SECRETARIAT OF THE PACIFIC COMMUNITY

THIRTY-FIRST MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS
(Noumea, New Caledonia, 14-16 November 2001)

THE SPC PLAN TO IMPLEMENT THE NEW CROP REMUNERATION SYSTEM

SUPPLEMENTARY INFORMATION

(Paper presented by the Secretariat)

PURPOSE

1. The purpose of this paper is to present **an update of the Secretariat's plan** to implement the new CROP Remuneration system that was approved at last year's CRGA.

   This supplementary Working Paper supersedes Working Paper 4.3 in as far as that paper relates to costs and financing options. It also supersedes those paper's recommendations.

BACKGROUND AND SUMMARY

2. As indicated in its Circular to Members, dated 6 July, and the substantive Working Paper 4.3, the Secretariat has continued to analyse and update the financial implications of the various modifications of the terms and benefits of the new CROP Remuneration Package. Compared to the estimates provided in WP 4.3, costs have been reduced significantly through a thorough reassessment of some of the underlying assumptions, additional internal efficiency gains and through negotiations with suppliers of services (e.g. insurance companies).

   The result of the exercise is that the Secretariat is now able to advise that it will be in a position to finance Phase I of the proposed phased implementation plan without increases in assessed contributions or the use of reserves.

SIGNIFICANT CHANGES SINCE THE PREPARATION OF WP 4.3 THAT RELATE TO THE TERMS AND CONDITIONS OF EMPLOYMENT

Provident Fund (Noumea)

3. The single largest reduction in costs (compared to the initial estimate) has occurred with respect to provident fund contributions in Noumea. Members are aware that Secretariat took the position that it should pursue harmonisation of this benefit internally within the organisation, by increasing the contribution share in Noumea to 8% for all staff, from the current 6%.

4. While this continues to be the position of the Secretariat, additional information received from FFA and SPREP prompted the Secretariat to rethink its assumption as to what base this

percentage should be applied to. Members would be aware that professional salaries at SPC Noumea (and at the other non-Fiji based CROP agencies) include a Cost of Living Differential Adjustment (COLDA) to take account of the higher cost of living in New Caledonia. In effect, salaries consist of the base salary (as recommended by the remuneration consultants) plus the COLDA. To ensure internal harmonisation and harmonisation with the other CROP agencies, provident fund contributions for professional staff need to be calculated from the base salary, not from the total salary. The change is proposed to be made from 1 January 2002. Its financial impact for professional staff would be minimal, as the percentage will still rise to 8% at the same time.

5. Provident fund contributions for support staff in Noumea will still increase to 8%, from the current 6%, resulting in a real improvement for support staff.

Life Insurance

6. Quotes that have been received for an expanded insurance cover for staff indicate much lower cost than had been anticipated. The Secretariat will continue to negotiate the most cost-effective policy.

Long-service leave

7. The Secretariat now has estimates for the savings from the abolishment of this benefit.

Home Leave Cycle for Suva-based staff

8. The home leave cycle for Suva-based staff will be shortened from 36 months to 18 months. The costs, however, can be accommodated within the existing charge on budgets (a 9% levy exists both in Noumea and Suva which provides for recruitment, home leave and repatriation costs).

Other terms and conditions

9. There have been no further changes to the other terms and conditions discussed in Working Paper 4.3 (that is the move to the new salary scales, the job-sizing exercise, the housing subsidy and the medical insurance).

Summary

Table 1. Updated Summary of Estimated Annual Costs (CFP units)

	Core	Non-Core	Total
Salary Costs:			
Professional staff salaries	56,000	54,000	110,000
Support staff salaries *			
Job-sizing exercise *			
Total Salary Costs	**56,000**	**54,000**	**110,000**
Associated benefits:			
Medical insurance	60,000	52,000	112,000
Life insurance	10,000	20,000	30,000
Provident Fund (Noumea)	15,000	10,000	25,000
Housing subsidy	113,000	126,000	239,000
Long service leave **	(16,000)	(11,000)	(27,000)
Home leave	-	-	-
Total associated benefits	**182,000**	**197,000**	**379,000**
Grand Total	**238,000**	**251,000**	**489,000**

* eventual costs not known yet, however, core budget includes provisions
** figures in brackets indicate savings

10. Members may wish to note that the total estimated costs of implementing the new CROP Remuneration Package are now 37 per cent lower than the initial estimate of CFP units 771,294 provided in WP 4.3.

IMPLEMENTATION PLAN

11. The proposed phased implementation plan remains essentially unchanged from WP 4.3. It is reproduced here for ease of reference:

Table 2. Implementation Plan

Phase I (January 2002)	Phase II *
Move to new salary scales	
Medical insurance	
Life insurance	
Provident Fund (Noumea)	
Long-service leave	
	Home leave (Suva)
	Housing subsidy

*implementation date of Phase II is subject to resource availability

FINANCING PLAN

12. As Table 1 shows, costs have been reduced very significantly compared to the estimates provided in Working Paper 4.3. The Secretariat has explored two additional measures for 2002 and thereafter to, firstly, ensure that the full cost of Phase I can be funded from existing resources and, secondly, to further lower the costs of Phase II.

FJD/CFP Exchange Rate

13. The year 2002 core budget was prepared on the assumption of a rate of 63 CFP to the FJD (the rate at the time of preparation of the budget). The FJD has since weakened vis-à-vis the CFP which allows a downward adjustment of the budget rate. There is obviously a risk that the FJD may strengthen against the CFP in the mid-term, however, the Secretariat is making arrangements to transfer a large portion of SPC Suva's year 2002 budget as soon as possible to 'lock in' this exchange rate gain.

