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Item No. 5 on the Agenda: Review of the compensation and social security package offered to UNIDROIT staff

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Report on compensation aspects – in particular forecasting costs of transitioning staff to the UN salary scales localised for Rome – prepared by outside consultant</i>
<i>Action to be taken</i>	<i>Opinion of the members of the Finance Committee with regard to the proposal to transition staff to the UN salary scales localised for Rome</i>
<i>Related documents</i>	<i>UNIDROIT 2017 – F.C. (81) 1; UNIDROIT 2017 – F.C. (81) 6; UNIDROIT 2015 – F.C. (78) 7; UNIDROIT 2014 – F.C. (76) 7</i>

BACKGROUND

1. Since the Finance Committee supported, at its 74th session (Rome, 26 September 2013), the Secretariat's request to authorise the Secretary-General, in accordance with Article 38(4)(a) of the UNIDROIT Regulations, to use part of the surplus carried over from the 2012 financial year for the purpose of covering the cost of expert review of the compensation and social security package offered to UNIDROIT staff, that package has been under review. At its 76th session (Rome, 25 September 2014), the Finance Committee established an informal working group to conduct that review,¹ and that group has since met four times.²

2. At the fourth meeting of the Finance Committee's informal working group on compensation and social security, which took place immediately after the General Assembly's 75th session (Rome, 1 December 2016), the Secretariat, *inter alia*, recalled that the outside consultant on compensation aspects had earlier stated that (1) a number of issues needed to be addressed in order for UNIDROIT to move forward on an equitable and transparent basis, and (2) the status quo did not seem to be a viable option. At that meeting, the informal working group considered the documentary materials

¹ UNIDROIT 2014 – F.C. (76) 8, para. 36.

² Specifically, the informal working group has met in Rome on the following dates: 2 April 2015, 17 March 2016, 29 September 2016, and 1 December 2016.

provided, which set forth various compensation and social security options, and made the following four recommendations.

3. First, with respect to the compensation options, the informal working group recommended that the Secretary-General consider the compensation options presented; identify the one that he believed to be best suited for UNIDROIT going forward, taking into consideration the need for maintaining, or if possible lowering, costs and administrative burden; and submit a proposal, together with a forecasting of costs, in support of that option.

4. Second, with respect to pension options, the informal working group recommended that the Secretariat follow up with the International Service for Remunerations and Pensions (ISRP) to provide them with the comments received and to ask them to prepare a final report proposing a pension scheme aligned to the Third Pension Scheme (TPS), which appeared to be the most feasible alternative to current arrangements.

5. Third, with respect to health, disability and life insurance, the informal working group recommended that the Secretariat follow up with Allianz and Cigna to determine which proposal was most consistent with the UN health insurance plan and whether there could be any additional savings with respect to the proposed premiums.

6. Fourth, the informal working group recommended that, going forward, these issues be placed on the Finance Committee's Agenda and that, to the extent possible, the proposals above be sought and submitted to that Committee for consideration at its 81st session.

CURRENT PROPOSAL

7. Pursuant to the informal working group's recommendations, the Secretariat has followed up with its outside consultant on compensation aspects for a report regarding the forecasting of costs based on the transitioning of all staff, as of 1 January 2018, to their respective places on the UN salary scales localised for Rome. That report, entitled "Staffing: Ten-year cost projections for all UNIDROIT staff placed on the United Nations salary scales localized for Rome duty station" is included as an Appendix to this document.

8. The Report includes, *inter alia*, proposed placements for current staff on the UN salary scales localised for Rome, and the following tables providing ten-year forecasts of costs:

- Table 1 on page 8: Current staff on UN salary scales – no annual increases in salaries or allowances;
- Table 2 on page 10: Current staff on UN salary scales – with annual salary increases;
- Table 3 on page 11: Comparison of projections of UNIDROIT status quo and UN model – no salary increases;
- Table 4 on page 12: Comparison of projections of UNIDROIT status quo and UN model – with salary increases;
- Table 5 on page 16: Staff on UNIDROIT scales – no annual adjustments or allowances; and,
- Table 6 on page 16: Staff on UNIDROIT scales – with annual adjustments in salaries and allowances.³

9. In this regard, the Secretariat would highlight Tables 3 and 4 in particular, which show a ten-year comparison in costs between the UN proposal and the status quo. With respect to Table 3,

³ See Appendix, Report on Staffing: Ten-year cost projections for all UNIDROIT staff placed on the United Nations salary scales localized for Rome duty station (March 2017).

which compares such costs without salary increases, the consultant notes that “[t]he projections suggest that staff costs under the UN solution will be higher than the UNIDROIT status quo by €24,000 in 2021 and €59,000 in 2027”.⁴ With respect to Table 4, which compares such costs with salary increases, the consultant notes that “the difference in costs between the UN and the status quo option is projected to be slightly lower than in Table 3.”⁵

10. The Secretariat would also highlight the consultant’s observation that:

As already indicated in paragraph II.9 above, moving over to the UN approach will offer some substantial non-financial benefits, exchanging a rather complex and unclear approach for one which is transparent, coherent, easily accessible and understandable and which will offer much better protection for UNIDROIT against potential legal challenges and corresponding liabilities.

