Bonn include different DSA rates, potential requirements for greater security measures, availability of funding from the host country and inclusion of staff travel to support set-up and delivery of the workshop.
  6. The costs related to the factors listed in paragraphs 4 and 5 above are variable workshop costs and do not include the indirect costs of staff support time or other inputs covered by the secretariat's budget.
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