Review of Per Diem Policy

14. The Secretariat has initiated a comprehensive review of per diems. The target is a 10 per cent reduction in total payments. This will yield significant savings, in particular in non-core budgets.

15. The following table demonstrates that the Phase I benefits can be financed within existing **core resources**. It also shows that there is still a financing gap for the second phase. However, expected net costs are much lower than the estimate of CFP units 319,294 provided in Working Paper 4.3.

Analysis

Table 3. Financing Plan – Core

CORE	Phase I	Phase II	Outyears
Move to new salary scales*	-	-	-
Associated benefits:			
Medical insurance	60,000	60,000	60,000
Life insurance	10,000	10,000	10,000
Provident Fund (Noumea)	15,000	15,000	15,000
Housing subsidy		113,000	113,000
Long service leave	(16,000)	(16,000)	(16,000)
Home leave	-	-	-
Total net costs associated benefits	**69,000**	**182,000**	**182,000**
Other savings/gains:			
FJD/CFP FX rate 61.5	(50,000)	(50,000)	(50,000)
Review of per diems	(26,000)	(26,000)	(26,000)
Total Net Costs (Savings)	**(7,000)**	**106,000**	**106,000**

*already provided for in 2002 budget
** figures in brackets ( ) indicate savings, relative to current remuneration arrangements

16. The financing plan for the **non-core** funded work programme also demonstrates the feasibility of the Secretariat's proposal to implement Phase I benefits. As with the core budget, a financing gap currently remains for Phase II.

Table 4. Financing Plan – Non-Core

NON-CORE	Phase I	Phase II	Outyears
Move to new salary scales	**54,000**	**54,000**	**54,000**
Associated benefits:			
Medical insurance	52,000	52,000	52,000
Life insurance	20,000	20,000	20,000
Provident Fund (Noumea)	10,000	10,000	10,000
Housing subsidy		126,000	126,000
Long service leave	(11,000)	(11,000)	(11,000)
Home leave	-	-	-
Total net costs associated benefits	**71,000**	**197,000**	**197,000**
Other savings/gains:			
FJD/CFP FX rate 61.5*	-	-	-
Review of per diems	(145,000)	(145,000)	(145,000)
Total Net Costs (Savings)	**(20,000)**	**106,000**	**106,000**

* not applicable for non-core

17. Both financing scenarios clearly demonstrate that Phase I of the implementation plan can be financed on a sustainable basis without negative impacts on work programme activities. The Secretariat is therefore seeking CRGA approval for the implementation of Phase I benefits from January 2002.

OUTLOOK FOR PHASE II

18. As indicated in Working Paper 4.3, the Secretariat expects to be able to realise additional efficiency gains during 2002, some of which are directly related to the impact of the CROP Remuneration Package. For example, it has already moved to implement, with effect from 1 January 2002, the reduction in the annual leave entitlement from 30 days to 25 days per year for Noumea-based staff. As a logical consequence, the maximum number of accruable leave days will also be lowered from 60 days to 50. This will in the first instance increase staff productivity but will eventually also lower the need to make salary provisions for accrued leave and pay-outs at the end of service. The Secretariat also continues to negotiate with insurance companies for better rates for its various policies. These changes by themselves are likely to be sufficient to allow the implementation of Phase II.

19. On the other hand, it is impossible to predict how future exchange rate movements (in particular of the SDR vis-à-vis the CFP and the FJD) may impact on budgets. A further strengthening of the SDR would lead to additional pressure on budgets. Conversely, a weakening would ease the pressure. Members would be aware how volatile exchange rates have been this year.

20. The Secretariat is optimistic that it will be able to absorb the additional cost for Phase II in 2002 – but it cannot be certain at this stage. The proposed phased approach remains the most prudent although flexibility with regard to the implementation date of Phase II appears appropriate.

21. It may be noted that the remaining funding gaps (for Phase II benefits) in the Secretariat's financing strategy are not large, in particular when compared to the absolute size of the core and non-core budgets.

22. Members may also wish to note that the other organisations have already fully implemented the new CROP remuneration package. There is an understandable expectation among SPC staff that the Governing Body will approve the full implementation of the package – in the interest of harmonisation - as soon as it is demonstrated to be financially feasible. Staff have pointed out that SPC may still be implementing Phase II benefits when the next triennial remuneration consultancy is underway in 2003. They also ask that their contribution to the preparation and the implementation of the proposed approach be acknowledged. To this end, they would like Members to note that the abolishment of long-service leave, the reduction of leave entitlements and the reduction of per diems are proposed for implementation during Phase I.

23. The Secretariat is therefore seeking approval in principle for Phase II from CRGA 31 subject to certain conditions, which are listed in the following recommendations.

RECOMMENDATIONS

24. The CRGA is invited to:

a) Approve Phase I of the proposed implementation plan for the new CROP Remuneration Package for implementation from 1 January 2002.

b) Note that the Secretariat is able to finance the proposed Phase I changes to terms and conditions from existing resources without cuts to work programme activities or the use of reserves.

c) Approve, in principle, the implementation of Phase II from such date that the Director General is satisfied that it can be implemented -

- on a prudent and financially sustainable basis;
- at no cost to members;
- without resorting to the use of reserves; and
- without any reduction in work programme activities.

7 November 2001