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| PLENARY MEETING | **Document 44-E** |
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| Report by the Council |
| DRAFT FINANCIAL PLAN FOR THE UNION FOR 2016-2019AND DRAFT DECISION 5 |
| The Report on the Draft Financial Plan for the Union for 2016-2019 including the revision of Decision 5 as discussed by the Council at its May 2014 session, is attached for consideration by the Plenipotentiary Conference. |

**1 Introduction**

1.1 The purpose of the draft Financial Plan for 2016-2019 is to provide a tool for the 2014 Plenipotentiary Conference to establish the basis for the budget of the Union and determine related financial limits, until the next Plenipotentiary Conference, after considering all relevant aspects of the work of the Union in the period concerned (Article 8, No. 51 of the Constitution).

1.2 The primary objective of the draft Financial Plan is to allow Member States to know at the end of the Plenipotentiary Conference the framework of their financial commitments to the Union for the 2016-2019 time-frame, based on the approved amount of the contributory unit.

1.3 According to Article 28, No. 161B of the Constitution, and following the Secretary-General’s proposal, the Council has fixed the provisional amount of the contributory unit at CHF 318,000, on the basis of the draft financial plan and the total number of contributory units.

1.4 The Financial Plan is linked to the draft Strategic Plan for 2016-2019 and the strategic objectives and goals and the priorities identified therein. The draft Financial Plan thus provides a basis for setting the strategic objectives and priorities in terms of financial levels.

1.5 By a revised Decision 5, on Revenue and Expenses for the Union for the period 2016-2019, the 2014 Plenipotentiary Conference is expected to establish the framework and the directives under which the two biennial budgets for 2016-2017 and 2018-2019 shall be developed. Annex 1 to Decision 5, as revised by PP-14, will constitute the Financial Plan for 2016-2019.

1.6 The draft Financial Plan 2016-2019 was presented and discussed during the CWG-FHR during its 24 and 25 February 2014 meeting in document CWG-FHR-3/11 with a shortfall between expected revenue and expenses amounting to CHF 60.5 million. Table 13 shows the measures taken for balancing the draft Financial Plan. Cost reductions and efficiency measures for CHF 44.3 million and increase revenue for CHF 16.2 million.

**2** **Revenue and Expenses forecast**

2.1 Table 1 below presents the draft Financial Plan as an overview. ITU management made utmost efforts to ensure that revenue and expenses are balanced. Revenue and expenses equally amount to CHF 656.1 million. This represents a small increase of CHF 1.2 million compared with the previous four-year period. There is no withdrawal foreseen from the Reserve Account in the 2016-2019 Financial Plan (compared to withdrawals amounting to CHF 10.6 million in 2012-2015). More detailed information about revenue and expenses is provided under items 3 & 4 and Tables 5 & 6.

**Table 1**

**Draft Financial Plan for 2016-2019: Revenue and Expenses**



**3 Revenue forecast (Table 5)**

3.1 Main assumptions:

a) Zero nominal growth in the amount of the contributory unit, which is maintained at CHF 318,000 for the 2016-2019 period;

b) Assessed contributions from Member States, Sector Members, Associates and Academia are based on actuals at 31 December 2013 (345 units for Member States);

c) New financial resources: International Numbering Resources (INR); an amount of CHF 7 million is included in the revenue forecast pending the outcome from the ITU-T Study Group 2 consultation and the TSB Director report that will be submitted to the final session of the Council on 18 October 2014;

d) Cost recovery revenue in line with actuals at 31 December 2013;

e) **No withdrawal from the Reserve Account is foreseen in the draft Financial Plan.** The level of the Reserve Account amounted to CHF 30.3 million at 31 December 2013 as shown in Table 2 below.

**Table 2**

**Status of Reserve Account**



3.2 It should be noted that the amount of the contributory unit has decreased from CHF 334,000 in 1997 to CHF 318,000 in 2006-2007 and has remained unchanged since then.