[...]

In consideration[] of value for money, the introduction of the – transparent, easily accessible, coherent - UN approach can only impact positively on the motivation and productivity of staff for what may be a marginal increase (paragraph b above refers) in staff costs. It should also influence positively UNIDROIT’s attractiveness in the international labour market, and representing another non-financial benefit of adopting the UN approach.⁶

11. In connection with the consultant’s observation, the Secretariat would note that the consultant forecast that newly hired staff members would be placed at the first step of the grade occupied by their predecessors. Additional savings could be made by hiring new staff members at lower grades than their predecessors as the various positions would be banded (i.e. Secretary-General: D1 to D2, Deputy Secretary General: P5 to D1, Senior Legal Officer: P4 to P5, Legal Officer: P2 to P4).⁷

12. In light of the Report and these observations, the Finance Committee may wish to have an initial discussion, with a view to further deliberation and conclusion of the compensation and social security review at the Finance Committee’s 82nd session in the fall.

⁴ *Id.* para. 3(d) at page 11.

⁵ *Id.* para. 4(a) at page 11.

⁶ *Id.* paras. 4(c)-(d) at page 12.

⁷ *Id.* para. III(5) at page 5 (noting that “[t]his banded approach would support a system of career progression as staff took on increasing levels of responsibility in line with their increased seniority in the post.”).



UNIDROIT

Staffing: Ten-year cost projections for all UNIDROIT staff placed on the United Nations salary scales localized for Rome duty station

REPORT issued by RHéciPROque, March 2017

I - INTRODUCTION

1. In the context of its Human Resources management review, UNIDROIT management prepared, in early 2016, and with the assistance of RHéciPROQue, ten-year staff cost projections based on three different scenarios: current staffing and practices, current staff placed on the Co-ordinated organizations' salary scales, and current staff placed on the UN salary scales localized for Rome. The report was submitted to the informal working group looking into the UNIDROIT compensation and social security packages. Having considered this report, the group subsequently asked UNIDROIT management to further examine and recommend one of the three scenarios; and the transition of UNIDROIT staff to the UN salary scales localized for Rome was identified.
2. The informal group recommended that UNIDROIT's current benefits arrangements (i.e. expatriation, spouse and child allowances) be maintained as currently defined in the UNIDROIT's regulations. Step increases, however, should be foreseen in line with UN practice in Rome.
3. It was also established that no staff should face a decrease in their remuneration as a result of the transition. In consequence, once an appropriate grade level had been identified on the UN salary grid localized for Rome for each individual staff member, (generally based on the established grade equivalences between the Co-ordinated organizations and UN structures, but with some exceptions, primarily to take account of seniority and experience – see paragraphs III A 1 and III B 2 below), they were then assigned to a step that provided a gross salary closest to, but not below, their current gross salary.
4. RHéciPROQue, having been tasked to prepare new ten-year projections of the cost of aligning all staff to the UN salary scales, paid particular attention to the treatment of the expatriation allowance during the transitional period, given that some UNIDROIT staff currently receive irrevocable and indefinite expatriation allowances. For these staff members, UNIDROIT management and RHéciPROQue agreed that it would make sense administratively to consolidate their expatriation allowances into their gross base salary prior to alignment onto the UN salary scale. For more recently recruited staff, whose expatriation allowance was payable only during the first seven years of service, in accordance with UNIDROIT's regulations, their gross base salary only was used to set their alignment to the UN salary scale; in these cases, the expatriation allowances were calculated as a separate allowance for inclusion in the projections.
5. As requested by UNIDROIT's management, an initial report projecting costs for 2018 only was submitted in February 2017 to enable the estimates to be incorporated into UNIDROIT's draft Budget for 2018. As a result, some of the initial assumptions used in the 2018 projections were modified, in particular some alignments for reasons such as seniority and experience and the age upon retirement, at the request of UNIDROIT management, and incorporated into the ten-year projections set out in this present report. In addition, RHéciPROQue was asked to update its earlier projections based on current UNIDROIT staffing and practices, as presented in the 2016 original report, for comparison with the projections for moving to the UN salary scales.

6. Although the UN salary methodology is part of an overall compensation framework, RHéciPROque was only asked to consider a methodology for applying the UN salary scales, including the post adjustment factor for the A grade staff (who would become P staff under the UN system), without any other element of remuneration that forms part of the UN remuneration system (e.g. spouse and child allowances, assignment grant and rental subsidy). The methodology used is described in more detail below.
7. As well as presenting ten-year cost projections for implementing the “UN solution”, with an assumed implementation date 1 January 2018, and for comparing to the *status quo*, the present report highlights particular issues, which would need to be addressed by UNIDROIT management should it be decided to proceed with the UN solution.

