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Administrative, financial and institutional matters

Other budgetary matters

Possible long-term financing strategies for secretariat employee benefit liabilities

Note by the secretariat

Summary

This document addresses the recommendation from the United Nations Board of Auditors in its report on the UNFCCC financial statements for the year ending 31 December 2018 for the secretariat to seek a decision by the Conference of the Parties on the funding plan for the employee benefit liabilities of after-service health insurance, repatriation grants and repatriation travel. The Subsidiary Body for Implementation will be invited to review the options presented herein and to discuss how best to finance these long-term liabilities.



I. Introduction

1. In its report on the UNFCCC financial statements for the year ending 31 December 2018, the United Nations Board of Auditors recommended that the secretariat incorporate the liabilities incurred by staff that are financed from indicative contributions in its funding policy review for employee benefits and seek a decision thereon by the Conference of the Parties.¹
2. The unfunded secretariat employee benefit liabilities primarily cover after-service health insurance (ASHI), repatriation grants and repatriation travel, which are benefits that are compliant with the United Nations staff rules and regulations.
3. The purpose of this document is to facilitate consideration by the Subsidiary Body for Implementation of modalities for funding secretariat employee benefit liabilities, as recommended by the Board of Auditors.

II. Possible action by the Subsidiary Body for Implementation

4. To ensure the long-term financial sustainability of the secretariat, the Subsidiary Body for Implementation will be invited to review the options presented herein and to discuss how best to finance the long-term liabilities for ASHI, repatriation grants and repatriation travel, particularly for positions funded from the core or international translation log (ITL) budget, as well as to endorse the accrual mechanism that has already been adopted by the secretariat, following the practice of the United Nations Secretariat, for financing those liabilities for positions not funded from the core or ITL budget.

III. Current funding situation

5. According to the unaudited financial statements, the total unfunded employee benefit liabilities for the UNFCCC amounted to USD 160 million as at 31 December 2021.²
6. The secretariat covers ASHI, repatriation grant and repatriation travel charges relating to core- and ITL-funded positions from the respective budgets approved by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, including ASHI payments for staff members who retired before the start of the current budget cycle. The secretariat funds these liabilities on a 'pay-as-you-go' basis, recording expenditure under the respective approved budgets.
7. For positions financed from sources other than the core or ITL budget, the secretariat introduced an accrual mechanism for the long-term financing of the above-mentioned employee benefit liabilities starting 1 January 2017 following the practice introduced by the United Nations Secretariat. Through the mechanism, a percentage surcharge is recorded and set aside to cover current and future obligations: for ASHI the surcharge is 6 per cent of staff costs for local and international staff, and for repatriation grants and repatriation travel it is 8 per cent of staff costs for international staff only.
8. Overall ASHI benefit costs paid under all funding sources in recent years and projected for 2022–2024 (USD 245,000 for 2020, USD 425,000 for 2021 and projected USD 493,000 for 2022, USD 606,000 for 2023 and USD 713,000 for 2024) show a clear upward trend. In addition, a considerable increase in payments is foreseen as a growing number of staff reach retirement age.

¹ FCCC/SBI/2019/INF.9, annex, paras. 42, 46 and 47.

² Excluding annual leave liabilities.

IV. Funding mechanisms for consideration

A. Pay as you go

9. For positions financed from predictable funding streams such as core contributions and ITL fees, the pay-as-you-go mechanism can be used to settle the costs, when they fall due, for ASHI, repatriation grants and repatriation travel from the corresponding biennial budgets approved by the governing bodies.

10. In the pay-as-you-go approach, Parties commit to settling employee benefit liabilities for core- and ITL-financed positions when they fall due, ensuring that adequate resources are available when needed instead of creating a reserve.

11. Applying the pay-as-you-go approach is in line with General Assembly resolution 68/244 to continue such an approach for financing ASHI liabilities relating to operations funded from assessed contributions.

B. Monthly accrual

12. The accrual mechanism in place for financing long-term liabilities for positions that are not funded from the core or ITL budget ensures that future ASHI, repatriation grant and repatriation travel payments for retired staff members are collected and recorded during their active service period, which ensures that funds are available when payments for these employee benefits are due, even if income is less predictable, as is the case for non-core and non-ITL UNFCCC funds.

13. Expanding the scope of the accrual mechanism to financing liabilities also for core- and ITL-funded positions would increase staff costs by an estimated EUR 1.7 million per year for the core budget and an estimated EUR 50,000 per year for the ITL budget (4.8 per cent of the core budget and 2.6 per cent of the ITL budget approved for 2022–2023), calculated on the basis of the accrual rates referred to in paragraph 7 above.

14. Owing to the volatility in the actuarial assumptions and staff fluctuation, it is difficult to make a reliable estimate of when the liabilities would be fully funded. Considering that the secretariat has a rather young workforce overall, the accrual rates should allow the employee benefit liabilities to be fully funded within the next 20–30 years. Thereafter, the accrual rates would be reduced and continuously adjusted to ensure that the liabilities remain fully funded.

C. One-time payment followed by annual adjustments

15. For core and ITL operations, the governing bodies approve biennial budgets and Parties pay annual indicative core contributions and ITL fees. Parties could fully fund the employee benefit liabilities for positions in the core or ITL budget through a one-time payment. Thus, in addition to their annual indicative core contributions and ITL fees, Parties would need to make a one-time combined contribution of USD 68.1 million for the core budget and USD 1.8 million for the ITL budget, broken down into individual contributions per Party on the basis of the current scales for both budgets.

16. Any subsequent increase in the estimated employee benefit liabilities would be covered by an additional contribution from Parties. In the event of significant and long-term reductions in the employee benefit liabilities, provided that they are unlikely to reverse in the future, reductions of Parties' annual indicative core contributions and ITL fees could be considered.