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FINANCE COMMITTEE

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**Annual Report on Budgetary Performance and Programme and Budgetary
Transfers for the 2014-15 Biennium**

Queries on the substantive content of this document may be addressed to:

Mr Boyd Haight

Director, Office of Strategy, Planning and Resources Management

Tel. +39 06570 55324

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EXECUTIVE SUMMARY

- At its 149th session, the Council noted the revised distribution, in favour of *Chapters 5, 6, 8, and 10*, of the 2014-15 net budgetary appropriation of USD 1,005.6 million arising from preparation of biennial work plans (FC 154/9) based on the Adjustments to the PWB 2014-15 (CL 148/3).
- This document presents the forecasted biennial performance against the net appropriation updated to take account of the 2014 implementation of biennial work plans and corporate monitoring. Full expenditure of the 2014-15 net appropriation in *Chapters 1 through 6 and 8 through 11* (the Strategic, Technical and Functional Objectives) is currently foreseen as shown in Table 1. In line with current practice, any unspent balances in the Technical Cooperation Programme (*Chapter 7*), Capital Expenditure (*Chapter 13*) and Security Expenditure (*Chapter 14*) will be transferred to the forthcoming biennium as per the Financial Regulations.
- Based on forecasted performance against the 2014-15 net appropriation and in accordance with Financial Regulation 4.5(b), the Committee is requested to note that the transfer in favour of *Chapter 6* is no longer forecasted and to approve a transfer in favour of *Chapter 2* in addition to the earlier-endorsed transfers to *Chapters 5, 8, and 10*.
- The next update on the forecasted performance against the 2014-15 net appropriation will be reported to the Committee for review and approval in November 2015 and the final performance on the 2014-15 accounts will be reported in Spring 2016.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to approve the revised forecasted distributions of the 2014-15 budgetary appropriation of USD 1,005.6 million arising from implementation of biennial work plans as shown in Table 1, noting that the forecasted budgetary transfers arising from the implementation of the Programme of Work will be reported to the Finance Committee for review and approval in November 2015.

Draft Advice

- **The Committee approved the forecasted biennial budgetary performance, as presented in Table 1.**

Introduction

1. Conference Resolution 7/2013 approved the 2014-15 budgetary appropriation of USD 1,005.6 million and the Programme of Work, subject to adjustments based on guidance provided by the Conference. At its 148th Session in December 2013, the Council, in endorsing the Adjustments to the PWB 2014-15 (CL 148/3), noted that further budgetary transfers could arise as a result of work planning, as well as from using the most efficient and effective modalities of implementation during the biennium, which would be handled in accordance with Financial Regulation 4.5.
2. Financial Regulation (FR) 4.1 authorizes the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. In accordance with FR 4.6, the Director-General manages the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium. The FR 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and FR 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee.
3. The Council at its 149th session noted that the Finance Committee in May 2014 had endorsed the forecasted chapter distributions of the 2014-15 budgetary appropriation of USD 1,005.6 million arising from preparation of biennial work plans in favour of *Chapters 5, 6, 8, and 10*.¹
4. This report presents the forecasted budgetary performance against the 2014-15 net appropriation and seeks the Committee's approval for the budgetary chapter transfers arising from the implementation of the 2014-15 programme of work.

2014-15 Forecasted Budgetary Performance

5. The 2014-15 net appropriation presented in Table 1, column (c), shows the adjusted chapter distributions endorsed by the Council in December 2013 as presented in the Adjustments to the PWB 2014-15 (CL 148/3). The forecasted biennial expenditure is shown in column (d) and the resulting chapter transfers from implementing the programme of work are shown in column (e).
6. The forecasted expenditure for the biennium currently foresees full utilization of the appropriation in *Chapters 1 through 6 and 8 through 11* (the Strategic, Technical and Functional Objectives). In line with current practice, the Technical Cooperation Programme (*Chapter 7*), Capital Expenditure (*Chapter 13*) and Security Expenditure (*Chapter 14*) are shown as fully spent, since any unspent balance will be transferred to the forthcoming biennium as per the Financial Regulations.

¹ FC 154/9, CL 149/4 paragraph 21c), CL 149/REP paragraph 18d)

Table 1: Forecasted 2014-15 Budgetary Performance

Ch (a)	Strategic/Functional Objective (b)	Adjusted PWB 2014-15 (CL 148/3) (c)	Forecasted expenditure (d)	Forecasted Balance vs Net Appropriation (e)
1	Contribute to the eradication of hunger, food insecurity and malnutrition.	94,617	80,160	(14,457)
2	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	198,681	199,328	647
3	Reduce rural poverty	62,142	61,736	(406)
4	Enable more inclusive and efficient agricultural and food systems	115,217	108,421	(6,796)
5	Increase the resilience of livelihoods to threats and crises	37,905	47,233	9,328
6	Technical quality, knowledge and services	54,746	53,780	(966)
7	Technical Cooperation Programme	134,721	134,721	0
8	Outreach	64,712	75,396	10,684
9	Information Technology	35,501	34,465	(1,036)
10	FAO governance, oversight and direction	80,213	88,132	7,919
11	Efficient and effective administration	81,691	77,373	(4,318)
12	Contingencies	600	0	(600)
13	Capital Expenditure	21,886	21,886	0
14	Security Expenditure	23,017	23,017	0
Total		1,005,648	1,005,648	0

Staff cost variance

7. The staff cost variance is the difference between budgeted and actual staff costs incurred in a biennium. For the 2014-15 biennium, a USD 16.7 million favourable staff cost variance, net of currency variance, is forecasted.