II - PREAMBLE

8. The Co-ordinated organizations (e.g. OECD, the European Space Agency, the Council of Europe) are, generally speaking, stand-alone organizations which share few, if any, common objectives. However, they have over many years developed a joint approach to HR and compensation issues, with a view to streamline efforts and administrative processes. On the other hand, UN organizations have developed a “Common System of Salaries, Allowances and Benefits”, in support of a common objective, articulated around the principles of the UN charter. UNIDROIT’s mandate of a universal dimension would seem to compare more closely to the UN objectives than to any of the Co-ordinated organizations. The recommendation of UNIDROIT management to consider the UN compensation framework appears to support UNIDROIT’s mandate.
9. Moreover, this decision brings a number of advantages:
 - RHéciPROque’s report in March 2016 suggested that the UN solution would be financially cheaper than the Co-ordinated organizations’ approach, while alignment to the UN scale would facilitate communication and transparency with stakeholders on UNIDROIT’s remuneration and HR principles.
 - The UN largely dominates the international recruitment market in Rome, with the presence of the Headquarters of three major UN organizations (i.e. FAO, WFP, IFAD). Aligning to their compensation system would ensure UNIDROIT is a competitive international employer in Rome.
 - As noted in the 2016 report, UNIDROIT’s current salary methodology is rather complex and unclear, with some inconsistencies with the staff regulations. Aligning staff on the UN scale would be simpler for UNIDROIT management, in particular its Treasurer, to administer, and would represent a major step towards rationalization and full transparency, by implementing a systematic reference, accessible and understandable by all stakeholders.
 - Should UNIDROIT so decide, this important step will also serve as the basis for further developments in Human Resources Management, notably in the field of organizational design (thereby allowing staff to identify themselves vis à vis other staff on the basis of duty related criteria, thus promoting the principle of *equal work, equal pay*).

- At the same time, aligning UNIDROIT staff to the UN's salary system would contribute to reducing, and eventually phasing out, apparent discrepancies in the treatment of staff, and increasing the level of transparency, trust and cohesion amongst the staff. Finally, the use of a systematic, transparent salary reference may also reduce the potential risks of legal liabilities.

III - METHODOLOGY AND ASSUMPTIONS

A - Assumptions relating to grades and compensation methodology:

1. Category A: Staff were initially placed in appropriate grades on the UN salary grid on the basis of established grade equivalences between the Co-ordinated organizations and UN system. However, based on UNIDROIT management's inputs, different alignments were used for some staff, for example to take into account seniority and experience. The UN professional unified gross salary scale as at 1 January 2017 was used for this purpose, subject to application of the post adjustment multiplier for Rome and step increases in accordance with that system.
2. Category B&C: Staff were placed in appropriate grades on the UN's General Service (GS) salary grid for Rome (using the scale for staff recruited on or after 1 February 2013), again on the basis of established grade equivalences and subject to step increases in accordance with that system.
3. For both categories of staff, the UN grade assigned has not taken account of the functions actually performed, as would normally be the case where grades assigned in a salary grid result are linked to a job classification system, i.e. there has been no analysis of the duties, responsibilities and authorities attached to individual posts. As mentioned below, this reflects the need – in order for the transition to take account of acquired rights – for staff to not earn less than they currently do, and the analysis regarding duties and posts could be considered after the transition when new staff are hired.
4. In all cases where staff currently hold the same UNIDROIT grade (e.g. there are six staff at B6 level), these staff were placed in the same grade in the UN salary grid which will maintain grade coherence in the new system. This is also considered to be consistent with Annex III of UNIDROIT's staff regulations by which staff are placed at a given grade according to their functions. Although this and other UNIDROIT staff regulations will need to be reviewed to ensure consistency with the UN salary system, the proposed alignments largely maintain the overall grading principle of UNIDROIT, and provide a basis for a job evaluation/organization design review should UNIDROIT management ever decide to proceed in that direction.
5. However, this approach was not feasible for the two A2 staff, as the salary of one exceeded the final step of what was deemed to be the appropriate grade in the UN system: in other words, the two staff could not be accommodated in the same UN grade. To solve this issue, UNIDROIT management decided that one of the two A2 staff should be placed in the next higher grade. This decision would be consistent with management's declared interest in introducing a system of banded grades for the

professional staff as follows: Secretary General: D1 to D2, Deputy Secretary General: P5 to D1, Senior Legal Officer: P4 to P5, Legal Officer: P2 to P4. This banded approach would support a system of career progression as staff took on increasing levels of responsibility in line with their increased seniority in the post.

6. With regard to the Secretary General's position, UNIDROIT management decided that this position should be graded at D2 level in the UN system. While it will require transitional arrangements, this decision will, upon the retirement and replacement of the present Secretary-General, represent a cost effective option for UNIDROIT.
7. Taking account of UNIDROIT management's specific requests concerning grade levels, all staff were placed on a step of the appropriate UN salary scale closest to but higher than their current salary, to ensure no loss of overall remuneration on alignment to the UN salary scales. For the purposes of alignment, the salary net of expatriation, household and child allowances was used, although expatriation allowances subject to *grandfathering* arrangements were consolidated into basic salary. However, the estimated costs of all these allowances were included in the ten-year projections.
8. The UN compensation framework links some other indemnities (e.g. death grant, repatriation grant, termination indemnity) to basic salary, but these were excluded from the scope of the study following UNIDROIT management's decision not to alter their current system of allowances at this time.

