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Summary record of the 19th meeting
Held at Headquarters, New York, on Wednesday, 10 December 2014, at 10 a.m.

Chair: Ms. Rambukwella (Vice-Chair) . . . . (Sri Lanka)

Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Ruiz Massieu

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14-66834 (E)

In the absence of Mr. Ružička (Slovakia), Ms. Rambukwella (Sri Lanka), Vice-Chair, took the Chair

The meeting was called to order at 10.05 a.m.

Item 132: Programme budget for the biennium 2014-2015 (*continued*)

Recosting study (A/69/381 and A/69/640)

1. **Mr. Huisman** (Director, Programme Planning and Budget Division), introducing the Secretary-General's note transmitting the study on recosting and options for the Organization in dealing with fluctuations in exchange rates and inflation (A/69/381), said that the General Assembly, in its resolution 68/246, had requested the Secretary-General to commission the study. To ensure its independence, the Secretary-General had established a High-level Panel of Experts with extensive experience in finance and budgeting at the national and international levels. The Panel had been supported by a technical team of external consultants and, where requested, the Secretariat had provided technical assistance and information. The Panel, which had met from April to July 2014, had conducted an analysis of the recosting methodology and experience, partly on the basis of meetings with the relevant Secretariat offices.

2. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/69/640), said that the practice of recosting, or the revision of budget estimates within a biennium to adjust for variation in currency exchange rates, actual inflation experience and changes in standard staff costs and vacancy rates, had long been a part of the Organization's budget methodology. The four phases of the existing system were summarized in table 2 of the High-level Panel's report, (A/69/381). With reference to currency fluctuations and inflation, the current methodology was the result of a considerable body of work carried out since the 1970s but was based on simplified assumptions and reduced the Secretariat's ability to forecast budget estimates. The United Nations had limited information concerning currency exposures and was therefore unable to measure major risks. Also included in the report were the results of a benchmarking comparison of practices in other United Nations system entities and international organizations. The Panel recommended that the effects of recosting should be mitigated through the use of forward exchange rates and a reduction in the frequency of recosting.

3. The Advisory Committee was of the view that the Panel's analysis had several limitations. For example, it did not contain a full examination of the entire regular budget. Special political missions were excluded, even though elements of recosting were included in the budgets for such missions. In addition, the benchmarking analysis performed by the Panel was not comprehensive enough and lacked contextual specificity. More detail would have been useful, including in relation to the potential application of other practices to the United Nations.

4. The Advisory Committee believed that the Panel had not examined the full impact of such recommendations as the establishment of budget estimates on the basis of forward exchange rates and a reduction in the frequency of recosting. With regard to the recommendation that a hedging programme should be established, the Advisory Committee noted that the General Assembly had not yet had an opportunity to consider the Swiss franc pilot hedging programme in place since January 2013. It also questioned the rationale provided by the Panel for assessing the methodologies used by the International Civil Service Commission (ICSC) in determining the post adjustment multipliers applicable to international staff costs.

5. With regard to the Panel's suggestion that further analysis of the feasibility of a recosting cap should be conducted, the Advisory Committee was of the view that the imposition of such a cap would lack technical merit and have programmatic implications. The Panel did not fully analyse the impact of the establishment of a reserve fund to manage non-hedgeable costs. The Advisory Committee did not consider the previously discussed option of active vacancy rate management to be a viable means of reducing variances between estimated and actual rates. Lastly, it expressed concerns regarding the Panel's composition.

6. **Ms. Rios Requena** (Plurinational State of Bolivia), speaking on behalf of the Group of 77 and China, said that recosting was a fundamental element of the budgetary methodology approved by the Member States. It ensured that activities planned for the biennium were not adversely affected by fluctuations in exchange rates and inflation, which were unavoidable for a global organization. Recosting

was designed to ensure that such regular budget tools as vacancy rates were not used to make cuts. It was a technically sound and integral part of the political agreement on the budgetary methodology.

7. The analysis conducted by the High-level Panel of Experts suffered from limitations that called into question the recommendations and other options presented. The Group was concerned that the Panel's recommendations not only exceeded the mandate conferred by the General Assembly in its resolution 68/246 but also directly contradicted General Assembly decisions establishing the post adjustment multiplier methodology and granting ICSC the mandate to define that methodology. The Panel also made a recommendation on vacancy management, disregarding intergovernmental decisions on the matter. She recalled resolution 66/246, in which the General Assembly had reaffirmed that vacancy rates were a tool for budgetary calculations and should not be used to achieve budgetary savings.

8. It was unfortunate that, although the Panel had been instructed to produce a technical report on fluctuations in exchange rates and inflation, it had decided to use the debate on the accuracy of the budget as an opportunity to engage in a political discussion, fostered by some Member States in recent years, on the establishment of a budget cap. Such an approach invalidated the report and the recommendations it contained. The Group rejected discussion of such a cap, which would result in indiscriminate cuts that would affect the substantive work of the Organization and would be tantamount to requiring the absorption of additional resource requirements within current provisions, a practice that significantly affected planned activities. The Group would not allow its willingness to discuss ways of improving budget accuracy to be used as a pretext for cuts that would affect programmed activities, as had happened in the case of the decision to defer consideration of recosting in the biennium 2012-2013.

9. The Group noted with concern that the Panel had suggested a package of actions and recommended deadlines for their implementation, which called into question the notion that its work was purely technical in nature; rather, it seemed to have prepared a political deal for the General Assembly's consideration. The Panel's report did not justify making any change to the current budgetary process and methodology as established in resolutions 41/213 and 42/211.