3.3 Table 5provides a comparison between the 2016-2019 revenue estimates and the previous biennial budgets.

**4 Expenses forecast (Table 6)**

4.1 Main assumptions:

a) The approved budget for 2014-2015 constitutes the basis for the 2016-2019 financial period with adjustments for the programme variations. The number of main conferences is included in the draft Financial Plan;

b) INR supporting team resources are foreseen in TSB;

c) ITU management efforts to reduce costs related to staff. The number of established posts throughout the Union should be reduced by about 40 during the period;

d) In addition, a 5% vacancy rate has been applied on actual costs of each post;

e) Absorbing 50% of step increment costs estimated to CHF 9.8 million over the period;

f) Strict alignment with the measures taken in 2014-2015 in view of absorbing natural growth of staff costs including the replenishment of the repatriation fund, cumulated leave, installation costs and education grants;

g) Financing the increasing health insurance costs for active and retired staff;

h) Cost reduction efforts on air tickets;

i) Financial resources planning for long-term liabilities such as ASHI.

4.2 Table 6contains the detailed expenses forecast by Sector. It provides a comparison between the 2016-2019 estimates and the previous budgets.

**5 Programme variation**

5.1 Programme variation is estimated at CHF 6.0 million lower than in the 2012-2015 period (CHF 4.3 million planned costs and CHF 1.7 million documentation costs), due to one less WRC, one less RA and one less WCIT in the 2016-2019 draft Financial Plan.

5.2 The 2016-2019 draft Financial Plan includes one WTSA, one WTDC, one WRC, one RA and one PP.

**6 Replacement of the Varembé building**

6.1 Subject to approval by the Council and PP-14, the replacement of the Varembé building would be funded by a loan of CHF 150 million over 50 years granted by the Swiss Authorities (managed via their delegated organ, FIPOI). The annual reimbursement would amount to CHF 3 million after completion of the construction, which could occur in 2021 and is therefore not part of the
2016-2019 draft Financial Plan.

6.2 A separate comprehensive Report will be presented to the Plenipotentiary Conference to examine more in detail the project, its alternatives and the overall ITU HQ premises situation.

**7 Long-term liabilities**

7.1 The adoption of IPSAS has resulted, *inter alia*, in the recognition in the financial statements of the total liability for long-term employee benefits payable to active and former staff members. In the absence of reserves dedicated to the absorption of these costs, the After Service Health Insurance (ASHI) long-term liabilities constitute the main part of the negative net assets of the Union that amounted to CHF 228 million at 31 December 2012. Health insurance costs, which are shared between active staff members, retirees and the ITU, have risen considerably over the years due mainly to the increased population of retirees, higher average life expectancy and the rise in actual and expected medical costs in Switzerland. Actuarial projections show that the ASHI liability will continue to grow over the next ten years.

7.2 The following measures are under consideration and constitute the basis of a long-term plan to gradually cover the unfunded obligation:

a) 50% of the negative net assets are expected to be covered by:

- Expected fluctuations in the actuarial assumptions in the long-term, such as an increase in the discount rate (based on the long-term evolution of market yields on government bonds).

- Reducing the related obligation through optimized cost containment and monitoring of the claims, and adapting, if so needed, the current benefits.

- Retirement age increase to 65. Active staff members contributing more to the health insurance programme than the retirees.

- Ensuring effective balance in the pay-as-you-go coverage on the mid-term, by increasing the contribution rate of active staff, retirees and ITU. The base contribution rate was 3.3% in the 2012-2013 budget, 3.91% in the 2014-2015 budget and is settled at 5.16% in the 2016-2019 draft Financial Plan, in line with conducted actuarial studies. An increase of CHF 15.8 million (CHF 9.2 million for retirees and CHF 6.6 million for active staff) is planned for health insurance in the 2016-2019 draft Financial Plan.

b) 50% of the unfunded obligation is expected to be covered by the progressive constitution of an ASHI Reserve Fund in the ITU Accounts:

- Council decided to create such a Fund at its 2013 session and to make a first payment of CHF 4 million coming from the Reserve Account.