B - Assumptions relating to UNIDROIT's organizational design and structure:

1. The number of positions remain unchanged over the ten-year projection period.
2. Following alignment to the UN salary grid, all positions are subsequently maintained at the grade proposed, as considered necessary for UNIDROIT to deliver its mandate. The grade of all new recruits will be the same as the staff replaced, except in the case of the three A3 staff whose alignment at P-5 on the UN salary grid, as proposed by UNIDROIT's management, seemed to reflect as much a personal grade for individual staff rather than an objective evaluation of the duties they currently perform. For the purpose of the projections, therefore, it was assumed that they would be replaced by new recruits at P-4 grade in the UN system, a grade level more appropriate in terms of the established grade equivalences.
3. Positions currently filled part-time continue to be part-time throughout the period.

C - Assumptions relating to staff:

1. The current personal situation of existing staff does not change during the projection period: eligibility for household and child allowances remains therefore unchanged.
2. All existing staff members remain in active service until they reach the age of 65: to simplify the calculation, staff are assumed to retire at the end of the calendar year in which they reach 65.
3. All retiring staff are replaced by recruits with the same personal profile, thus ensuring a continuity of the personal basis for any family related and expatriation allowances.

D - Other assumptions:

The ten-year projections were prepared on the basis of UNIDROIT's existing administrative framework (except where these were found to be incompatible with the operation of the UN's salary system, e.g. the award of incremental steps) and instructions from the Secretariat in respect of existing allowances and benefits. In addition:

1. The projections include the cost of basic salaries and post adjustment (A staff), family related and expatriation allowances and estimates of the employer's social security contributions. They exclude the costs of all other allowances and benefits that may be payable to staff.
2. There are two types of projections. The first type assumes that underlying salary scales do not change during the ten year period i.e. there are no increases in basic annual salary or adjustments for cost of living or exchange rate fluctuation. The underlying value of family related allowances is also assumed to remain unchanged. The results are, therefore, established in constant price terms, which allows a clear assessment of the evolution of costs using UN salary scales, and current UNIDROIT salary system. The second type presents an alternate, indicative assumption relating to increases in annual salary and the underlying value of family-related allowances.
3. Annex 1 sets out the proposed United Nations grade levels for UNIDROIT staff, based on the established grade equivalences between the Co-ordinated organizations and UN system and taking into account UNIDROIT management's instructions.

IV - COMMENTS ABOUT THE UN SALARY SCALES

1. UN Professional staff (equivalent to A staff category in UNIDROIT)
 - a. For its Professional staff, the UN uses the salaries of comparable staff in the world's highest paying national civil service (taken to be the US federal civil service) as the basis for the salary system. A net basic salary scale, denominated in US dollars, is derived from net-of-tax comparator salaries, enhanced by a margin of 15% to ensure that UN salaries are attractive to potential recruits world-wide; the General Assembly agreed to a margin in favor of UN professional staff as being necessary to compensate for specific elements relating to expatriate service. These base salaries are augmented by a cost of living supplement known as Post Adjustment, reflecting price differences between the different duty stations and the base of the salary system, New York. The level of post adjustment can vary slightly from month to month, to compensate for relative movements in the cost of living and for exchange rate fluctuations, which may give slightly different results (incomes, and therefore corresponding costs).
 - b. UN base salaries and post adjustment are converted to local currency-denominated salaries on the basis of official UN exchange rates, using a technique which ensures the stability of salaries expressed in local currency. For the purposes of the projections, the UN's official USD to euro exchange rate and post adjustment levels for Rome in February 2017 were used, which allows a euro-based salary scale to be established (directly comparable with current UNIDROIT professional salaries). Should UNIDROIT

decide to proceed with the UN option, the precise date for the salary scale and levels of post adjustment and exchange rate would need to be agreed. This could affect the actual salary on alignment, or even the step to which staff are aligned, and therefore have some minor impact on the projected costs.

- c. UN Professional staff in the grades P1 to P5 receive incremental steps every year up to step 7; thereafter steps are awarded every two years. All steps for staff at D1 and D2 are awarded biennially.
- d. The UN's compensation framework is built in a holistic manner, whereby other remuneration elements are directly linked to the post adjustment system, generating further allowances, e.g. installation grant and rental subsidy. Following discussions with UNIDROIT's management, the present study does not consider these other allowances, making the references and alignment to the UN's compensation framework partial, though to a limited extent.

2. UN General Service staff (equivalent to B and C staff in UNIDROIT)

- a. The UN uses one single salary scale for all of its administrative and technical support staff. UNIDROIT's B and C category staff have therefore been placed in an appropriate grade on this unified scale on the basis of their current grade and the established grade equivalences.
- b. GS staff in UN agencies in Rome receive additional steps every two years. They also receive a lump-sum payment upon final separation from their agency (known as the "liquidazione"), which can be regarded as a form of deferred salary. Liquidazione has not been included in the projections as the payment of liquidazione is not planned for in UNIDROIT regulations.

