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Summary record of the 20th meeting

Held at Headquarters, New York, on Tuesday, 5 December 2017, at 10 a.m.

Chair: Mr. Tommo Monthe .... (Cameroon)
Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Sene

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17-21672 (E)

The meeting was called to order at 10.05 a.m.

Agenda item 136: Proposed programme budget for the biennium 2018–2019 (*continued*)

Administrative expenses of the United Nations Joint Staff Pension Fund (A/72/5/Add.16, A/72/7/Add.23, A/72/364 and A/72/383)

Administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/72/2)

1. **Ms. Van Houtte** (Chair of the United Nations Joint Staff Pension Board), introducing the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (A/72/383), said that the Pension Fund provided pension and other benefit payments totalling $2.5 billion per year to some 74,000 retirees and beneficiaries in over 190 countries in 15 different currencies. By 2020, the number of retirees and beneficiaries was expected to exceed 85,000. The Pension Fund also had some 128,000 active participants, bringing the total number of clients to over 200,000. The value of the net assets of the Pension Fund had stood at $62 billion as at October 2017.

2. The Pension Fund met all its own administrative expenses, and in exchange for the Pension Fund providing the services of a Staff Pension Committee of the United Nations (including its funds and programmes), the United Nations reimbursed the Pension Fund for the expenses incurred under a cost-sharing arrangement.

3. The proposed budget was intended to ensure that pension benefits were processed in a timely manner by enhancing the Pension Fund's capacity to address ad hoc demands, such as unforeseen surges in volumes and caseload peaks, through the creation of flexible task forces that added temporary capacity without creating long-term fixed costs. As there were currently too few client services staff to respond to the needs of over 200,000 clients from 23 member organizations, the budget was also intended to improve the Pension Fund's client servicing capacity by strengthening its core functions and improving communications.

4. The Budget Working Group, whose composition was set out in annex I to the report, had met to consider the budget proposals of both the Investment Management Division and the Pension Fund secretariat. The Budget Working Group had observed that over the previous five bienniums the workload of the Pension Fund had grown faster than the increase of Pension Fund secretariat staff, and it supported efforts to strengthen the Pension Fund's client services and operational systems. The Pension Fund's workload could increase further in the upcoming biennium as a result of downsizing initiatives undertaken by the United Nations and other member organizations. Recently achieved servicing rates would not be maintained if the proposed human and other resources were not approved. After reviewing the report of the Budget Working Group, the Pension Board had approved all of the Group's recommendations.

5. In its resolutions 70/248 and 71/265, the General Assembly had approved appropriations for the biennium 2016–2017 totalling $180,055,400. Total expenditure for the biennium was now estimated at $175,165,700, resulting in underexpenditure of $5,091,100 or 2.8 per cent of the appropriation.

6. The proposed budget for the biennium 2018–2019 amounted to $194,664,800, comprising administrative costs of $105,018,900, investment costs of $85,586,400, audit costs of $2,929,200 and Pension Board expenses of $965,600, as well as extrabudgetary resources in the amount of $164,700 for one post to be funded by member organizations. The overall increase in resources requested amounted to $14,444,700, or 8 per cent, reflecting increases in administrative costs ($13,640,500), investment costs ($777,700) and audit costs ($26,500). The amount apportioned to the United Nations would be $22,881,900.

7. For many years, the Pension Fund had operated with minimal resources. As a result of an ageing and more dispersed clientele, new communication methods and a surge in the number of inquiries, the Pension Fund needed to improve its client servicing capacity. To that end, Client Services would be separated from Operations in the New York office and would be headed by a senior manager at the D-l level.

8. The Pension Fund would continue to seek out innovative and creative service delivery approaches and leverage technology to achieve more with less. It was hoped that the new client services model would help to address the deficiencies identified by the internal and external auditors. In addition, the Pension Fund intended to build on the pilot initiatives tested during the present biennium, such as the task force for new separation cases, the call centre and dedicated hotline for inquiries regarding survivor benefits, the liaison office in Nairobi, the outreach missions to offices away from headquarters, the user-friendly website, which included video tutorials, and the self-service portal.

