Note for Information on ISC Rate calculations based on Audited Results

31st January, 2014

Purpose

This Note for information was requested at the informal seminar of the Executive Board on 29 January 2014. Its purpose is to review the application of the procedure for setting the ISC rate based on audited financial results. The methodology was approved by the EB in 2006 "Review of Indirect Support Cost Rate" (WFP/EB.A/2006/6-C/1).

1. ISC Calculation Methodology

1.1 Background

In 2005, the EB requested the Secretariat to consider a methodology for setting the ISC rate based on actual audited expenditure. A preliminary review paper in 2006 noted that an ISC rate based on actual costs would (a) ensure that the rate is more reflective of actual expenditure, but (b) would also entail the introduction of more volatility to the PSA planning process and possibly increase the risk of underfunding the PSA budget when there is a decline in the level of operations. This drawback was addressed in the final approved methodology by using actual audited expenditures as a **baseline starting point** for setting the rate, and making some adjustments.

1.2 ISC Rate Calculations

The final ISC rate methodology adopted in 2006 is based on a comparison of the previous year's audited results with the management plan for the coming financial period. The specific calculations are as follows:

- Baseline starting point for the Indirect Support Cost rate is taken from the latest available audited financial statements;
- Adjustments to the baseline rate are made for changes between the actual financial statements and the plan period[1] for:
    - indirect cost

[1] In 2012, the planning cycle changed from biennium planning to annual planning.

    - forecast contribution levels for the plan period;
- The difference between the opening balance and the target balance of the Programme Support and Administrative equalization reserve.

The methodology therefore provides an indication of the rate that ought to be applied to all contributions in the upcoming financial period, based on the Management Plan assumptions, to leave a PSA Equalisation Account balance equivalent to four months of planned PSA expenditure.

The results of the calculations as reported in the respective Management Plan documents are:

Table 1: ISC Calculation (%) (inclusive of non-recurring investments)

- 2010-2011 7.06%
- 2012-2014 7.27%
- 2013-2015 8.74%
- 2014-2016 8.08%

The following table shows the same results adjusted for the non-recurring PSA appropriations. In other words, the calculation shows what the projected rate would have been if there had not been supplementary PSA expenditures approved and subsequently incurred on certain capital costs or "one-time" expenditures.

Table 2: ISC Calculation (%) (excluding non-recurring investments)

- 2010-2011 6.57%
- 2012-2014 6.11%
- 2013-2015 6.99%
- 2014-2016 7.63%

It should be noted that the amounts included in these calculations and tabulated above do not include costs related to support and administration which are covered from other sources. Such costs may be incurred in the General Fund (e.g. security costs) or in trust funds provided by some donors (e.g. for institutional strengthening). Also excluded from the calculations are some operational costs which have been pooled and recovered through cost recoveries intended to attribute costs directly to projects (e.g. information and communication technology (ICT) costs).

While the ISC rate calculations have varied each year, the ISC recovery rate that is to be applied for the following year is approved in the Board's decision on the Management Plan. It has remained unchanged at 7% since 2003.

2. Comparison with Actual Performance

The Management Plan is approved at the Second Regular Session of the Executive Board each year, which means that the Plan is completed well in advance of the period covered. This can compromise the accuracy of requirements and forecasts. The ISC calculations are therefore based on a number of assumptions, the more variable of which are the forecasted ISC income for the plan year(s) and the current year which affects the estimated PSA Equalization Account Balance.

Table 3 below shows a comparison of the ISC income as forecasted in the Management Plan versus the actual reported ISC income.

Table 3: Planned versus Actual ISC income (USD millions)

	Biennium 2010-2011	2012	2013
Management Plan – ISC forecast	**476.0**	**239.0**	**236.0**
Actual ISC Income	*502.0*	*255.0*	*286.3*

Taking into account the actual figures from the audited financial statements, the ISC calculations for the year show a somewhat different picture as evidenced by Table 4 below.

Table 4: ISC calculations based on actual financial statements (USD millions)

	2010	2011	2012	2013
PSA WITH NON-RECURRING EXPENSES				
Expected/planned Contributions (including ISC)	3,750.0	3,750.0	3,750.0	3,700.0
Actual Contributions (including ISC)	4,129.8	3,596.5	4,044.3	4,371.4
Final Approved PSA budget	261.0	278.9	271.3	269.1
Actual PSA Expenditure	264.0	270.7	268.2	
Percent Planned PSA Expenditure / Planned Income	**7.5%**	**8.0%**	**7.8%**	**7.8%**
Percent Actual PSA Expenditure / Actual Income	**6.8%**	**8.1%**	**7.1%**	**N/A**

It is again recalled that as was the case for Table 2, the ISC calculations in Table 4 also exclude those costs such as security costs, institutional strengthening and ICT costs, which are covered from the other funding sources including the general fund, trust funds and project budgets respectively.