

UN-HABITAT Cost Allocation
and
Recovery Policy

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Glossary of Terms and Acronyms

ACABQ	Advisory Committee on Administrative and Budgetary Questions
CEB	Chief Executive Board
Cost Centre	Organization unit or centre where costs that cannot be attributed to projects are allocated. Each cost centre will have an associated budget.
Cost Recovery	Recovery of costs of a project or service – this includes costs directly associated with the project, such as staff and equipment as well as indirect costs related to services received from the rest of the organization and service providers such as rent, utilities, finance and human resource management and IT systems.
CSC	Common Service Costs e.g. for administrative services provided by UNON or other service providers in out-posted offices
HLCM	High-Level Committee on Management
JIU	Joint Inspection Unit
PAAS	Project Accrual and Accountability System
UNDG	United Nations Development Group
UNON	United Nations Office in Nairobi
Direct Costs	All costs that are incurred for, and can be fully traced to activities, projects and programmes. This includes project personnel, equipment, project premises, and travel
Fixed Indirect Costs	Costs that are incurred by an organization regardless of the scope and levels of its activities such as top management and statutory bodies not related to service provision
Standard Costs	Estimated cost used developed as basis for charging for a service e.g. the total chargeable staff cost is composed of the standard salary rate based on the salary UN salary scale for the duty station plus a standard cost to account for rent, utilities and common services (e.g. IT and administrative services)
Variable Indirect Costs	Costs incurred as a function and in support of its activities, projects and programmes such as administrative and advocacy units as well as their related operating costs. They are not directly attributed to projects but vary with the project caseload
PSC	Programme Support Costs – costs to cover expenditure of management and administration and project support recovered mainly from the overhead charged to projects
Project	A set of related tasks, that have a plan, start and end date, defined outputs and results and are allocated financial, human and other resources. Projects must have a Project Leader and Project Administrator
Substantive Project	A project that is directly related to the mandate of sustainable urban development and adequate shelter for all, e.g. urban planning project, water and sanitation project, etc.

1. Purpose

1. The main purpose of this policy is to give guidance on the attribution of costs incurred by UN-Habitat as accurately as possible. This policy supports the project based approach adopted by UN-Habitat in that it outlines a standard methodology for assigning direct and indirect costs to substantive projects as well as cost centres. It contributes to UN-Habitat's goal of enhancing transparency, efficiency and accountability in the attribution and management of its financial resources.

2. Guiding Principles

2. This policy is based on reviews, recommendations and principles outlined below:
 - i. The Joint Inspection Unit report JIU/REP/2002/3 which reviews the treatment of support costs related to extra-budgetary activities in organizations of the United Nations system and encourages the United Nations system to harmonize its approaches to indirect cost recovery.
 - ii. The Advisory Committee on Administrative and Budgetary Questions ("ACABQ"), which has recommended UN-Habitat to follow up on the outcome of the working group established by the High-Level Committee on Management ("HLCM") of the Chief Executive Board ("CEB") for reviewing the measures and adequacy of programme support and cost recovery policies during its review of UN-Habitat's Work Programme and Budget for the biennium 2012-2013.
 - iii. The ongoing review of UN-Habitat whose objectives includes working towards an improved cost allocation and recovery policy so as to further strengthen transparency and accountability.
 - iv. The anticipated introduction of a Project Accrual and Accountability System (PAAS) which facilitates the capture of staff time and other costs spent on substantive projects and support activities and thus enables more accurate attribution of costs to projects and cost centers.
 - v. A harmonized set of principles and cost definitions common to United Nations organizations and endorsed by the Executive Board in its decision 2004/30 (see boxes 1 and 2).
 - vi. As applied in UN-Habitat (and among UNDG members and most other United Nations organizations), cost recovery is the charge levied on "ear-marked resources" (non-core) programme expenditures for the estimated incremental costs to UN-Habitat associated with assuming the responsibility for managing the implementation of programmes funded through such resources.
 - vii. The policy ties in with the introduction of the time management system and Project Accrual and Accountability System (PAAS) software that supports a project based approach.

