



SECRETARIAT OF THE PACIFIC REGIONAL ENVIRONMENT PROGRAMME

Eighteenth SPREP Meeting

Apia, Samoa
11-14 September 2007

Agenda Item 7.2: Sustainable Financing for Periodic Staff Salary Increases

Purpose of Paper

1. To report back to the Meeting on the matter of staff salary increases and how these could be sustainably financed in the future.

Background

2. During the discussion of the recommendations of the triennial CROP-wide review of staff terms and conditions, the SPREP Meeting at its annual session last year was unanimous that the increases being recommended were justified and that these be met from savings. In taking this decision, the Meeting was concerned that continually having justifiable salary increases met from savings was unsustainable and it asked the Secretariat to report back to this year's Meeting with a strategy on how future increases in staff terms and conditions could be met sustainably by the organisation.

Comments and Discussion

3. The regional practice of having 3 yearly reviews of CROP staff salaries, terms and conditions of service had been in place for many years, even at the time SPREP became the newest regional organisation in 1993. The reviews for professional staff are done collectively for all regional agencies by one reviewer – because they are recruited from the same market (the Pacific region and internationally), while support staff are done against the relevant CROP base station market from where these staff are recruited.
4. In addition, as part of this practice, it had also become customary for representatives of CROP agencies to get together and review findings and recommendations of the triennial reviewers from the perspectives of fairness, practicality and affordability and to arrive at a collective CROP position before tabling by the respective agency at its governing council for consideration and approval. In the interests of maintaining harmonisation and fairness to all regional civil servants, in almost all instances, reviewer and CROP agreed recommendations for CROP wide application are approved by the respective governing bodies.

5. For SPREP as for CROP, up to 2001, the prevailing regional salary scheme provided for a fixed salary for the duration of contracts (3 years). In 2000/01, the region adopted for the CROP agencies a new benchmark for professional staff salaries – the mid-point of the Australian public sector market. SPREP applied the CROP system in January 2002. When the next CROP triennial review was due and done in the latter half of 2003, the reviewers found and recommended that to maintain parity and relativity with movements in the reference market (Australian public sector) over the previous 2.5 years, CROP salaries would have to be increased by between 5.6% to 32.8% over the 5 grade levels of the scale.

6. Because of questions of cost and affordability, CROP organisations' Members severed benchmarking to the Australian public sector market, agreed that regional agencies including SPREP be offered a 5% interim increase across the board, the new reference market be three (Australian public sector, New Zealand public sector and Fiji all organisations markets) and annual market surveys against these 3 reference markets were put in place.

Staff Salary Increases Since 2002

7. As indicated in paragraph 5 above, there were no salary increases for SPREP staff in 2002 and 2003. There were minimal to modest salary adjustments to professional and support staff for 2004, 2005, 2006 and 2007 both as a consequence of triennial reviews in (2003 and 2006) as well as the required annual market reviews for professional staff referred to in the foregoing paragraph. The one year cost for the increases: 2004 – USD65,654 for professional staff and USD8,495 for support staff; 2005 - \$67,534 for professional staff; 2006 - \$120,000 for professional staff and \$21,442 for support staff, 2007 - \$79,000 professional staff and \$43,260 for support staff.

Core and Programme Budget Staff

8. Only a small fraction of the staff population is funded from the Core budget whose main source of income is membership contributions and interest income. For 2007, only 34% of staff are supported by the Core budget representing about 31% of total staff costs. So for any total staff salary increase only about a third is met by the Core budget while the bulk of the cost is borne by donors who fund programmes.

Initial and Ongoing Costs of Salary Increases

9. When salaries are increased, there is the initial cost of introducing it in the first year and then the sum of this increase and the previous total salary bill would become the new base until a further upward adjustment is approved and its initial cost would then be on top of the earlier increase and previous base.

10. Taking the professional staff increase of 2006 as an example, the total estimated additional cost of adjusting all professional staff salaries and allowances was US\$120,000 broken down into \$38,840 (32%) for core funded staff and \$81,160 (68%) for donor funded staff. The total base (2005 salaries) professional staff bill amounted US\$2,675,482 to which the above increase would be added and become the new base for 2006. The new total base for all professional staff after the increase was added was US\$2,795,482 for the rest of 2006. The salary increase approved in 2006 by the SPREP Meeting for application in 2007, of US\$79,000 (\$30,850 for Core budget staff and \$48,150 for donor funded staff) would be added to the new 2006 base and become the base for any future increase (i.e. US\$2,874,482).

11. The point to note about total professional staff costs is that only about 30% of it relate to core budget funded staff. This situation is mirrored in total staff cost increases.

Financial Gains from Improved Efficiency and Management

12. As already alluded to in earlier paragraphs, the staff salary adjustments for Core funded staff in 2004, 2005, 2006 and this year had not been passed on to members via increased membership contributions but financed through savings by the Secretariat through improved efficiency, better financial and operational management and other fortuitous circumstances like vacant positions in the process of being filled. The SPREP Meeting last year asked the Secretariat to report back on these savings.

13. As already clarified, only about a third of the staff are funded by the Core budget. The Core budget's main sources of revenue are membership contributions, interest and other income. As donor funds are specifically for programme/project application the rest of this section will deal mainly with Core Budget issues.