9. The majority of requests for additional resources were for general temporary assistance, with a view to making the Pension Fund an agile entity and creating a

flexible temporary workforce to address surges in volume, cyclical operational peaks and unforeseen events. That approach had been facilitated by the Pension Fund's successful implementation of the Integrated Pension Administration System, which had secured the operational viability of the Pension Fund. Resources would be required to achieve the full potential of the System by further stabilizing and expanding it.

10. The financial statements of the Pension Fund for the year ended 31 December 2016 were set out in annex V to the report, while the report of the Board of Auditors on the financial statements was contained in annex VI. The Pension Fund had received an unqualified audit opinion on its financial statements. The Pension Board had reviewed and approved the methodology and assumptions for the upcoming actuarial valuation. The Pension Fund was financially and operationally sound, with an actuarial surplus and fully funded status.

11. **Ms. Bartsiotas** (Controller), introducing the report of the Secretary-General on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/72/2), said that the proposed programme budget for the biennium 2018–2019, prepared before the Pension Fund budget had been finalized, provided for resources of $22.3 million representing the United Nations share in the administrative and audit costs related to the Pension Fund, of which $14.5 million was attributable to the regular budget and $7.8 million to the funds and programmes. The Pension Board proposed a budget increase, including an amount of $22.9 million for the United Nations, of which $14.6 million was the regular budget share. Should the General Assembly approve the proposals and recommendations of the Pension Board, an additional appropriation of $51,700 would be required under section l, Overall policymaking, direction and coordination, of the proposed programme budget for 2018–2019. That amount would represent a charge against the contingency fund.

12. **Mr. Bajaj** (Chair of the Audit Operations Committee of the Board of Auditors), introducing the report of the Board of Auditors on the financial report and audited financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2016 (A/72/5/Add.16), said that the Board of Auditors had issued an unqualified opinion on the financial statements, which confirmed that the statements presented fairly the Pension Fund's financial position as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and International Accounting Standard 26.

13. As at 31 December 2016, the net assets available for benefits had been $54.49 billion, an increase of $2.36 billion. The total income in 2016 had been $4.94 billion, comprising investment income of $2.67 billion, against a loss of $458.26 million in 2015, and contributions of $2.27 billion. The nominal return had been 5.19 per cent, versus 6.90 per cent for the policy benchmark.

14. The Board had followed up on the 26 outstanding recommendations it had made to the Fund up to the year ended 31 December 2015 and found that only 5 had been fully implemented. The present report contained 20 recommendations. The Board's overall conclusion was that the Pension Fund must strengthen its risk management and control processes and investment strategy to achieve the minimum long-term required return of 3.5 per cent to achieve fully-funded status. It should take steps to improve the performance of its investments and reduce foreign currency losses. There was scope for improvement in processing pension benefits and client services, particularly complaint resolution. In collaboration with member organizations, the Pension Fund should take steps to expedite the receipt of the documents required for calculating and awarding pension benefits. There was also a need to streamline the procedures for obtaining the certificate of entitlement and the reconciliation of contributions received from member organizations.

15. The Board of Auditors had reviewed the actuarial valuation and observed anomalies in the data supplied to the actuaries. The financial statements for 2015 indicated that there were 126,892 participants, but the number in the actuarial report was 114,375. As the actuarial valuation had been based on inconsistent data, it was not reliable. Accordingly, the Pension Fund had decided to roll forward the previous actuarial valuation to the year ended 31 December 2016.

16. In April 2017, the Pension Fund had subclassified the risk budget for fixed income at the currency and duration levels. However, for the equities, the risk budget had been allocated only on the basis of equity portfolio by region, and no suballocation between countries or currencies had been made. No risk budget had been prepared for real assets, alternative investments and cash and cash equivalents.

17. Since 2013, the Pension Fund had suffered a total foreign currency loss of $4.68 billion. In 2016, the foreign currency losses had been in all asset classes. In previous audits, the Board of Auditors had raised concern over such losses and recommended employing

suitable procedures and tools to mitigate them. The Pension Fund had informed the Board of Auditors that procurement was under way to hire an expert to conduct a formal currency study, which would include a review of foreign currency exposure and related tools.

18. In 2016 the Pension Fund had processed 27 per cent of cases within 15 business days, but 3.24 per cent of cases had taken more than a year to process. As there was no documented client grievance redressal mechanism, there was no guidance on segregation or prioritization, nor was there a timeline for the disposal of queries. In addition, there was no centralized system for registering queries and assigning them a tracking number, nor was there a reporting system to monitor the status of queries.