V – RESULTS

1. UN salary system: Ten year projections with no annual salary increases

- a. The first set of projections are presented on the assumption that the underlying UN salary scales and levels of post adjustment for Rome do not change between 2018 and 2027 i.e. no increases for changes in the cost of living, fluctuations in the exchange rate or other factors that could influence costs; the family-related allowances are also assumed to remain unchanged. The ten-year projections are, therefore, established in constant price terms and allow a clearer assessment of the likely impact arising from the change to the UN model. It is also assumed that there are no changes in the 2017 staff costs provided by UNIDROIT management.
- b. Table 1 sets out the projections for the ten-year period 2018-2027. The estimates of social security contributions (INPS) are based on extrapolations from the 2017 baseline data and, as a result, are less precise than the estimates of gross salaries.

Table 1Current staff on UN salary scales - no annual increases in salaries or allowances

€million

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross Salaries A	0.729	0.745	0.750	0.756	0.760	0.756	0.741	0.751	0.754	0.761	0.732
Gross Salaries B&C	0.530	0.543	0.543	0.561	0.555	0.570	0.565	0.570	0.576	0.590	0.595
INPS (staff)	-0.097	-0.102	-0.103	-0.105	-0.105	-0.106	-0.104	-0.105	-0.106	-0.108	-0.105
Net Salaries (all staff)	1.162	1.185	1.190	1.212	1.209	1.220	1.202	1.216	1.224	1.243	1.222
INPS (UNIDROIT)	0.412	0.423	0.425	0.435	0.434	0.438	0.431	0.436	0.439	0.446	0.437
Total staff costs	1.574	1.608	1.615	1.647	1.643	1.658	1.634	1.652	1.663	1.689	1.659
Index 2017=100	100	102.2	102.6	104.6	104.4	105.3	103.8	104.9	105.7	107.3	105.4

- c. Information provided by UNIDROIT management suggests that total staff costs in 2017 will be €1.574 m (€1.162m salaries; €0.412m INPS contributions, adjusted for those staff opting for alternative social security arrangements).
- d. As set out in Table 1, total staff costs are projected to rise during the period by an average 0.5% a year, to €1.659m (€1.222m salaries; €0.437m INPS contributions) in 2027. For purposes of the 2018 budget in particular, a 2% increase (€1.162m to €1.185m) is projected for the budget line for staff salaries (Chapter 2, Art. 1) and a 2.7% increase (€0.412m to €0.423m) for the budget line for insurance against disablement, old age and sickness (Chapter 3, Art. 1).
- e. Whereas staff only receive small increases on assimilation to the UN salary scales, assimilation being to the closest but next highest step, most staff subsequently receive additional steps every 1 to 2 years throughout the period. In this respect, it is recalled that most staff are assimilated at the lower end of their respective salary scale and entitled to additional incremental steps throughout the period.
- f. On the other hand, the cost associated with alignment to the UN salary scales will be offset to an extent in the early years of the projection period by the reduction in expatriation allowance of the two A2 staff, in accordance with UNIDROIT's staff regulations and, more significantly, by the impact of some retirements, where the replacements are assumed to be appointed at the minimum of the scale. It is also noted that the 3 A3 staff who retire before 2027 have reserved rights to higher expatriation allowances than will be payable to their replacements.
- g. The projections set out in Table 1 of the cost associated with transition to the UN salary system are higher than those prepared in March 2016. There are a number of explanatory factors for this:

- There were unforeseen changes in the grades and steps of some staff in 2016. Whereas the previous projections assumed that B and C staff only moved to the next grade once they had reached the scale maximum of their current grade, it appears that some staff in the B category changed grade in 2016. Furthermore, it had been assumed that staff would receive only one step in 2016, although several staff received more than one step during the year. This increased the baseline cost both in 2017 and in subsequent years.
- Since the initial 2016 report, UNIDROIT management requested that the latest projections should assume that all staff will retire at age 65 rather than the original assumption of 60. This means that the cost savings that will arise from replacing the retired staff with new recruits at the first step of the salary scale will not materialize until later in the projection period, with some retirements now falling outside the period altogether.
- The alignment of some A staff requested by UNIDROIT's management were to higher grades than those assumed in 2016. As these staff will now be placed towards the bottom of their UN salary scale, the main impact of these different alignments will be prolonged access to future steps that this will give the staff concerned: the alignments assumed for these staff in 2016 were to a grade and step towards the top end of the UN salary scales.

2. UN salary system: Ten year projections with increases in salaries and allowances

- a. Table 2 shows the impact of incorporating annual adjustments of the salaries and allowances into the ten-year projections.
- b. It is, of course, almost impossible to predict how salaries and allowances might evolve during the ten-year projection period. The recent past has witnessed pay freezes imposed by many national civil services, including the US federal civil service, whose pay scales are used in the methodology for establishing the salary scales for UN Professional staff. The pay of UN General Service staff (equivalent to UNIDROIT's B and C staff) is linked to the pay of comparable staff in the locality, which has also been affected by the global economic situation. On the other hand there were signs of slight recovery in some UN salaries during 2016.
- c. For the purposes of this report, it is assumed that allowances and UN salaries will increase by an illustrative 1.5% a year up to 2022 and by 2% a year from 2023 to 2027.
- d. Table 2 below shows that total staff costs would increase by 2% to 2.5% a year on average during the ten-year period, to €1.945m (€1.432m salaries; €0.513m INPS contributions) by 2027.