10. **Ms. Power** (Observer for the European Union), speaking also on behalf of the candidate countries Albania, Montenegro, Serbia, the former Yugoslav Republic of Macedonia and Turkey; the stabilization and association process country Bosnia and Herzegovina; and, in addition, Armenia and Georgia, said that the current recosting practice was unsustainable and in need of a complete overhaul. In its report, the Panel stated that over the preceding five bienniums, the average increase in the programme budget owing to recosting had been $291 million per biennium, a total of almost $1.5 billion over the previous ten years, making recosting one of the largest drivers of increases in the regular budget. Those figures should come as no surprise to delegations, as the General Assembly had been discussing recosting reform since the 1970s. Resolution 41/213 had called for a comprehensive solution to the problem of all additional expenditures, including those deriving from inflation and currency fluctuation. Although reports had been drafted and proposals discussed, no such solution had been found, and it was time for the General Assembly to settle the matter. There was no magic solution which could make inflation, exchange rate fluctuations and variations in standard costs and vacancy rates disappear. The European Union refused to believe, however, that the internal recosting procedures, misleadingly presented by the Secretariat as a comprehensive methodology, could not be improved to enhance predictability and sustainability. It therefore welcomed the Panel's analysis, which demonstrated that some of the assumptions underlying current practices could be improved. Although it did not share all of the Panel's views and believed that the recommendations should have been more far-reaching, the report provided an initial basis for discussion.

11. All Member States should support recosting reform because almost a quarter of the regular budget had been spent on recosting over the preceding ten years, which was not a strategic use of scarce resources. The Committee must consider changing the questionable and unusual practice. The Member States and the United Nations were collectively responsible for responding to financial challenges. Business as usual was no longer an option. Recosting reform could be based on a step-by-step approach to create more predictable and sustainable funding arrangements for the United Nations of the twenty-first century.

12. **Mr. Ono** (Japan) said that his delegation found it regrettable that the Advisory Committee had taken three months to issue its report (A/69/640) following the issuance of the Secretary-General's note (A/69/381) in early September 2014. The Chair should address the issue holistically after the main part of the current session, and the Secretariat should make proposals for improvements and efficiencies that would render the Advisory Committee more effective and better align its work with the General Assembly's needs.

13. Recosting was unique to the United Nations but was no longer a sustainable means of financing. It resulted in a loose sense of the budgetary envelope, against the backdrop of the largest biennial budget ever proposed at the United Nations. Managers had grown used to expecting that more resources would become available at the end of the budgetary cycle rather than operating within the initially approved resources, a bad habit that must be corrected. Most national Governments, unlike the United Nations, were not allowed to spend beyond the initially approved resources.

14. His delegation therefore welcomed the report of the High-level Panel of Experts, which laid the groundwork for Member States to begin an objective discuss of the matter. In informal consultations, his delegation would seek the Secretariat's views on the Panel's recommendations.

15. **Mr. Hays** (United States of America) said that the Member States were not required to blindly follow the patterns set in the past; as the stewards of the United Nations, they should strive to make the Organization work efficiently, in a way that would make citizens proud. His Government was committed to greater budget discipline and a more up-to-date process reflecting best practices. Although the important suggestions contained in the report of the High-level Panel (A/69/381) could serve as a first step in the necessary comprehensive reform of the budget process, his delegation was disappointed that the report did not more thoroughly explore alternatives to the existing recosting methodology, such as those used by Governments, including the use of vacancies to balance cost increases. The proposal to establish a recosting cap was worth considering.

16. The recosting process, unique to the United Nations, was not sustainable at a time when Governments no longer took such measures. To bring itself up to date, the United Nations needed to shift its focus from drafting budgets to managing resources at the level approved by the General Assembly. The Organization also needed more capacity to monitor costs so that its management and Member States knew in good time whether it had remained within the approved budget or its expenditure needed to be adjusted. The Member States were responsible not only for providing oversight but also for ensuring that such oversight was effective. Governments and other international organizations were able to perform that task without the need for recosting to cover actual expenditure, and the United Nations should adopt procedures that would enable it to do the same. Without such reform or new efficiencies in the regular budget, Member States, including his own, would not be able to provide the funding requested by the Secretary-General for the current or future bienniums. In the prevailing financial climate, it was difficult to make the case for funding twice – once when the initial budget was approved and again to cover expenditure in excess of the agreed level as a result of recosting. His delegation remained committed to discussing the reform of budgeting, including recosting, and to ensuring that the United Nations remained on a sound financial footing.

17. **Mr. González Sánchez** (Cuba) said that it was regrettable that the report of the High-level Panel of Experts (A/69/381) had not been presented to the Committee by a member of the Panel. His delegation had taken note of the Advisory Committee's comments on the limitations of the report. It was striking that special political missions had not been included in the study, given the trends in their budgets and the procedure through which the great majority of them were approved. The Panel's composition, which could have been more equitable and balanced, had affected the quality and content of the recommendations. The imposition of a recosting cap would result in an indiscriminate series of budget cuts. He looked forward to receiving clarification from the Panel members.

18. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions), responding to the statement by the representative of Japan, said that the Committee had discussed the question of the late issuance of documents under agenda item 135, Pattern of conferences. Although the Secretary-General's note

had been submitted for document processing in September 2014, it had not in fact been issued until 31 October 2014. Even when the Advisory Committee received advance versions of documents, they were often subject to revision. The Committee was aware of his opinions about the operational arrangements of the Advisory Committee, but regardless of the General Assembly's decision on the matter, there was always room for improvement in the issuance of documents. While the Advisory Committee always endeavoured to provide documents in a timely manner, it was inevitable that documents submitted to the Fifth Committee towards the end of the main part of the session would be deemed late.

The meeting rose at 10.40 a.m.