19. **Mr. Dooley** (Deputy Secretary of the United Nations Joint Staff Pension Board), introducing the report of the Secretary of the United Nations Joint Staff Pension Board on the implementation of the recommendations of the Board of Auditors contained in its report for the year ended 31 December 2016 on the United Nations Joint Staff Pension Fund (A/72/364), said that the report contained information regarding the status of implementation of the Board of Auditors' recommendations and the priority given to each recommendation, and an update on recommendations relating to previous periods that the Board considered not to have been fully implemented.

20. The Pension Fund had accepted all of the recommendations of the Board of Auditors for 2016 and was striving to implement them in a timely manner. The 21 recommendations from the previous three financial periods assessed as not fully implemented by the Board were under implementation. As noted by the Board of Auditors, the outstanding recommendations related to issues that required major structural changes and the participation of external organizations.

21. The target dates for implementation took into account the need to obtain approval for the resources required and implement complex, multi-year projects that would affect various stakeholders. Resources had been requested to strengthen the Pension Fund's ability to process core benefits and provide client services, through the creation of a client services manager, the introduction of a flexible workforce to address caseload peaks and the implementation of a client relationship management system. The resources requested by the Fund in its budget proposal for 2018–2019 would ensure that the progress achieved to date was maintained. Benefit processing times had improved steadily since 2016 and the Fund had implemented new client servicing mechanisms.

22. The Investment Management Division had made progress in addressing the recommendations. The Pension Fund had exceeded its targeted long-term real rate of return of 3.5 per cent as at 30 September 2017. All of the Division's senior-level vacancies had been filled and a succession plan had been implemented. A currency study, including a review of related cash requirements, would be completed by the end of 2017. Risk management had been enhanced. The fixed income strategy had been reviewed, resulting in improved performance. Lastly, a target operating model study had been completed, leading to a new information and communications technology road map.

23. **Mr. Sene** (Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/72/7/Add.23), said that, while the performance of the Pension Fund had recently improved, it was important for the Fund to meet its target annual real rate of return of 3.5 per cent over the long term. With regard to foreign currency losses, the Advisory Committee encouraged the Pension Fund to finalize the currency study and work closely with the Board of Auditors to mitigate foreign currency exposures.

24. Noting the continued delays in the processing of pension benefits, he recalled that the General Assembly had stressed the need to ensure that the Fund addressed the causes of such delays. With regard to the anomalies in the actuarial valuation for 2016, as reported by the Board of Auditors, the Advisory Committee expected that the Fund would take additional care in the future to provide accurate data for the purposes of future actuarial valuations.

25. With respect to the proposed resources for 2018-2019, including the proposed establishment of nine new posts, the Advisory Committee considered that the focus of the Pension Fund should be on improving its operations. Accordingly, the Advisory Committee recommended against the establishment of a Chief of Services post at the D-1 level, a Senior Public Information Officer post at the P-5 level and a Benefits Officer post at the P-3 level. The Advisory Committee recommended in favour of the establishment of a Benefits Officer post at the P-3 level, funded through general temporary assistance, in the service centre in Nairobi. Regarding the cost-sharing arrangement, the Advisory Committee recommended that the General Assembly should request the Secretary-General to prepare a comprehensive analysis of the services provided by the Pension Fund on behalf of the United Nations and vice versa with a view to putting in place a cost-sharing agreement that better reflected reality.

26. **Ms. Pereira Sotomayor** (Ecuador), speaking on behalf of the Group of 77 and China, said that the Pension Fund's inflation-adjusted real return on investment in 2016 had been 3.1 per cent, below the benchmark of 3.5 per cent. Noting the volatility of capital markets, she stressed the need to make every effort to meet the benchmark and adopt measures to strengthen risk management and control processes. The Group wondered why there was a gap between the returns generated and the benchmark figure.

27. The Group had taken note of the proposed budget of the Fund for the biennium 2018–2019. Managing assets of several billion dollars was a complex task, warranting close attention. The Group urged the Secretary-General, through his representative and investment officers, to exercise fiduciary responsibility over the Pension Fund's assets. Given the high value of the Pension Fund's investment portfolio, the Secretary-General should establish a comprehensive anti-fraud policy.