Box 1: Harmonized Cost Recovery Principles

1. In a multi-funded organization (having regular and other resources), each source of funding should bear all attributable costs for the necessary management provided by the organization.
2. All costs can be classified as 'direct', 'fixed indirect' or 'variable indirect' costs, based on the mandate and business model of each organization (see box 2).
3. While United Nations organizations have agreed on a common definition of cost categories, each organization must match its costs against the categories to make them meaningful. Cost recovery would generally apply to variable indirect costs.

Box 2. Cost Classification – Harmonized Cost Definitions

1. **Direct costs** - are all costs that are incurred for, and can be traced in full to, the activities, projects and programmes of an organization in fulfillment of its mandate. Included are the costs of project personnel, equipment, project premises, travel and any other inputs necessary to achieve the results and objectives established for programmes and projects.
2. **Fixed indirect costs** - are all costs incurred by the organization regardless of the scope and levels of its activities that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs, and statutory bodies not related to service provision.
3. **Variable indirect costs** - are all costs incurred by the organization as a function and in support of its activities, projects and programmes that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include services and administrative units, as well as their related system and operating costs.

3. Cost Allocation

3. All costs of the agency must be attributed to projects or to cost centres.

3.1. Attribution of costs to projects

4. Costs that are directly attributable to projects will be allocated and charged directly to projects. Staff time that is spent on projects will be attributed to projects and where possible, charged to the projects. The standard costs of staff and consultants shall be applied as outlined in Annex 1.
5. Operational costs, which are centrally paid, such as reproduction, stationery and official telecommunications costs, will be allocated to projects on a pro-rata basis based on the annual budget of the projects.

3.2. Attribution of non-project costs to cost centres

6. Cost centres cater for activities that do not directly contribute to the substantive mandates but are necessary for management and administration and which add to the running cost of the organization. Activities funded by a donor(s) are excluded and are treated as projects.
7. Costs captured in all cost centres are subject to periodic cost allocation to fixed indirect costs and to variable indirect costs. The percentages of apportionment are set up in the PAAS when the cost centres are created, according to the outputs and the activities of the cost centre.
8. Cost centres will be established for attributing and charging costs relating to management, advocacy, project support and administration costs (see Annex 2). Cost centres for attributing costs incurred for activities in the Executive Office, Project Office and Office of Management. These Cost Centres will be created in the PAAS like projects with budget lines under the categories outlined in Annex 2A.

3.3. Allocation of Common Service Costs

9. Costs related to services provided by the United Nations Office in Nairobi (UNON), including rent and utilities of the HQ are recovered through apportionment of the costs to staff and consultants based on the analysis of the variable and fixed costs charged by UNON. The apportionment will be used to calculate a standard cost to be added to a standard salary rate based on the UN salary scale. For consultants, the standard cost will be added to the consultant annual fee. (See Annex 1A).
10. Costs related to services provided by service providers in other duty stations such as rent, utilities and other common services will be calculated according to the guidelines in Annex 1B. Duty stations should add the standard cost of these services to salaries of staff (based on the UN salary scale for the duty station) and consultant's fees to arrive at the total chargeable cost. This cost will be reported to the Office of Management for final approval and uploading into PAAS.
 - Where the Host Government covers all costs of out-posted offices including rent, utilities and common services, no additional cost will be added to the salary.
 - Where the Host Government covers part of the costs of out-posted, standard costs will be calculated after deducting the contribution provided by the Host Government.

4. Cost Recovery

11. Costs that are allocated to projects will be recovered from funds earmarked for that project. Initially, it will not be possible to charge all costs such as staff costs to projects, particularly active projects where agreements with donors have been signed before the introduction of the policy. All new projects will reflect the full costs of projects including staff and operational costs in the initial project and efforts should be made at the time of negotiating agreements with donors for a maximum amount of direct staff costs to be recovered from the projects. Where this is not possible, direct staff costs will be shown as UN-Habitat in-kind contributions to the project.
12. Variable indirect costs captured in cost centres will be recovered from standard overhead income. The standard Programme Support Cost rates applied to projects are prescribed as:
 - 13%: standard rate for projects which are predominantly normative
 - 10%: standard rate for country projects which are predominantly operational
 - 7%: rate for projects under the umbrella of the United Nations Delivering as One, other United Nations Joint Programmes as well as multi-donor trust funds and EC funded projects
 - 5%: rate for emergency projects

Waivers on the above standard Programme Support Cost rates may be granted in certain circumstances with proper justification presented. The approval of rates that deviate from the standard is the responsibility of the Director of Management and Administration.
13. Fixed indirect costs captured in cost centres will be recovered from Regular Budget or Foundation General Purpose Funding.

