



Study of the costs of administration and management at WHO: preliminary recommendations

Report by the Secretariat

1. The Executive Board at its special session on reform in November 2011 requested that the Programme Budget and Administration Committee commission a detailed analysis of the actual costs of administration and management to the Organization and make recommendations on how these should be financed.¹ Following a competitive bidding process, the accountancy firm PricewaterhouseCoopers was selected to analyse WHO's administration and management costs, identify new financing options for the recovery of those costs and define a workable road map for the implementation of the selected option. As mentioned in the Secretariat's update to the Committee on general management,² the present document provides an outline of the preliminary recommendations arising from the study.

2. The terms of reference for the study, approved by the Committee at its sixteenth meeting,³ were as follows: to confirm the scope of administrative and management costs in WHO; to make proposals, with pros and cons, for at least three different financing models for these costs; to consider financing needs of those functions financed today by programme support costs but not considered as administrative and management costs; to make proposals for budgeting, reporting and cost control of administrative and management costs; to suggest the most appropriate, transparent means of estimating costs of service provision to hosted entities and to partnerships, and for recovering such costs; and to outline any procedural, accounting, or system requirements in order to implement the above-mentioned proposals.

3. The overarching objective of the study was to determine the costs of administration and management and assess the various options available for financing these costs through sustainable mechanisms in the next budget cycle, while improving the budgeting, control and reporting of costs. In support of this, the study also aimed to:

- define administration and management activities at WHO and their total cost throughout the Organization;

¹ See document EBSS/2/2, paragraph 136; the summary record of the fourth meeting in document EBSS/2011/REC/1; and the decision on managerial reforms of the Executive Board at its special session on reform, EBSS2(3), 1(b) financing of the Organization.

² Document EBPBAC17/2, paragraph 25.

³ See document EB131/2.

- identify cost drivers for administration and management and the structure of administration and management costs;
- analyse current administration and management funding mechanisms and their ability to recover administration and management costs;
- assess the net result of hosted partnerships and entities (i.e. whether WHO is subsidizing them);
- elaborate criteria for assessing and selecting the best approach to adopt;
- consider possible cost-recovery approaches to adopt, and perform simulations against specific scenarios;
- support transparent communication and reporting on cost allocation;
- assess the implications of the proposed recovery mechanisms for budgeting;
- examine improvements required in accountabilities, processes, data and technology; and
- elaborate a road map for implementation.

4. In support of the objectives mentioned above a structured and systematic approach was taken to the study. First, a current state assessment was undertaken, covering both the financing of administration and management and a related cost analysis. This assessment was based on a detailed analysis of data for the period January 2010 to October 2012. The fact that the Global Management System accounting system, being the main data source, enabled such an analysis demonstrates the importance of making investments in systems that can bring transparency and permit well-informed decision-making. Secondly, an analysis was made of four potential financing options for administration and management. It was based on a review of trends and practices observed at other United Nations system and international organizations and followed predefined guiding principles. Thirdly, recommendations and a high-level implementation road map were developed.

5. A WHO steering committee comprising representatives from headquarters and the regions reviewed the progress and provided guidance throughout the study. Specific meetings were organized with the regions and with headquarters departments in order to validate findings, collect feedback and present results. A summary of the main findings of the study is presented below.

CURRENT STATE ASSESSMENT

Analysis of administration and management costs

6. The study provided a cost categorization framework for the analysis of expenditures for the financial period 2010–2011. The framework distinguishes between core management activities and administrative support activities. The study analysed the total costs for administration and management across the Organization and then focused on strategic objectives 12 and 13.

7. The study produced an estimate that in the financial period 2010–2011 direct and indirect administration and management costs represented between 31% and 33% of overall WHO expenditures, of which 17% related to strategic objectives 12 and 13. An important proportion of administration and management costs relate to travel and travel management, which make up 6.5% of

total WHO expenditure and 20% of administration and management expenditure. About half the amount concerned involves travel cost for Member State representatives and external experts, as part of technical work, and could be excluded. This reduces total administrative and management cost to about 30% of overall WHO expenditure.

8. Other cost segmentation analyses, cutting across all strategic objectives, were performed in order to total Organization-wide spending in 2010–2011 to be identified for the following: (i) information and communication technology (US\$ 116 million), (ii) facilities (US\$ 95 million) and (iii) security (US\$ 33 million).

9. In 2010–2011, WHO's expenditures under strategic objectives 12 and 13 amounted to about US\$ 812 million, including expenditures under the post occupancy charge. The expenditures are categorized as follows:

- 41% (US\$ 331 million) related to core management covering offices of WHO's senior management, country offices, governing bodies, legal and oversight functions;
- 12% (US\$ 94 million) related to information and communication technology expenditures;
- 10% (US\$ 82 million) related to planning, budgeting and finance expenditures; and
- the remaining 37% (US\$ 304 million) related to facilities (10%), human resources (7%), procurement and travel (7%), communication and knowledge management (5%), general services (4%) and expenditure for the Regional Office for the Americas (6%), which could not be analysed as the Regional Office is not part of the Global Management System.