14. In terms of savings by the Secretariat in the Core Budget, the Secretariat achieved a surplus of US\$99,453 in 2002 which was transferred to the Reserve Fund. Another surplus of US\$124,697 was achieved after its operations in 2003, a further surplus of US\$375,642 achieved at the end of 2004, another of US\$112,868 in 2005 while last year's operations resulted in a deficit of US\$64,210. Note here that because of accounting and auditing procedures, the above surpluses, while available for use in succeeding years (except for 2002), are not accounted for in the operations of that year and hence is additional to either a surplus or deficit being achieved in any particular year. Hence, although 2006 operations resulted in a Core budget deficit of US\$64,210, with accumulated surpluses of US\$613,207 (from 2003, 2004 and 2005), the Secretariat had available for this year's operations a surplus of US\$548,997.

15. These surpluses or savings are in part the outcome of Secretariat efforts at increasing efficiency and improving financial and administrative management over these years and in some years savings because of vacant positions that were in the process of being recruited.

Increases in Membership Contributions

16. Although much is said by SPREP members of increased membership contributions and the need to avoid it where necessary, in actual fact, in its 15 year life in Samoa, SPREP had only approved three membership contributions increases: US\$170,461 (35.3%) for 2001, US\$64,743 (9.9%) for 2002 and US\$162,820 (21%) for 2004. While the percentages look formidable (because of the low total base contributions), the sums are not, particularly considering that while most CROP agencies have 16 or 17 contributors, SPREP has 25. The resulting increases for most Pacific island members are insignificant and only a fraction of the benefits they draw from SPREP membership, services and programme support rendered.

Salary Costs/Lost of Doing Business

17. For SPREP, its work programmes and activities are its staff. It is staff and their capabilities and range of expertise that enable services and activities to be delivered to PICTs in SPREP's designated areas of operation and regional environment priorities. This is true for both professional and support staff who enable and facilitate the work of their professional colleagues.

18. As salaries and associated benefits enable competent staff to be employed, the cost of salaries and staff terms and conditions are the essential cost to the organisation of "doing its business".

Features of CROP and SPREP Salaries

19. SPREP salaries and benefits are determined collectively with other participating CROP agencies (eg. Forum Secretariat, SPC, FFA, SOPAC and SPBEA) as part of regional harmonisation and rationalisation. Since this practice of CROP wide reviews have been in place, by and large review recommendations are approved and applied across CROP agencies by their respective governing bodies.

20. For SPREP, only about a third of its staff are Core budget financed, the majority are supported by donors. Hence for any staff salary increase the Core budget and potentially membership contributions, is only required to finance about 30% of the cost while 70% is met by donors through project/programme funding.

21. The view that expecting salary increases or the increased costs of doing business to be financed by savings to be made by the Secretariat is unsustainable and even unreasonable, is supported by the Secretariat. The members would have to take a decision and commitment that if the service provided is needed and effectively delivered then it would have to meet its share of the costs of this “business”. Donors have the potential for these costs increases built into their programme funding or willing to meet these where they might not have been anticipated.

Considerations for Financing Core Budget Costs of Staff Salary Increases

22. The following could be some of the considerations or options for financing the Core budget and members’ share of future staff increases.

- (i) Modest and planned regular increases in membership contributions;
- (ii) Donor funding of Members’ (Core budget) share of staff cost increases;
- (iii) Freezing SPREP salaries; and
- (iv) Reducing the number of Core budget funded staff.

23. The only obstacle to the first option is the willingness and commitment of members. It would be dependent on how members view and value the work and work performance of the Secretariat and its staff. Membership contributions increases to meet the essential costs of doing business is otherwise natural and essential.

24. With the second consideration, while this is possible it would be difficult from two points of view: (a) donors normally expect members and recipients to make some contribution to their own development and particularly the corporate aspects which is the Core budget, and (b) the Core budget and members’ collective stake in the Organisation is a mere 23% of the costs indicating SPREP’s extreme dependent on donors. To reduce this minimal stake further would render the organisation more vulnerable to donor domination.

25. In respect of option (iii), apart from being unfair, this would, in the regional practice of CROP harmonisation of terms and conditions, mean SPREP would no longer be part of that. It would spell the end of CROP harmonisation.

26. Option (iv) would be difficult to contemplate given the Core budget supports only a small fraction of total staff and that those staff under it were a selected few considered essential to keeping the organisation going in the (unlikely) event of donor funding not being available. If this is pursued, it would amount to an arbitrary decision on which post would be the sacrificed so others could have their raise. It would likely be a support staff post because of their low cost. In any case, making a post, even a support staff post, redundant is likely to end up more costly than the outlay for salary increases because of any severance compensation.

27. There could be other options or combinations of them but the above should be sufficient for the Meeting and members to have a good debate and sort out its thinking on this important issue.

Recommendation

28. The Meeting is invited to:

- **consider** and **discuss** the paper;
- **note the gains** from cost-saving measures as requested in last years Meeting;
- **decide** on the suggested options; and
- **direct** the Secretariat on the course of action.

27 June 2007