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FINANCE COMMITTEE

Hundred and Forty-eighth Session

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Annual Report on Budgetary Performance and Budgetary transfers in the 2012-13 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: +3906 5705 5324

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EXECUTIVE SUMMARY

- At its Session in December 2012, the Council reviewed and endorsed the revised distribution of the 2012-13 budgetary appropriation of USD 1,005.6 million arising from the transformational changes in the 2012-13 biennium as presented in document CL 145/3.
- The Finance Committee is requested to take note of forecasted biennial performance against the net appropriation of USD 1,005.6 million approved by the Conference. Full expenditure of the 2012-13 net appropriation in Chapters 1 through 13 (the Strategic and Functional Objectives) is foreseen. In line with current practice, any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) will be transferred to the forthcoming biennium.
- Based on forecasted performance against the 2012-13 net appropriation and in accordance with Financial Regulation 4.5(b), the Committee is requested to authorize transfers in favour of *Chapters 7* and *13* from the other budgetary Chapters in 1 through 12.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to authorize the forecasted budgetary chapter transfers arising from implementation of the 2012-13 Programme of Work as shown in column (e) of Table 1.

Draft Advice

- **The Committee took note of the forecasted biennial budgetary performance and authorized the budgetary Chapter transfers in favour of *Chapters 7* and *13* from the other budgetary Chapters in 1 through 12.**

Introduction

1. Conference Resolution 5/2011 approved the 2012-13 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 143rd Session in December 2011, the Council approved further proposals requested by the Conference relating to the allocation of additional resources to Strategic Objective K, efficiency savings to be found primarily in Functional Objectives X and Y and the carry-over balance of USD 6 million[1].

2. At its 144th Session in June 2012, the Council considered transformative measures for enhancing value-for-money, including identification of further savings of USD 19.3 million, and endorsed proposals for their reallocation within the PWB 2012-13 towards the decentralized office network, strategic planning, multidisciplinary work, and security[2]. An update was presented to the Council in December 2012[3] on the progress of implementation of the transformative measures along with further initiatives for institutional strengthening, which it endorsed together with the revised budgetary Chapter distribution of the net appropriation as presented in document CL 145/3 (Transformational Changes in the 2012-13 biennium)[4].

3. 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.

4. This report presents the forecasted budgetary performance against the 2012-13 net appropriation and seeks the Committee’s approval for the budgetary chapter transfers arising from the implementation of the 2012-13 programme of work.

2012-13 Forecasted Budgetary Performance

5. The 2012-13 net appropriation figures presented in Table 1, column (c), show the adjusted chapter distributions endorsed by the Council in December 2012 as presented in document CL 145/3 (Transformational Changes in the 2012-13 biennium). The forecasted budgetary performance and the resulting chapter transfers from implementing the programme of work are shown in columns (d) and (e).

6. The forecasted expenditure for the biennium foresees full utilization of the appropriation in *Chapters 1* through *13* (the Strategic and Functional Objectives). In line with the current practice, the Technical Cooperation Programme (*Chapter 15*), Capital Expenditure (*Chapter 17*) and Security Expenditure (*Chapter 18*) are shown as fully spent, as any unspent balance will be transferred to the forthcoming biennium.

[1] CL 143/3
[2] CL 144/3
[3] CL 145/3
[4] CL 145/REP, paragraph 13c)

