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| **Agenda item: ADM 1**  | **Document C25/64-E** |
| **1 May 2025** |
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| Report by the Secretary-General |
| PROPOSED METHODOLOGY FOR CALCULATION OF SNF COST RECOVERY |
| **Purpose**This document proposes a revised methodology for establishing the full costs attributable to Satellite Network Filings application of a Full Cost Allocation approach in accordance with Decision 535, and a graduated method for limiting the collection of those full costs based on appropriate benchmarks in accordance with Resolution 91 (Rev. Guadalajara, 2010).**Action required by the Council**Council is requested to **approve** the methodologies proposed in this document for setting of Satellite Network Filing fees for cost recovery.**Relevant link(s) with the Strategic Plan**n/a.**Financial implications**Increasing the annual revenue for ITU related to cost recovery from Satellite Network Filings, to achieve total revenues of up to **CHF 18 032 400**.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**References***Document* [*C25/10*](https://www.itu.int/md/S25-CL-C-0010/en)[*Resolution 91 (Rev. Guadalajara, 2010) of the Plenipotentiary Conference*](https://www.itu.int/en/council/Documents/basic-texts-2023/RES-091-E.pdf)[*Council Decision 535 (Modified 2014)*](https://www.itu.int/md/S14-CL-C-0102/en) |

**Introduction**

1. In seeking to implement Resolution 91 (Rev. Guadalajara, 2010) of the Plenipotentiary Conference, and Council Decision 535, the secretariat has designed a cost model which allocates appropriate proportions of ITU’s costs associated with Satellite Network Filings (SNF). The total costs have been estimated using this model at **CHF 22.81 million,** of which **CHF 11 million** are **direct costs** and the balance of **CHF 11.81 million** are **indirect costs**. This currently means that ITU’s current “overhead” attributable to SNF is **107%** of the **direct costs** incurred**.** The secretariat understands that indirect costs at this level are unacceptable to stakeholders and based on feedback during the Expert Group on Decision 482 (EG-DEC482) and Council Working Group meetings, this has adversely impacted the ability of membership to arrive at a level of SNF fees which ensure that ITU’s member states do not subsidise the work done by ITU to process filings.

2. The high level of costs resulting from the cost model calculations, in the secretariat’s estimation, results from the following factors:

* The lack of clarity or consensus about which aspects of the work of the ITU can properly be considered as attributable to Satellite Network Filings.
* Inefficiencies and high costs inherent in the ITU secretariat’s organizational structure and framework.

**Discussion on Changes to Methodology**

3. The secretariat has therefore considered new methodologies that could be used to calculate the costs assigned to SNF related work that would be consistent with the principles of Resolution 91 but would also reflect an efficient and reasonable level of indirect (“overhead”) costs. In this regard, the secretariat proposes to utilize a combination of benchmarking and full cost allocation methodology to calculate the fees, which would be adjusted immediately, and again in four (4) year increments based on decisions by Council.

4. [Annex 1](#Annex_1) provides an analysis of benchmark results from similar work/similar organizations. Studies conducted by the World Bank and the UN indicate that an appropriate range for overhead costs is between 25 and 30% of the direct costs.

5. The secretariat acknowledges that in the context of these benchmarks, the current level of ITU indirect costs of more than 100% of the direct expenses is excessive. However, the secretariat is also conscious that efforts to address inefficiencies and realign costs in a sustainable manner require time. The current level of costs cannot be cut immediately, and efficiencies would require additional investment in modern tools and skills to reduce overheads.

6. This would enhance transparency, accurately reflect resource usage, and align with international benchmarks for indirect cost recovery. However, proper implementation of a detailed full cost allocation methodology would require:

* Review, in accordance with the principles set in Resolution 91, of the cost categories should properly be included.
* Introduction and review of cost accounting for all products and services provided by ITU. This work is being currently proposed in the context of the Strategic and Financial Plans 2028-2031.