28. The Group noted the findings of the Board of Auditors, in particular relating to non-disclosure of different exchange rates applied to currency balances, risks in foreign exchange transactions and exchange losses, rate of return on investments, long-term information technology strategies and the implementation of the Integrated Pension Administration System. The Group noted that the System required excessive manual intervention and urged the Pension Fund to automate it.

29. The Group welcomed the Pension Fund's intention to use flexible resources to address workload peaks and deliver special projects, and thereby avoid incurring long-term fixed costs. Innovation would enable the Pension Fund to maintain and improve the processing times achieved in the previous biennium. Welcoming the focus on improving client services, she said that all clients were entitled to the same level of service, regardless of where they lived.

30. It was regrettable that only 5 of the 26 recommendations of the Board of Auditors up to the year ended 31 December 2015 had been fully implemented. All of the Board's recommendations should be implemented in a timely manner. She reaffirmed that reports of the Board of Auditors on the Pension Fund should be transmitted to the General Assembly through the Advisory Committee and that issues concerning reports of the Board of Auditors remained the sole prerogative of the General Assembly, as the Pension Board was a subsidiary organ of the Assembly. Given the important role that actuarial valuations played in ascertaining the Pension Fund's obligations and return objectives, the Group would seek clarification, in informal consultations, on how inaccurate valuations could be avoided in the future.

31. The Group welcomed the Pension Fund's climate-change investments, which had contributed favourably to the Fund's investment returns. The Group also welcomed the increase in investment in developing countries by 6.2 per cent from 31 December 2015 to 31 December 2016 and hoped that trend would continue, provided that due regard was paid to safety, profitability, liquidity and convertibility.

32. **Ms. Norman Chalet** (United States of America) said that proper management and oversight of the Pension Fund, including in respect of its investments, operations and client services, were critical, as were transparency and accountability. Her delegation supported the conclusions of the report of the Board of Auditors. While she welcomed the Board's unqualified opinion on the financial statements of the Pension Fund, she was concerned about the slow rate at which the Board's recommendations were being implemented. Many of the Board's recommendations, including those from previous financial periods, had yet to be fully implemented.

33. Her delegation also had concerns about systemic delays in the payment of benefits. While steps had been taken to reduce the backlog, the Pension Fund must address the serious issues affecting its client services and establish a centralized system to register queries. The Pension Fund should create a client grievance redressal mechanism and include procedures for indexing, segregating, prioritizing and monitoring queries. It should also strengthen its internal control procedure to ensure the accuracy of data sent to actuaries and carry out a fresh actuarial valuation as at 31 December 2017. Her delegation looked forward to learning more about the differences in opinion between the Pension Fund and the Board of Auditors and expected that the proposed enhancements to the Integrated Pension Administration System would resolve the implementation issues observed by the Board of Auditors.

Construction and property management (A/72/7/Add.26 and A/72/374)

34. **Mr. Carey** (Office of Central Support Services), introducing the report of the Secretary-General on progress in the construction of new office facilities at the Economic Commission for Africa in Addis Ababa, and update on the renovation of conference facilities, including Africa Hall (A/72/374), said that the Zambezi Building had been completed in June 2017 and that the

final retention funds had been disbursed to the contractor. Minor project close-out activities for ancillary works were under way and were expected to be completed within budget in early 2018.

35. The renovation of Africa Hall was essential, both to protect the health and safety of delegates, staff and visitors and to celebrate the significance of the building in modern African history. The project had five major components: structural upgrade, essential life and health safety, and building works; Plenary Hall and associated works; external works and landscaping; heritage conservation; and a Visitors' Centre, which would include an exhibition space and a lecture gallery. As requested by the General Assembly, the solicitation of voluntary contributions would continue throughout the project cycle. In addition to Mali, which had already contributed to the project, Switzerland had pledged 100,000 Swiss francs.

36. With respect to project governance, an Advisory Board had been established with wide geographical representation and relevant expertise. An administrative and coordination agreement between the Office of Central Support Services and the Economic Commission for Africa had been signed. In addition, a contract had been signed with an independent risk management firm. The recruitment of a Project Coordinator at Headquarters had been completed. Significant progress had been made in negotiations with the host country regarding project implementation and the provision of additional land for the visitors' parking lot.