- An annual payment of CHF 1 million is included in the draft Financial Plan to fund the ASHI Reserve Account.

- A percentage of any future ITU regular budget surpluses could also be allocated to the ASHI Reserve.

c) Voluntary contributions are most welcome to support ITU in covering the unfunded obligation.

7.3 By implementing the above measures the current ITU liabilities would be significantly reduced if not entirely covered within a 50-year period. The evolution of the ASHI liability will be carefully monitored. Should the coverage of the negative net assets be reached within a shorter time-frame than planned, the contribution rate and annual payment into the ASHI Reserve Account will be revised and decreased accordingly.

7.4 The construction of the new Varembé building would also contribute in the long-term strategy to reinforce the ITU overall assets.

7.5 The financing of ASHI is common to many United Nations (UN) System organizations. The UN System Chief Executive Board for Coordination (CEB) High-Level Committee on Management (HCLM) has identified the need for a common approach to the funding of growing ASHI liabilities within its Priority Issues for 2013-2016. As it is a sensitive issue, a concerted approach for all UN Organizations is advocated in order to define a long-term solution acceptable for ASHI participants as well as for the Organizations and the Member States. Reference is made to the study conducted by the Advisory Committee on Administrative and budgetary Questions, which submitted their report to the General Assembly in its Sixty-eighth session of 25 October 2013 (A/68/550).

**8 Revised Decision 5**

8.1 In addition to the current structure of the Financial Plan contained in Decision 5 (Rev. Guadalajara, 2010), the revised Decision 5 could take into account the financial impact of ITU’s long-term liabilities as the ASHI funding and the medium-to long-term maintenance or replacement of the buildings of the Union.

8.2 In this respect, the following modifications to Decision 5 could be considered:

8.2.1 ADD a new *instructs the Council 7*: that the Council, in considering measures that could be adopted to strengthen the control of the finances of the Union, should take into account the financial impact of such issues as ASHI funding, and the medium to long-term maintenance and/or replacement of buildings at the premises of the Union;

8.2.2 ADD a new *instructs the Council 8:* to invite the Council Working Group on Financial and Human Resources, the External Auditor and the Independent Management Advisory Committee (IMAC) to develop recommendations on strengthening financial control mechanisms in ITU, outlining specific objectives, as well as timelines and responsibilities for implementation, for the consideration of Council, taking into account, *inter alia*, the issues identified in *instructs 7* above;

8.3 Decision 5 should also provide explicitly the assumptions regarding the number of expected main conferences, in its Annex 1 for example.

8.4 Annex A contains a draft Revised Decision 5.

**9 Linkage with the draft ITU Strategic Plan – 2016-2019**

9.1 Pursuant to Article 6 of the Financial Regulations and Financial Rules of the Union and with reference to Resolution 151 (Rev. Guadalajara, 2010) on the implementation of Results-Based Management (RBM) in ITU, the document on the draft Financial Plan reflects appropriations by goals and objectives as per the draft Strategic Plan for the Union for 2016-2019.

9.2 The linkage between the draft Financial Plan and the draft Strategic Plan is made through the reallocation of the resources of the draft Financial Plan to the various Sectors, and then to the various ITU Goals and Objectives of the draft Strategic Plan. To this effect, Tables 7 to 12 illustrate the new cost allocation methodology adopted by the Council at its 2014 session (Decision 535 (MODIFIED 2014)).

9.3 Table 3 below presents the full cost of each Sector after the reallocation of the administrative and support costs of the General Secretariat.