7. These activities will take time to implement effectively and are unlikely to be completed during the current Financial Plan cycle. [Annex 2](#Annex_2) provides a description of the cost allocation approach that the secretariat proposes to apply.

8. However, the secretariat notes that the delay in this work will perpetuate the current situation in which cost recovery for SNF fees do not recover the actual costs incurred by ITU in providing the service, leaving ITU outside the provisions of Resolution 91 and with a significant deficit which must be covered by Member States through their assessed contributions.

**Proposed Increase of Fees and Gradual Reduction of Full Costs**

9. The secretariat requests that the Council approve the recovery by ITU of the full costs incurred by ITU for SNF, subject to limits, set in accordance with Resolution 91 *resolves* 4 v), as follows:

1. For the period from 1 January 2026 to 31 December 2027, ITU’s recovery of indirect costs should be set at, and limited to, **40% of the direct costs incurred** **by ITU**. ITU acknowledges that this exceeds the recommended international benchmarks however this represents a reasonable recovery level considering ITU’s current actual costs.
2. The Secretary-General shall submit to Council 2027 for approval, a first report on a full cost recovery approach for SNF and propose a reduction in the limit for indirect costs, to **no more than 35% of direct costs**, which would apply from 1 January 2028.
3. A further report on detailed full costs recovery will be proposed at Council 2029 for application from 1 January 2030, which will reduce the applicable recovery limit for indirect costs to **no more than 30% of direct costs**.

10. While at the commencement of these phased reductions, ITU will not collect its full costs, the secretariat proposes to achieve reductions of the actual costs to the limits set using a combination of structured application of a full cost allocation model, operational efficiencies and service optimization. This graduated approach to reach efficient and reasonable levels of indirect costs are consistent with Resolution 91 (Rev. Guadalajara, 2010), and Annex 2 of Decision 5 (Rev. Bucharest, 2022).

**Calculation of Direct and Indirect costs**

11. ITU’s direct costs were assessed at **CHF 11.0 million** since 2006 when the Plenipotentiary Conference fixed the current value of the Contributory Unit. Due to inflationary pressures, ITU has adjusted these costs to reflect the actual increases based on the Geneva Consumer Price Index which estimates an increase of **10.6%**. The real value of the direct costs in present terms is therefore **CHF 12 166 000**.

12. Using the graduated reductions proposed above, the indirect cost limit of **40%** would result in indirect costs of **CHF 4 866 400** to be collected from SNF fees from 1 January 2026. The total amount which would need to be collected from SNF Fees would be **CHF 17 032 400**.

**Provision for Software Development**

13. The secretariat notes that the EG-DEC482 did not address the necessary expense required to ensure that the filings can continue to be processed efficiently having regard to increased volumes. To address this, the secretariat proposes to add an additional sum of **CHF 1 000 000** per annum to be collected as part of SNF fees. This sum will be placed in the ICT Capital Fund and earmarked for the update and modernization of BR software applications used for SNF.

**Method for Application of Approved Limits**

14. The secretariat requests that the Council authorise the application of the limits using a multiplier of the fees set by EG-DEC482 in Document [C25/10](https://www.itu.int/md/S25-CL-C-0010/en), based on the anticipated recovery based on the new fees and current filing levels, to achieve the approved level of recovery. The secretariat is in the process of calculating the estimated fees that would be collected based on the recommendations of EG-DEC482 submitted to Council in Document [C25/10](https://www.itu.int/md/S25-CL-C-0010/en), however it is proposed and the Secretary-General requests that Council approve the addition of a standard multiplier to all fees proposed, of an amount to achieve total revenues of **CHF 18 032 400.** If approved the secretariat will calculate the appropriate fees and publish for implementation from **1 January 2026.**

Annex 1

Benchmarking Indirect Costs Allocation in International Organizations

To establish a reasonable allocation of indirect costs, the secretariat proposes to refer to benchmarks established by recognized international institutions to guide the appropriate levels. Two recent studies have been identified which suggest indirect cost allocations in the range of **25% to 30% of direct costs**, depending on the nature and complexity of services provided.