8. The main factors contributing to the favourable variance in 2014-15 relate to the impact of the freeze of staff remuneration in the professional and general service categories in 2014 and 2015, arising from decisions by the International Civil Service Commission (ICSC), and unchanged basic medical insurance premiums (BMIP) in 2015. The decline in actual staff costs incurred is partly counterbalanced by the impact of the forecasted increase in the current service cost of the After-service Medical Coverage (ASMC). As foreseen in the report on budgetary transfers in May 2014, the USD 2.7 million of efficiency savings not yet implemented have therefore been achieved through the decisions of the ICSC.

9. Most of the underlying causes of any difference between the actual and standard unit costs of staff, such as decisions of the ICSC, are beyond the control of the budget holders. The monitoring of the staff cost variance is done centrally and any surplus or deficit, i.e. the staff cost variance, is charged at the end of the year to the financial accounts across all programmes in proportion to the staff costs incurred at standard rates. However, prudence is required in making commitments against a forecasted positive variance.

Forecast of Budgetary Transfers between Chapters

10. The overall forecasted budgetary transfers arising from work planning and other implementation considerations are presented in column (e) of Table 1 for approval by the Finance Committee. The explanations for these transfers, provided to the Programme and Finance Committees in May 2014,² are further elaborated in Annex 1.

11. When considering the forecasted budgetary chapter transfers in May 2014, the Finance Committee recommended that lessons learned from the planning exercise be taken into account in

² See PC 115/3 – FC 154/9 paragraphs 32 to 42 and separate in-session note

preparing more accurate budget allocations in the new PWB in order to avoid significant transfers shortly after its final approval.³ The transfers reported in this document have influenced the preparation of the proposals in the PWB 2016-17.⁴ They will be further refined during the 2016-17 results-based work planning process to undertaken during July to October 2015, as well as any guidance provided by the Conference, for approval by the Council through the Programme and Finance Committees in December 2015 in the Adjustments to the PWB 2016-17.

Use of the 2012-13 unspent balance

12. As authorized by the Conference,⁵ the unspent 2012-13 balance of USD 9.4 million, including USD 0.3 million for the IPA, is being used in 2014-15 to fund any additional expenditures of a one-time nature associated with the transformational change. As of end-2014, USD 7.5 million has been earmarked to fund four areas of such one-time expenditure:

- a) USD 3.5 million to fund the separation and redeployment costs arising in 2014-15 from the 2012-13 and ongoing transformational change measures.
- b) USD 2.3 million to fund on a one-time basis the portion of FAO's cost share of the UN Resident Coordinator system that will be funded in the future from efficiency savings measures. The enhanced collaboration with the UN Resident Coordinators is closely associated with new ways of working in the decentralized offices.
- c) USD 1.5 million for the one-time cost of building capacity of decentralized offices to carry out their responsibilities for preparing and monitoring Country Programming Frameworks and for formulating and operating projects, resulting from transformational change.
- d) USD 162,000 for the one-time cost of the Independent Review of Governance Reforms related to IPA action 2.74.

Conclusion

13. The Committee is requested to approve the forecasted chapter transfers in order to carry out the planned work of the Organization during the biennium as forecasted in column (e) of the Table 1.

14. While full expenditure of the net appropriation of USD 1,005.6 million is currently foreseen, it is recalled that the reporting is taking place against 14 chapters. While this level of disaggregation at chapter level provides a clear and comprehensive view of budgets and expenditures against the results framework, it increases the likelihood of final chapter transfers being at variance with those currently forecasted.

15. Furthermore, it is recalled that budgetary reporting at the end of the biennium is based on the US Dollar/Euro exchange rate established in the PWB 2014-15 of Euro 1 = USD 1.30 (the budget rate). Management is monitoring the situation carefully, but some variations by chapter may occur if the final average percentage of expenditure in Euro differs significantly from the assumptions in the forecasts.

16. An updated report on forecasted budgetary chapter transfers will be provided to the Finance Committee at its Session in November 2015.

³ CL 149/4 paragraph 21b) and CL 149/REP paragraph 18d)

⁴ C 2015/3

⁵ CR 7/2013 operative paragraph 3

Annex 1: Budgetary transfers arising from work planning and implementation in 2014-15

17. The 2014-15 biennium is the first biennium of implementation of the results-based Programme of Work measured through indicators and targets, as reported in the Mid-Term Review Synthesis Report 2014.⁶ To better deliver results, Strategic Objective Coordinators and delivery managers have realigned work plans and made adjustments during implementation, which had two main effects: the identification of areas of work that could be consolidated for more effective and efficient implementation, and budgetary chapter transfers to better align resources to results and support functions.