10. The study also revealed the following breakdown between WHO locations for expenditures under strategic objectives 12 and 13:

- 42% (US\$ 344 million) for headquarters, although it is not easy to distinguish which headquarters expenditures relate to activities performed in Geneva and which concern global activities;
- 20% (US\$ 166 million) for the Regional Office for Africa, 8% (US\$ 68 million) for the Regional Office for Europe, 8% (US\$ 64 million) for the Regional Office for the Eastern Mediterranean, 6% (US\$ 51 million) for the Regional Office for South-East Asia, 6% (US\$ 51 million) for the Regional Office for the Western Pacific, and 5% (US\$ 45 million) for the Regional Office for the Americas; and
- 3% (US\$ 23 million) represents the Kuala Lumpur Global Service Centre campus, including the staff of the Centre and off-shored staff working in the area of information technology and telecommunications.

Cost drivers for administration and management

11. The study identified the following elements that influence the scale and composition of WHO's administration and management costs:

- WHO's significant geographical presence has an impact on the payroll costs at headquarters and on security and telecommunication costs in security-compromised countries.

- The number of staff members influences overhead costs relating to facilities, equipment for information and communication technology and human resource management. Salary levels are driven by WHO's Staff Regulations and policies, with United Nations-wide salary scales and entitlements over which WHO's management has limited influence.
- The nature of the work – such as the publication of global or regional policies, the development of health statistics or the strengthening of national capacity to coordinate, monitor and evaluate – has an impact on the type and extent of the administration and management support that is required.
- WHO's global and regional governance arrangements and the six official languages in which the Organization operates have an impact on costs related to translation, interpretation, conference and event organization. They also have implications for travel costs since WHO covers the costs of some Member States participating in governance and other meetings.
- WHO's dual financing model and types of donors have an impact on administration and management costs. This is described further below.

The impact of WHO's voluntary contributions on administration and management

12. WHO is financed through a combination of assessed contributions and voluntary contributions. Assessed contributions are received from Member States and are not earmarked. Voluntary contributions are received from various donors and are typically earmarked for specific technical programmes. An analysis of the budget composition between 1980 and 2013 shows a significant increase in voluntary contributions over this period. Voluntary contributions represented approximately 50% of the total funding in the 1980s whereas this share has increased to 78% for the biennium 2012–2013.

13. The increasing share of voluntary funding in combination with the increased funding coming from other United Nations agencies and multilateral organizations has far-reaching implications for administration and management costs that have led to a structural gap in administration and management financing that is currently financed with assessed contributions. The following implications were identified:

- WHO has to provide administration and management support to an increasing number of voluntary funded programmes.
- Those responsible for administration and management need to justify support costs to donors.
- The management of voluntary funded activities and hosted entities has added specific overhead costs, for example in respect of additional staff for resource mobilization and the implementation of the grants accounting software module within the Global Management System.
- Programme support charge rates negotiated by WHO with other United Nations agencies and other multilateral organizations (e.g. the European Commission) are typically lower than the standard 13%.

Funding mechanisms for administration and management

14. WHO's administration and management costs are grouped under strategic objectives 12 and 13, the so-called "enabling strategic objectives". The technical programmes are funded under strategic objectives 1 to 11. Currently, WHO's administration and management costs are covered directly by technical units, are funded via assessed contributions or core voluntary contributions or are recovered indirectly from technical programmes. There are three mechanisms in place for this indirect cost recovery.

15. A **programme support charge** is applied as a percentage levied on programmes that are financed through contributions and some hosted entities. The programme support charge received is kept in a separate fund used only to finance administration and management. In 2010–2011, 22% of the administration and management costs under strategic objectives 12 and 13 were funded through the charge. The rising weight of funds provided by other United Nations agencies and international organizations such as the European Commission has resulted in a progressive erosion of the actual programme support charge rate collected by WHO. One third of programmes, representing 60% of voluntary funds have a rate of 7% or less. As a consequence, the effective rate collected on voluntary funds was 6.7% for 2010–2011 and 7.1% for the period January–October 2012.

16. A **post occupancy charge**, applied from January 2010 onwards, is an 8.5% mark-up on payroll costs. The post occupancy charge is applied to all staff salaries, irrespective of whether a staff member's programme is funded by assessed contributions or voluntary contributions. The amount collected through the charge represents 12% of strategic objectives 12 and 13, about half the amount funded through the programme support charge. The post occupancy charge mechanism is based on headcount, which is a key cost driver for the Organization. As such it has limited cross-subsidization. The study identified that whilst the principle of recovering costs based on a headcount as a cost driver is sound and fair for all parties, the mechanism needs further refinement to ensure that it is sustainable and transparent and that it remains fair.