**Table 3**

**Full cost of the Sectors**



9.4 Table 4 presents the cost of the Goals and Objectives according to the new proposed cost-allocation methodology.

**Table 4**

**Draft Financial Plan 2016-2019 - RBB format**

**Cost of Strategic Goals and Objectives**



**Table 5**

**Draft Financial Plan 2016-2019 - Revenue forecast**



**Table 6**

**Draft Financial Plan 2016-2019 - Expenses forecast**



**Table 7**

**New cost-allocation methodology**



**Table 8**

**New cost-allocation methodology**



**Table 9**

**Reallocation process – Step 1 – From General Secretariat centralized services to Bureaux**



**Table 10**

**Reallocation process – Step 2 – From Bureaux to Outputs**





**Table 11**

**Reallocation process – Step 3 – From Outputs to Objectives**

**Table 12**

**Reallocation process – Step 4 – From Objectives to Goals**



**Table 13**

**Eliminating the gap of CHF 60.5 M compared to Document CWG-FHR-3/11**



ANNEX A

PROPOSED AMENDMENTS TO

MOD CL/44/1

DECISION 5 (Rev. Busan, 2014)

Revenue and Expenses for the Union
for the period 2016-2019

The Plenipotentiary Conference of the International Telecommunication Union (Busan, 2014),

*considering*

the strategic plans and goals established for the Union and its Sectors for the period 2016-2019, and the priorities identified therein,

*considering further*

*a)*Resolution 91 (Rev. Guadalajara, 2010) of this conference, on general principles for cost recovery;

*b)* that, in the consideration of the draft financial plan of the Union for 2016-2019, the challenge to increase revenues in support of increasing programme demands is substantial,

*noting*

that this conference has adopted Resolution 151 (Rev. Guadalajara, 2010) on the implementation of results-based management in ITU, an important component of which relates to planning, programming, budgeting, monitoring and evaluation, and which should lead, *inter alia*, to further strengthening of the financial management system of the Union,

*noting further*

that Resolution 48 (Rev. Guadalajara, 2010) of this conference stresses the importance of the human resources of the Union for the fulfilment of its goals and objectives,

*decides*

1 that the Council is authorized to draw up the two biennial budgets of the Union in such a way that the total expenditure of the General Secretariat and the three Sectors of the Union is balanced by the anticipated revenue, on the basis of Annex 1 to this decision, taking into account the following:

1.1 that the amount of the contributory unit of Member States for the years 2016-2019 shall be CHF 318 000;

1.2 that expenditure on interpretation, translation and text processing in respect of the official languages of the Union shall not exceed CHF85 million for the years 2016-2019;

1.3 that, when adopting the biennial budgets of the Union, the Council may decide to give the Secretary-General the possibility, in order to meet unanticipated demand, to increase the budget for products or services which are subject to cost recovery, within the limit of the revenue from cost recovery for that activity;

1.4 that the Council shall each year review the revenue and expenses in the budget as well as the different activities and the related expenditure;

2 that, if no plenipotentiary conference is held in 2018, the Council shall establish the biennial budgets of the Union for 2020-2021 and 2022-2023 and thereafter, having first obtained approval for the budgeted annual values of the contributory unit from a majority of the Member States of the Union;

3 that the Council may authorize expenditure in excess of the limits for conferences, meetings and seminars if such excess can be compensated by sums within the expenditure limits accrued from previous years or charged to the following year;

4 that the Council shall, during each budgetary period, assess the changes that have taken place and the changes likely to take place in the current and coming budgetary periods under the following items:

4.1 salary scales, pension contributions and allowances, including post adjustments, established by the United Nations common system and applicable to the staff employed by the Union;

4.2 the exchange rate between the Swiss franc and the United States dollar in so far as this affects the staff costs for those staff members on United Nations scales;

4.3 the purchasing power of the Swiss franc in respect of non-staff items of expenditure;