18. The main shifts of resources, described for each budgetary chapter below, arise from consolidation of areas of work under the most appropriate Strategic Objectives to ensure focus and results; realignment of work and staff in functional areas such as partnerships, advocacy, communications, and legal advisory services under Functional Objectives; reallocation of resources of the Investment Centre to reflect expected results across Strategic Objectives; and reallocation of resources in Regional Offices to support the regional initiatives approved by the Regional Conferences in 2014.

19. The forecasted transfer of USD 14.5 million out of *Chapter 1* was primarily due to the realignment of work on knowledge exchange, capacity development and legal technical advice in OCC, OPC and LEG⁷ to FOs 8 and 10; the realignment of resources by several Regional Offices to non-SO1 led Regional Initiatives; and the reallocation of resources for South South Cooperation from *Chapters 1* and *4* to *Chapters 2, 3, 5* and *8*. The decrease was partly counterbalanced by additional resources allocated for global initiatives such as FAO coordination of the High Level Task Force, and for the Zero Hunger Challenge (HLTF/ZHC) and follow up to the ICN2 Rome Declaration.

20. The net forecasted transfer of USD 0.6 million into *Chapter 2* is the result of various work planning and implementation effects: the consolidation of work on environmentally-sensitive technologies previously budgeted under SO4; additional funding allocated from the Multidisciplinary Fund (MDF) in *Chapter 6* to the Globally Important Agricultural Heritage Systems (GIAHS) programme and to the Asia Regional Rice Initiative; and realignment of work for South South Cooperation and investments. These increases were mostly offset by the consolidation of work related to EMPRES animal and plant pests and diseases early warning and risk management into SO5; and resources shifts by Regional Offices for the regional initiatives.

21. The forecasted net transfer of USD 0.4 million out of *Chapters 3* arises from initially lower than budgeted planning of resources in social protection under SO3 and a technical adjustment of resources to *Chapter 6* for flagship publications, partially offset by the refocusing and inclusion under SO3 of work on rural finance and on the relationship between the value chain development and employment generation that was initially budgeted in under SO4, giving particular attention to women and youth. The decreases have been mostly offset by increases of resources by Regional Offices for the SO3-led regional initiatives, and the allocation of MDF resources from *Chapter 6* for SO3 work in the Africa.

22. The forecasted net transfer of USD 6.8 million out of *Chapter 4* is due to the consolidation of work for EMPRES Food Safety early warning and risk management in SO5; refocusing work on financing mechanisms in rural finance; shift of work on the relationship between value chain development and employment generation under SO3; and the consolidation of environmentally sensitive technologies under SO2. The Organization has started to expand its work on nutrition in particular by strengthening decentralized offices, and an improved alignment of FAO's investment work, that has contributed to resource shifts out of SO4 to the other SOs. The decreases were partially

⁶ FC 157/7

⁷ Office for Corporate Communication (OCC); Office for Partnerships, Advocacy and Capacity Development (OCP); Legal and Ethics Office (LEG)

offset by those Regional Offices that have refocused work and aligned resources around the SO4-led regional initiatives.

23. The forecasted net transfer of USD 9.3 million into *Chapter 5* mostly reflects the refocusing and consolidation of activities related to EMPRES early warning and risk management from SO2 and SO4, together with a higher than budgeted planning of resources for resilience work at institutional and community level. In addition, resources came to Chapter 5 from Regional Offices for the SO5-led regional initiatives and from the improved alignment of FAO's work on investment.

24. The forecasted net transfer of USD 1.0 million out of *Chapter 6* is mainly a result of the above-mentioned transfers to other chapters such as re-allocation of MDF and technical divisions' work on statistics. The Chief Statistician is reviewing resource planning, which may have impact on 2015 on this chapter.

25. The forecasted net transfer of USD 10.7 million into *Chapter 8* (Outreach) arises mainly from a review and realignment of the existing work of some staff in OCC, OCP and TCS to services associated with FO8. In particular, the time of staff on posts in OCC and OCP with expertise in knowledge exchange and capacity development, which was budgeted under the SOs, has been planned under FO8 (Outputs 8.1.3 and 8.2.3) to ensure common approaches and best practices in supporting the work plans of the SOs. The time of TCS staff providing South South Cooperation services on outreach to and identification of institutions was transferred from SO1.

26. The forecasted transfer of USD 7.9 million into *Chapter 10* arises from consolidation of work in three areas under FO10 (*FAO Governance, oversight and direction*): resources for legal advisory services in LEG that were budgeted under the SOs (to Output 10.3.3); the Ombudsman function that was budgeted under FO11 (to Output 10.3.3); staff and non-staff resources that were budgeted in FO9 to cover functions related to conference servicing (to Output 10.1.1); and resources in the regional offices for Regional Representatives and related support positions that were budgeted under the SOs for programme development and monitoring functions (to Output 10.3.4).

27. The net transfer of USD 4.3 million out of *Chapter 11* is mainly generated by the removal of USD 2.8 million budgeted for the staff costs of mobility and charged where costs were incurred in other chapters, as well as other shifts noted above.