1. **World Bank and IFC Studies:**
	* According to World Bank and International Finance Corporation (IFC) cost recovery frameworks, administrative overhead in public sector entities should ideally not exceed **30%** of the direct operational expenditures, emphasizing a balanced approach to cost recovery and transparency.
	* Reference: IFC (2020), *Guidelines for Project Cost Allocation and Cost Recovery*, World Bank Group, Washington DC.
2. **United Nations Common System (UNDP and UNICEF):**
	* The United Nations Development Programme (UNDP) and United Nations Children's Fund (UNICEF) guidelines on Programme Support Costs (PSC) explicitly recommend limiting indirect (overhead) cost recovery to a maximum of **25%-30%** of direct project costs.
	* Reference: UNDP (2019), *Cost Recovery and Cost Classification Guidelines*, United Nations Development Programme, New York.
	* Reference: UNICEF (2020), *UNICEF Cost Recovery Policy*, United Nations Children's Fund Executive Board Document, New York.

ANNEX 2

The summary analysis below outlines the methodology used, key drivers of the indirect costs and costing pools.

**Summary of Activity Based Costing pools and estimate of related costs**

ITU has conducted a preliminary review of its indirect costs. One first exercise is to determine the cost pools that are directly relevant to SNF work. These have been identified as:

* IT support,
* facilities and utilities,
* human resources,
* finance and legal services, and
* administrative overhead.

The next step outlined in the next section is to determine the level of activity that drives these costs, i.e. what are the direct costs that drive the above cost pools.

**Principles of full cost allocation for SNF cost identification**

In the context of ITU’s Satellite Network Filings (SNF), adopting a detailed full cost allocation model would provide clarity about the actual resource usage behind various SNF processes (publication, coordination, notification, and plan). The existing indirect cost allocation model assigned approximately 107% of indirect overhead costs to total SNF operations, which is too high when benchmarked against international norms (typically 25%–30%).

Building upon previous analyses and recognizing the need for refinement, a structured and detailed cost allocation approach will be followed. This will include clearly defined cost pools and cost drivers—activities that most accurately represent resource usage within SNF processes in line with Amendment and Justification for SNF Cost Allocation based on Resolution 91 (Rev. Guadalajara, 2010).

**Key Principles of the full cost allocation model**

**Cost Categories (Cost Pools): Full cost allocation** requires categorizing indirect costs into logical groups or "cost pools," representing similar types of overhead expenses.

**Direct Costs.**

Direct costs explicitly tied to SNF services (i.e. processing satellite filings, including validation for receivability, technical and regulatory examination for coordination and notification, management of the Space Plans, publication of special sections and assistance to Administrations on their submissions) primarily include:

* BR staff salaries, benefits, and overhead directly assigned to SNF tasks.
* Training and professional development exclusively benefiting SNF staff.
* Technical Resources:
	+ Dedicated IT system development, maintenance, upgrades, and SNF-specific operational software licenses.
* Direct equipment costs (servers, specialized hardware, SNF software licenses).
* Travel expenses related to SNF-mandated coordination meetings and international conferences.

**Indirect Costs**

For ITU’s SNF operations, recommended indirect cost pools include:

* Information Technology (IT) Support
* Facilities and Utilities
* Human Resources (HR) Services
* Finance and Legal Services
* Administrative Overhead

**Cost Drivers:**

Cost drivers are metrics that reflect the extent to which SNF activities utilize each indirect cost category. The proposed drivers will include:

* **IT Support:** Number of IT requests, system usage, storage volume specific to SNF operations.
* **Facilities and Utilities:** Office space occupied or Full-Time Equivalent (FTE) employees involved in SNF.
* **Human Resources:** Number of SNF staff or specific HR transactions relevant to SNF.
* **Finance and Legal:** Volume and complexity of SNF-related transactions requiring oversight, system, processing and financial reporting.
* **Administrative Overhead:** Administrative support hours, procurement activity volume, and policy management related to SNF.

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