Table 2Current staff on UN salary scales – with annual salary increases

€ million

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross salaries A	0.729	0.753	0.768	0.783	0.796	0.802	0.801	0.828	0.849	0.873	0.856
Gross salaries B&C	0.530	0.551	0.559	0.586	0.588	0.612	0.619	0.635	0.653	0.680	0.699
INPS (staff)	-0.097	-0.104	-0.106	-0.109	-0.111	-0.113	-0.113	-0.117	-0.120	-0.124	-0.123
Net salaries (all staff)	1.162	1.201	1.221	1.260	1.273	1.300	1.307	1.346	1.382	1.429	1.432
INPS (UNIDROIT)	0.412	0.429	0.437	0.452	0.458	0.468	0.470	0.484	0.497	0.514	0.513
Total staff costs	1.574	1.630	1.658	1.712	1.731	1.769	1.777	1.830	1.878	1.944	1.945
Index 2017=100	100	103.5	105.4	108.8	110.0	112.4	112.9	116.3	119.3	123.5	123.6

3. UNIDROIT status quo: Ten year projections with no annual salary increases

- a. During preparation of this report, RHÉCIPROQUE was asked to update its earlier projections based on current UNIDROIT staffing and practice, as presented in the 2016 report, and to include these for direct comparison with the projections for moving UNIDROIT staff onto the UN salary scales.
- b. The updated projections based on current UNIDROIT staffing and practice are set out in detail in Annex 2. Two sets of projections are presented - with and without annual increases in salaries and allowances.
- c. Table 3 compares the projections of staff costs under the 'UNIDROIT *status quo*' approach with those based on the UN model, assuming no annual increases in salaries or allowances. The staff costs include salaries and allowances only; INPS estimates are considered less precise and are excluded from the comparison.

Table 3Comparison of projections of UNIDROIT status quo and UN model: no salary increases

Gross Salaries		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
UNIDROIT UN	A	0.729	0.739	0.744	0.747	0.749	0.737	0.718	0.724	0.730	0.734	0.709
	A	0.729	0.745	0.750	0.756	0.760	0.756	0.741	0.751	0.754	0.761	0.732
Difference	A	0.000	0.005	0.006	0.010	0.011	0.020	0.024	0.026	0.024	0.027	0.022
UNIDROIT UN	B and C	0.530	0.536	0.541	0.545	0.541	0.545	0.545	0.545	0.550	0.554	0.559
	B and C	0.530	0.543	0.543	0.561	0.555	0.570	0.565	0.570	0.576	0.590	0.595
Difference	B and C	0.000	0.007	0.002	0.016	0.013	0.024	0.020	0.026	0.025	0.035	0.037
UNIDROIT UN	All	1.259	1.275	1.285	1.292	1.290	1.282	1.262	1.269	1.280	1.289	1.268
	All	1.259	1.287	1.293	1.317	1.315	1.326	1.307	1.321	1.330	1.351	1.327
Difference	All	0.000	0.012	0.008	0.025	0.024	0.044	0.044	0.052	0.050	0.062	0.059

- d. The projections suggest that staff costs under the UN solution will be higher than the UNIDROIT status quo by €24,000 in 2021 and by €59,000 in 2027. For A staff, differences can be attributed to the incremental progression that now becomes available to all A staff under the UN approach: under the UNIDROIT status quo, three A staff have already reached the maximum of their scale and another two A staff will do so by 2020. B and C staff will also benefit from further incremental progression under the UN solution whereas half these staff have already reached the maximum of the *category* under the current UNIDROIT approach. Moreover, it was noted in the 2016 report that UNIDROIT's B and C salary scales appeared low compared to the Co-ordinated organizations and the UN agencies in Rome.

4. UNIDROIT status quo: Ten year projections with annual salary increases

- a. Table 4 below presents the same comparison, but with the assumption of annual increases in salaries and allowances. The difference in costs between the UN and the status quo option is projected to be slightly lower than in Table 3.