5. Applicability

14. This policy takes effect from 1 June 2012 for all new projects in terms of cost allocation. The cost allocation information gathered based on the application of the policy will then be used to review the cost recovery methodology before this is applied.

Annex 1 – Standard costs for staff and consultants

A: Headquarters

Staff and consultants costs at UN-Habitat Headquarters will be charged at a rate that includes the elements outlined in the table below. The figures in the table are based on 2011 figures and will change in line with the cost of services. The total cost of a staff or consultant for one year is the sum of the salary and entitlement plus the amounts charged for rent, utilities and other common service costs. For efficiency, the amount charged for salary and entitlement value is based on the UN salary scale not actual costs.

Grade/Type	Salary & Entitlement	Rent	Utilities	Other Common Service Costs	Total Standard Cost per annum
D-2	272,800	7,014	987	3,013	283,814
D-1	251,400	4,008	564	3,013	258,985
P-5	215,900	2,004	282	3,013	221,199
P-4	193,800	2,004	282	3,013	199,099
P-3	157,100	1,503	212	3,013	161,828
P-2/1	128,800	1,503	212	3,013	133,528
NO	83,000	1,503	212	2,538	87,253
G-7	36,100	1,503	212	2,538	40,353
G2-G6	36,100	1,002	141	2,538	39,781
UNV		1,002	141	3,013	4,156
Consultants		501	71	3,699	4,271

B: Guidelines for standard costs in out-posted offices

The attributable or charge out rate for staff and consultants costs in out-posted offices should take into account: the following costs and subsidies:

- Salary and entitlements based at the rate of that duty station
- Rent
- Utilities
- IT Infrastructure
- Security
- Administrative services provided by external service providers
- Contributions for the running of the office by the Host Government

The table on the next page provides a basis for calculating common staff for other duty stations. For further assistance in calculating the standard cost for staff and consultants, contact the Office of Management.

Grade/Type	Salary & Entitlement	Rent	Utilities	Other Common Service Costs	Total Standard Cost per annum	Duty Station
D-1	173,500			78,400	251,900	New York
P-5	153,000			69,100	222,100	New York
P-4	130,500			59,000	189,500	New York
P-3	107,600			48,600	156,200	New York
O-L	54,000			24,400	78,400	New York
D-1	193,300			69,600	262,900	Geneva
P-5	172,600			62,100	234,700	Geneva
P-4	145,900			52,500	198,400	Geneva
P-2	96,100			34,600	130,700	Geneva
O-L	88,500			31,900	120,400	Geneva
D-1	266,000			89,100	355,100	Fukuoka
P-5	237,500			78,800	316,300	Fukuoka
P-4	200,900			68,700	269,600	Fukuoka
P-2	132,300			45,600	177,900	Fukuoka
O-L	88,500			31,900	120,400	Fukuoka
P-3	86,600			51,100	137,700	Rio de Janeiro

Annex 2 – Cost Centres

A. Cost Centres

Cost Centre	
1	Office of the Executive Director
	- covers Office of the Executive Director, Scientific Advisory Office, Governing Council Secretariat, Legal Office, Strategic Planning and Evaluation
Liaison Offices	
2	- New York/Washington
3	- Geneva
4	- Brussels
External Relations	
6	- Advocacy, Outreach and Communication Branch
7	- Partners and Inter-Agency Coordination Branch
Project Office	
8	- Portfolio Strategy Branch
9	- Project Implementation, Monitoring and Reporting Branch
Regional Offices	
10	- Regional Office for Asia and the Pacific
11	- Regional Office for Africa
12	- Regional Office for Arab States
13	- Regional Office for Latin America and the Caribbean
Thematic Branches	
15	- Urban Basic Services
15	- Research and Capacity Building
16	- Housing and Slum Upgrading
17	- Risk Reduction and Rehabilitation
18	- Urban Economy
19	- Urban Legislation, Land and Governance
20	- Urban Planning
Office of Management	
21	- Resource Management Branch
22	- Financial, Quality and Information Support Branch