37. Stage 3 of the project, which was technical design and tender action, was well advanced. The Economic Commission for Africa was soliciting bids from qualified vendors, with a bid deadline in January 2018. The Office of Central Support Services remained confident, therefore, that the project would be completed by 2021. In its resolution 70/248, the General Assembly had approved a maximum overall cost in the amount of $56.9 million and the project owner — the Executive Secretary of the Economic Commission — was committed to ensuring that the project was completed within budget.

38. The occupancy rate of the Conference Centre had increased from 85 per cent in 2014 to 93 per cent by the end of 2016. Renovation work on the roof of the Conference Centre had started in October 2016 and been completed by the end of that year. The General Assembly was requested to take note of the progress made, including the completion of the project governance structure and the revised cost plan for the renovation of Africa Hall.

39. **Mr. Sene** (Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/72/7/Add.26), said that the renovation project was progressing according to schedule. The Advisory Committee trusted that its quality and scope would be maintained in the coming years and that a refined estimation of the project contingency level would be established once the risk analysis had been completed and a clearer picture of the actual risks had emerged.

40. Additional efforts were needed to raise global awareness of Africa Hall and the African heritage it represented, including through partnerships with international academic and research institutions specializing in African history and culture. There was also a need to develop a comprehensive resource mobilization strategy focused on the African region. The Advisory Committee encouraged the Secretary-General to continue his engagement with Member States and noted with appreciation the voluntary contributions received to date. Every effort should be made to enable students, tourists and conference participants to visit Africa Hall, regardless of their ability to pay. To that end, the Advisory Committee recommended that the General Assembly should request the Secretary-General to consider other admission options, including a suggested admission fee.

41. **Ms. Pereira Sotomayor** (Ecuador), speaking on behalf of the Group of 77 and China, said that Africa Hall was a historic and symbolic building. The Group noted the intention to create a recognizable branding identity, with a view to generating tourism and academic interest in Africa Hall as an African heritage site, and looked forward to receiving more information on that strategy. The Group welcomed the progress on the Africa Hall project and emphasized the need to complete it in a timely manner, while maintaining its quality and scope, so as to avoid any costs overruns. The Group trusted that a refined estimation of the project contingency level would be established once a risk analysis had been completed. The Group emphasized the need for full and timely implementation of the recommendations of the Office of Internal Oversight Services and welcomed the establishment of a Stakeholders Committee and an Advisory Board.

42. The Group had taken note of the information provided on the Visitors' Centre, including the number of expected visitors, and the observations of the Advisory Committee. The renovation of the Conference Centre should be completed quickly to avoid additional delays. The Group would request information on the scope of and timeline for the project during informal

consultations. The Group reiterated the need to use local materials, technology and capacity and would examine how those elements had been incorporated into project implementation.

43. **Mr. Gayito** (Ethiopia) said that his country attached great importance to the ongoing works, in particular the renovation of Africa Hall, which was a historic and iconic building for all Africans. Coordination among the project team, the Economic Commission for Africa and the Government of Ethiopia was imperative for the successful and timely completion of the project. He trusted that the project team would closely monitor the cost plan and timeline to ensure that the works were completed on schedule, within budget and within the approved project scope. Stage 3 of the Africa Hall project, which included completion of the detailed design and tender documentation for the decanting work at the Congo and Nile buildings, was critical for ensuring that the construction project close-out stages proceeded smoothly.

44. He urged the project team to expedite the completion of the risk analysis to avoid any knock-on delays, and noted that the findings of the independent risk assessment firm would be incorporated into the construction contract. Safety standards and measures to eliminate physical, communication and technical barriers for persons with disabilities must be incorporated into the works. Noting that the total cost of the project would remain unchanged at $56,896,300, he said that any variations in estimates for work related to the renovation should be tracked.

45. Ethiopia remained committed to providing in-kind support. He trusted that the Secretary-General, in coordination with the African Union, would continue to mobilize additional resources, and called for greater regional and global outreach. His Government would continue to cooperate with the Economic Commission for Africa and the project team through the Stakeholders Committee and the Advisory Board.

The meeting rose at 11.30 a.m.