Table 4Comparison of projections of UNIDROIT status quo and UN model: with salary increases

Gross Salaries		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
UNIDROIT	A	0.729	0.750	0.767	0.784	0.798	0.796	0.791	0.814	0.837	0.859	0.846
UN	A	0.729	0.753	0.768	0.783	0.796	0.802	0.801	0.828	0.849	0.873	0.856
Difference	A	0.000	0.003	0.001	0.000	-0.001	0.006	0.010	0.013	0.012	0.015	0.010
UNIDROIT	B and C	0.530	0.544	0.557	0.570	0.575	0.587	0.599	0.611	0.629	0.647	0.664
UN	B and C	0.530	0.551	0.559	0.586	0.588	0.612	0.619	0.635	0.653	0.680	0.699
Difference	B and C	0.000	0.007	0.002	0.016	0.013	0.024	0.020	0.024	0.024	0.033	0.035
UNIDROIT	All	1.259	1.294	1.324	1.354	1.372	1.384	1.390	1.425	1.467	1.505	1.511
UN	All	1.259	1.304	1.327	1.369	1.384	1.414	1.421	1.463	1.502	1.553	1.555
Difference	All	0.000	0.010	0.003	0.015	0.012	0.030	0.031	0.038	0.035	0.048	0.044

- b. As the current UNIDROIT compensation framework is rather complex and unclear, (e.g. there are no formal salary scales for A staff or precise information regarding the movement of B and C staff between grades within their respective category), projections of the UNIDROIT status quo option will be somewhat less precise than those presented for the UN approach. This is considered in more detail in Annex 2, paragraph 6, which discusses the differences between projected and actual costs for 2016. The – relatively low - differences in staff costs indicated between the status quo and UN approaches should therefore be treated with caution.
- c. As already indicated in paragraph II.9 above, moving over to the UN approach will offer some substantial non-financial benefits, exchanging a rather complex and unclear approach for one which is transparent, coherent, easily accessible and understandable and which will offer much better protection for UNIDROIT against potential legal challenges and corresponding liabilities.
- d. In considerations of value for money, the introduction of the – transparent, easily accessible, coherent - UN approach can only impact positively on the motivation and productivity of staff for what may be a marginal increase (paragraph b above refers) in staff costs. It should also influence positively UNIDROIT's attractiveness in the international labour market, and representing another non-financial benefit of adopting the UN approach.

VI – CONCLUSION

1. In the context of its on-going HR management review, UNIDROIT Finance Committee and its informal working group asked UNIDROIT management to update the ten-year projections of costs for its recommended compensation option, namely the placement of current staff on the United Nations (UN) salary scales localized for Rome.
2. Four sets of ten-year projections are presented in the report, with and without adjustments to the underlying salaries and allowances, which enables the costs associated with alignment to the UN salary scales, and the cost of a statu quo option, to be considered separately from those linked to annual increases in salaries and allowances.
3. In interpreting the results, one must recall that they are based on a number of assumptions which have a major impact on both the quality and the accuracy of all sets of projections, in particular the assumption that the personal situation of current staff remains unchanged and that the personal situation of new recruits will be the same as the staff they replace.
4. If introduced by UNIDROIT, the use of UN salary scales will require a modification of several UNIDROIT's regulations to reflect the changes to the salary system, and to publicize the new salary methodology and scales adopted thereof.

Some of the projected costs could be modified if UNIDROIT management decided to conduct job evaluations of the positions, to ensure that the grade of positions matched the duties to be performed. To ensure smooth transitions however, UNIDROIT could opt to limit such an exercise to positions as they became vacant (e.g retirement or resignation of existing staff, creation of new position(s), etc). In this respect, it is noted that the current grade structure, and therefore the grades assigned to individual staff on the UN salary scales, would in some cases appear to reflect a personal grade rather than an objective evaluation of the duties actually performed. Such an exercise could form part of a project to establish a broader streamlined HR management framework for UNIDROIT.

ANNEX 1: United Nations proposed grade levels for UNIDROIT staff, based on salary comparison and taking into account UNIDROIT management's instructions

Professional and higher category

	UNIDROIT	UN
Secretary General¹	A7	D2
Deputy Secretary General	A4	D1
Senior Legal Officer	A3	P5
Senior Legal Officer	A3	P5
Senior Legal Officer	A3	P5
Legal Officer	A2	P3
Legal Officer	A2	P2

General Service category

	UNIDROIT	UN
Librarian	B6	G6
Cashier	B6	G6
Secretary	B6	G6
Secretary	B6	G6
Secretary	B3	G3
Secretary	B4	G4
Meetings and Logistics Assistant	B6	G6
Information Technology Assistant	B6	G6
Assistant Librarian	B1	G2
Administrative Assistant	C6	G3
Administrative Assistant	C6	G3
Administrative Assistant	C6	G3

¹ Under the proposed alignment, the current Secretary General will receive a transitional allowance to match the difference between his current net salary and the net salary of the proposed UN grade, in accordance with the no-loss principle