5 that the Council shall have the task of effecting every possible economy, in particular taking into account the options for reducing expenditure contained in Annex 2 to this decision, and considering the application of the concept of unfunded mandatory activities (UMACs)[[1]](#footnote-1)1, and, to this end, that it shall establish the lowest possible authorized level of expenditure commensurate with the needs of the Union, within the limits established by *decides* 1 above, if necessary taking into account the provisions of *decides* 7 below; a set of options for reducing expenditure is given in Annex 2 to this decision;

6 that the following minimum guidelines should be applied in relation to any expenditure reductions:

a) the internal audit function of the Union should be maintained at a strong and effective level;

b) there should be no expenditure reductions which would affect cost-recovery income;

c) fixed costs such as those related to the reimbursement of loans or after-service health insurance should not be subject to expenditure reductions;

d) there should be no expenditure reductions in regular maintenance costs for ITU buildings which would affect the security or the health of staff;

e) the information services function in the Union should be maintained at an effective level;

7 that the Council, in determining the amount of withdrawals from or allocations to the Reserve Account, should aim under normal circumstances at keeping the Reserve Account at a level abovesix per cent of total annual expenditure,

*instructs the Secretary-General, with the assistance of the Coordination Committee*

1 to prepare the draft biennial budgets for the years 2016-2017, as well as 2018-2019, on the basis of the associated guidelines in *decides* above, the annexes to this decision and all relevant documents submitted to the Plenipotentiary Conference;

2 to ensure that, in each biennial budget, revenue and expenses are balanced;

3 to draw up and implement a programme of appropriate revenue increases, cost efficiencies and reductions across all ITU operations so as to ensure a balanced budget;

4 to implement the aforementioned programme as soon as possible,

*instructs the Secretary‑General*

1 to provide to the Council, no less than seven weeks before its 2015 and 2017 ordinary sessions, complete and accurate data as needed for the development, consideration and establishment of the biennial budget;

2 to undertake studies on the current status of and forecasts regarding financial stability and related reserve accounts of the Union under the changing circumstances after the introduction of the International Public Sector Accounting Standards (IPSAS), with a view to developing strategies for long-term financial stability, and to report annually to the Council;

3 to make every effort to achieve balanced biennial budgets, and to bring to the attention of the membership through the CWG-FHR, any of its decisions that may have a financial impact likely to affect the achievement of such a balance,

*instructs the Secretary-General and the Directors of the Bureaux*

to provide to the Council, on an annual basis, a report outlining expenditure relating to each item in Annex 2 to this decision, and to propose appropriate measures to be undertaken to reduce expenditure in each area,

*instructs the Council*

1 to review and approve the biennial budgets for 2016-2017 and 2018-2019, giving due consideration to the associated guidelines in *decides* above, the annexes to this decision and all documents submitted to the Plenipotentiary Conference;

2 to ensure that, in each biennial budget, revenue and expenses are balanced;

3 to consider further appropriations in the event that additional sources of revenue are identified or savings achieved;

4 to examine the cost-efficiency and cost-reduction programme drawn up by the Secretary-General;

5 to take account of the impact of any cost-reduction programme on the staff of the Union, including the implementation of a voluntary separation and early retirement scheme, where this can be funded from budgetary savings or through a withdrawal from the Reserve Account;

6 in addition to *instructs the Council* 5 above, in view of an unanticipated reduction of revenue due to the drop in classes of contribution from Member States and Sector Members, to authorize a one-time withdrawal from the Reserve Account, within the limits established in *decides* 7 above, in order to minimize the impact on staffing levels in the ITU biennial budgets for 2016-2017 and 2018-2019; any unused funds are to be returned to the Reserve Account at the end of each budgetary period;

7 that the Council, in considering measures that could be adopted to strengthen the control of the finances of the Union, should take into account the financial impact of such issues as ASHI funding, and the medium to long-term maintenance and/or replacement of buildings at the premises of the Union;

8 to invite the Council Working Group on Financial and Human Resources, the External Auditor and the Independent Management Advisory Committee to develop recommendations on strengthening financial control mechanisms in ITU, outlining specific objectives, as well as timelines and responsibilities for implementation, for the consideration of Council, taking into account, *inter alia*, the issues identified in *instructs 7* above;

9 to consider the report of the Secretary-General relating to the matter referred to in *instructs the Secretary-General* 2 above, and report to the next plenipotentiary conference, as appropriate.