17. A fee may be negotiated with hosted partnerships through an **administrative service agreement**, or **other specific agreements**, when no programme support charge is charged to these partnerships. In the financial period 2010–2011, WHO received US\$ 12.8 million through such agreements. A review of existing administrative service agreements and additional agreements highlighted a lack of consistency in the application of these agreements, a lack of clarity in respect of the expectations and accountabilities created by the agreements, and a lack of understanding as to which support services are covered through the programme support charge, the post occupancy charge and administrative service agreements.

The issue of cross-subsidization

18. Member States continue to seek clarification on the existence and the scale of cross-subsidization. Cross-subsidization involves the use of assessed contributions to finance part of the cost incurred by programmes that are funded by voluntary contributions, or by hosted partnerships. This measure is undertaken in order to offset a low recovery rate for administration and management costs.

19. The study compared the relative weight of assessed contributions against voluntary contributions in technical and enabling strategic objectives. It was found that assessed contributions fund 13% of technical programmes whereas – either directly or indirectly, through the post occupancy charge collected on headcounts for activities funded by assessed contributions – they fund 61% of enabling strategic objectives. This split is comparable to that indicated by the analysis of cost recovery practices at UNDP undertaken in 2007 by the Department for International Development

(United Kingdom of Great Britain and Northern Ireland). Even assuming that most of the management costs under strategic objective 12 do not relate to support provided to voluntary funded activities, and focusing on strategic objective 13 alone, 54% of the funding for administration costs is still related to assessed contributions, as opposed to 17% of the aggregate funding of technical strategic objectives 1–11 and strategic objective 12. The study concluded that the level of cross-subsidization is currently high.

PRELIMINARY RECOMMENDATIONS ON ADMINISTRATION AND MANAGEMENT FINANCING OPTIONS

20. In order to explore relevant and realistic financing mechanisms, the following guiding principles were defined: administration and management costs should be shifted to direct cost to the extent that this is justifiable, fair and realistic; the financing of administration and management from assessed contributions, voluntary contributions and hosted entities and partnerships should be harmonized and mainstreamed; operational simplicity should be balanced with transparency; incentives for donors and for the Organization should be built in, for instance by adapting rates; and mechanisms should include depreciation of capital expenditure. The study then identified and assessed four financing options for administration and management.

21. **Option A** recovers all administration and management costs through one single mechanism, the programme support charge. The programme support charge would be charged on programmes funded by assessed contributions and voluntary contributions and on hosted partnerships. Based on data for the financial period 2010–2011, such an option would require WHO to reach an effective average programme support charge rate of 21%. This option is simple, consistent with WHO's business model in which voluntary contributions represent more than 75% of funding and effectively eliminates cross-subsidization. However, pursuing this option would result in an unrealistic increase in the programme support charge rate that could seriously impair WHO's ability to attract voluntary funding. Also, having the programme support charge as a sole mechanism is unfair to programmes with a low number of staff and high funding.

22. **Option B** builds on the mechanism in option A and adds an overhead charge to salaries. Based on data for the financial period 2010–2011, such an option would require WHO to reach an effective programme support charge rate of 17% on average, complemented by an 11% charge on all salary costs. This option has the same advantages as option A and is fairer to WHO and donors. However, the increase in the programme support charge is still substantial and may not be acceptable to donors. This option also requires a clear distinction to be maintained between the administration and management costs that should be funded by the programme support charge on the one hand, and those that should be funded by the overhead charge on the other.

23. **Option C** builds on the mechanism in option A and defines a service catalogue with cost units. Costs are then recovered based on consumption. Using data for the financial period 2010–2011, such an option would require WHO to reach an effective average programme support charge rate of 17%, while cost unit chargeback would represent 4% of technical programme expenditures. This option is fair, transparent and can provide incentives for efficiency. However, it is complex to implement and sustain, and it is applicable only to a relatively small range of costs.

24. **Option D** funds activities that qualify as core management through direct assessed contributions. Other administrative costs are then recovered through the programme support charge and an overhead charge, similar to option B. Based on data for the financial period 2010–2011, such an option would enable 43% of funding for strategic objectives 12 and 13 to come from direct assessed contributions, an effective programme support charge rate of 7% on average, complemented by an 11% overhead charge on salary. This option is sustainable and scalable as it reflects WHO's key cost drivers. It also allows WHO to maintain a competitive programme support charge and takes advantage of mechanisms that are already in place. In addition, this option is consistent with the cost classification defined by the United Nations High-Level Committee on Management, and with practices observed at UNDP. This option, however, has certain limitations that need to be taken into account, notably its complexity and the change management effort required in order to secure acceptance.

Next steps

25. The study provides the following high-level road map for the implementation of the recommendations, and the other improvement opportunities identified:

- End of January 2013: finalization of the cost-recovery study
- By May 2013: implementation of short-term recommendations relating to budgeting and data structures
- In May 2013: presentation to the Committee on recommended next steps as part of WHO's overall financing reform package.

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