Annex 2: Ten year projections based on UNIDROIT's current staff and practices

1. For the final report, UNIDROIT management asked RHéciPROQue to update the ten-year staff cost projections prepared in March 2016, on the basis of current UNIDROIT staffing and practice, for direct comparison with the projections for staff placed on the UN salary scales localized for Rome.
2. The updated projections are set out below. Table 5 is based on the assumption that there are no annual adjustments in salaries or allowances during the ten-year projection period, that is, changes in staff costs from one year to the next reflect only the award of extra incremental steps, the cost changes arising from the retirement and replacement of staff and the reduction in the expatriation allowances of two A graded staff. Table 6 assumes that salaries and allowances increase by the same annual adjustments as used for the UN scenario and described in more detail in Paragraph V, part 2 of the main report.
3. As well as the general observations about the assumptions set out in Paragraph III of the report, the following additional points should be noted:
 - All three Senior Legal Officers appear to have reached the maximum of their salary scale. It is assumed, therefore, that the other four A-grade staff will also progress through their current salary scale to reach the equivalent of step 11 - except for the Secretary-General, who is assumed to reach the equivalent of step 7, in line with the practice for staff at this level in the Co-ordinated Organisations (CO);
 - In the absence of a formal salary scale for the A graded staff, it is assumed that they receive steps with the same percentage value as those in equivalent grades in the CO salary scales, that is, 2-3% per year;
 - It is assumed that B and C staff receive annual steps and progress to the maximum step (step 5) in their current grade and then, in line with current practices, move to step 1 of the next grade, and subsequently progressing until they reach the final step of the highest grade in their category. It is noted that nine of the existing twelve B and C staff are already in the top grade in their category.
4. Table 5 shows that if current UNIDROIT practices continue during the ten-year projection period, overall staff costs (including estimates of INPS contributions) are projected to rise from €1.574m (€1.162m net salaries; €0.412m INPS) in 2017 to €1.583m (€1.169m net salaries; €0.414m INPS) in 2027, an increase of 0.6%.

Table 5

Staff on UNIDROIT scales – no annual adjustments in salaries or allowances

€ million

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross Salaries A	0.729	0.739	0.744	0.747	0.749	0.737	0.718	0.724	0.730	0.734	0.709
Gross Salaries B&C	0.530	0.536	0.541	0.545	0.541	0.545	0.545	0.545	0.550	0.554	0.559
INPS (staff)	-0.097	-0.101	-0.102	-0.102	-0.102	-0.102	-0.100	-0.100	-0.101	-0.101	-0.099
Net Salaries (all staff)	1.162	1.174	1.184	1.189	1.188	1.180	1.163	1.169	1.180	1.187	1.169
INPS (UNIDROIT)	0.412	0.417	0.421	0.424	0.423	0.421	0.413	0.415	0.419	0.422	0.414
Total Staff Costs	1.574	1.592	1.604	1.613	1.611	1.601	1.576	1.584	1.599	1.609	1.583
Index 2017=100	100	101.1	101.9	102.5	102.4	101.7	100.1	100.7	101.6	102.2	100.6

5. Table 6 below shows the impact of yearly increases in salaries and allowances on the ten-year projections of current UNIDROIT staff and salary practices. During the period, overall staff costs (including estimates of INPS contributions) are projected to rise from €1.574m (€1.162m net salaries; €0.412m INPS) in 2017 to €1.886m (€1.393m net salaries; €0.493m INPS) in 2027, an increase of 19.8%.

Table 6

Staff on UNIDROIT scales – with annual adjustments in salaries and allowances

€ million

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross Salaries A	0.729	0.750	0.767	0.784	0.798	0.796	0.791	0.814	0.837	0.859	0.846
Gross Salaries B&C	0.530	0.544	0.557	0.570	0.575	0.587	0.599	0.611	0.629	0.647	0.664
INPS (staff)	-0.097	-0.103	-0.105	-0.107	-0.109	-0.110	-0.109	-0.112	-0.115	-0.118	-0.118
Net Salaries (all staff)	1.162	1.192	1.219	1.247	1.264	1.274	1.281	1.313	1.351	1.387	1.393
INPS (UNIDROIT)	0.412	0.424	0.434	0.443	0.450	0.453	0.454	0.466	0.479	0.492	0.493
Total Staff Costs	1.574	1.615	1.653	1.690	1.713	1.728	1.735	1.779	1.831	1.879	1.886
Index 2017=100	100	102.6	105.0	107.4	108.9	109.8	110.2	113.0	116.3	119.4	119.8

6. The updated ten-year projections based on current UNIDROIT staff and practices set out in Tables 5 and 6 are higher than those prepared for UNIDROIT management in March 2016. There are a number of explanatory factors for this:
- There were unforeseen changes in the grade and step of some staff in 2016. Whereas the previous calculations assumed that B and C staff only moved to the next grade once they had reached the scale maximum of their current grade, it seems that some B staff changed grade in 2016. Furthermore, it had been assumed that staff would receive only one step during 2016, although in the event several staff received more than one step. This increased the baseline costs in 2017 and in subsequent years;
 - It was assumed for the 2016 report that all staff would retire at the age of 60. For the present report, UNIDROIT management requested that the projections assume that all staff would, in future, retire at age 65. This means that the cost savings that arise from replacing retired staff with new recruits at step 1 of their salary scale will not now materialize until later in the projection period, with some retirements falling outside the period altogether;
 - By way of illustration, one A graded staff member was originally expected to retire at age 60 towards the beginning of the projection period, generating immediate savings in salaries and allowances of over €20,000 per year. This saving will now be delayed until later in the projection period, that is, when he/she reaches 65. In other words, annual staff costs will be €20,000 higher each year until the retirement takes place. In this regard, it is noted that seven retirements are now projected to take place during the ten-year projection period, albeit five years later than previously assumed, while a further five assumed retirements will fall outside the projection period altogether.