ANNEX 1 TO DECISION 5 (Rev. Busan, 2014)

Financial Plan of the Union for 2016-2019: Revenue and Expenses

ANNEX 2 TO DECISION 5 (Rev. Busan, 2014)

Measures for reducing expenditure

1) Identification and elimination of possible duplications (functions, activities, workshops, seminars), and centralization of finance and administrative tasks.

2) Coordination and harmonization of seminars and workshops organized by the General Secretariat or the three Sectors in order to avoid duplication of the subjects covered and to optimize secretariat attendance.

3) Coordination with regional organizations with a view to sharing the available resources of the regional organizations and minimizing the costs of participation (workshops, seminars, preparatory meetings for world conferences).

4) Possible savings from attrition, the redeployment of staff and the review and possible reduction of grades of vacant posts.

5) New or additional activities are to be implemented through staff redeployment.

6) Reduction in the cost of documentation of conferences and meetings by:

a) requesting at the time of registration whether paper copies are required;

b) setting of a maximum number of copies by the Plenipotentiary Conference or by the Council for all Union conferences, assemblies and meetings;

c) setting of a maximum of two sets per delegation;

d) reducing the number of paper copies sent to administrations from the current five to a maximum of two.

7) Consideration of savings in languages (translation, interpretation) for study group meetings and publications, without prejudice to the goals of Resolution 154 (Rev. Guadalajara, 2010).

8) Implementation of WSIS activities through the redeployment of staff responsible for such activities within the existing resources and, as appropriate, through cost recovery and voluntary contributions.

9) Review of the costs of study groups and other relevant groups.

10) Limitation of the number of study group meetings and their duration.

11) Limitation of the number of days of meetings for the advisory groups to three days per year maximum with interpretation.

12) Reduction of the number and duration of physical meetings of working groups of the Council, where possible.

13) Incorporation of the first preparatory meeting for the [2015] [2016] world radiocommunication conference within the conference period.

14) Identification of the level of achievement of the different programmes with a view to utilizing resources for other new activities.

15) For new programmes or those having additional financial resource implications, a "value-added impact statement" should justify how the proposed programmes differ from current and/or similar programmes in order to avoid overlap and duplication.

16) Sound consideration of the resources allocated to regional initiatives, programmes and assistance to members, to the regional presence both in the regions and at headquarters, as well as those resulting from the outcome of WTDC and the Hyderabad Action Plan, and financed directly as activities from the Sector budget.

17) Reduction of the cost of travel on duty, by limiting time on mission as well as through joint representation in meetings, and benefiting from reductions in air fares.

18) Taking into account No. 145 of the Convention, a full range of electronic working methods needs to be explored to possibly reduce the costs, number and duration of the Radio Regulations Board meetings in the future, e.g. reduction of the number of meetings in one calendar year from four to three.

19) Introduce incentive programmes, such as efficiency taxes, innovation funds and other methods in order to address innovative cross-cutting means of improving the Union's productivity.

20) Move, to the extent practicable, from present communications by fax between the Union and Member States to modern electronic communication methods.

21) Any additional measures adopted by the Council.

1. 1 The concept of UMACs may be applied, where necessary, as a means of highlighting a number of activities within the overall programme of work mandated by the governing bodies of the Union, as well as those support activities which are deemed essential to implement the mandated activities, which could not be accommodated within the financial limits set by the Plenipotentiary Conference. The Secretary-General would be authorized to incur expenditure on these activities provided that savings are achieved or additional income is generated. [↑](#footnote-ref-1)