Table 1: 2012-13 Forecasted Budgetary Performance

Chapter (a)	Strategic and Functional Objective (b)	Transformational Changes in 2012-13 (CL 145/3) (c)	Forecasted expenditure (d)	Forecasted Balance vs Net Appropriation (e)
1	A - Sustainable Intensification of Crop Production	60,191	60,082	109
2	B - Increased sustainable livestock production	37,145	37,121	24
3	C - Sustainable management and use of fisheries and aquaculture resources	67,614	66,979	635
4	D - Improved quality and safety of food at all stages of the food chain	33,022	32,823	199
5	E - Sustainable management of forests and trees	51,410	50,976	434
6	F - Sustainable management of land, water and genetic resources and improved responses to global environmental challenges affecting food and agriculture	72,250	71,750	500
7	G - Enabling environment for markets to improve livelihoods and rural development	48,223	48,460	(237)
8	H - Improved food security and better nutrition	95,196	93,907	1,289
9	I - Improved preparedness for, and effective response to, food and agricultural threats and emergencies	8,177	8,040	137
10	K - Gender equity in access to resources, goods, services and decision-making in the rural areas	21,756	21,338	418
11	L - Increased and more effective public and private investment in agriculture and rural development	39,885	39,694	191
12	X - Effective collaboration with member states and stakeholders	207,784	206,971	813
13	Y - Efficient and effective administration	95,111	99,621	(4,510)
15	Technical Cooperation Programme	116,027	116,027	-
16	Contingencies	600	-	600
17	Capital Expenditure	26,439	26,439	-
18	Security Expenditure	24,809	24,809	-
Total		**1,005,640**	**1,005,040**	**600**

7. *Variances by Budgetary Chapter:* forecasted expenditure by Chapter is generally closely in line with the approved distribution of the net appropriation budget. The biggest variance is seen in Functional Objective Y, where additional expenditure of approximately USD 4.5 million is forecasted, which is due to a combination of factors, as outlined below:

a) the further adjustments and transformational changes approved by Council in 2012 identified savings of USD 19.2 million in FO-Y[5]. Some of the savings identified required a period of transition, in particular involving redeployment of staff, and the relevant savings therefore cannot be incurred for the full 24-month period;

b) higher than forecasted recoveries from improved cost recovery are foreseen in FO-X rather than in FO-Y as budgeted, which contributes to the forecasted negative balance in FO-Y and surplus in FO-X;

c) some staff development resources were reallocated to FO-Y for corporate staff development initiatives, including management leadership training.

[5] In the 2012-13 Budgetary Appropriations Resolution (5/2011), FO-Y was budgeted at USD 114.3 million (prior to the allocation of further efficiency gains, one-time savings, and use of unspent 2010-11 balance of USD 34.5 million).

8. The under-expenditure in most of the other budgetary Chapters is largely due to new posts established in decentralized locations in the Further Adjustments to the PWB 2012-13, which will not be filled for the full 24-month period.

9. *Improved cost recovery*. Management presented a proposal to the Finance Committee in October 2011, subsequently endorsed by the Council in December 2011, which outlined measures to improve cost recovery for categories of variable costs that had largely been excluded from the FAO Support Cost Policy. These recoveries have been implemented as of April 2012 through the Improved Cost Recovery Uplift (ICRU), which is the use of an uplift of standard project staff costs and project consultant costs within the current Project Support Cost ceiling rates and categories. This measure has reduced the level of cross-subsidy from the Regular Programme to extra-budgetary activities by USD 5.6 million as of December 2012.

10. *Staff cost variance.* An unfavourable staff cost variance of USD 4.3 million is currently forecasted for the biennium. The variance is mainly due to the increases in the current service costs of after-service staff benefits (After-service Medical Coverage and termination costs) in the end-2011 and end-2012 actuarial valuations (USD 8.1 million), higher than budgeted increase for headquarters professional staff salary effective 1 April 2012 (4.29 percent compared to 2.5 percent budgeted), and higher than budgeted education grant claims. These costs are somewhat mitigated by the impact of exchange rate fluctuations for non-headquarters locations and the unchanged current salary scale for the General Service staff at headquarters effective 1 November 2010 (budgeted at 2.5 percent for 2013). Savings are also envisaged for the basic medical insurance plan arising from the unchanged premium rates in 2012 (5 percent budgeted), professional pensionable remuneration (1.9 percent effective 1 February 2013 compared to 2.6 and 3.6 percent budgeted for 2012 and 2013 effective 1 August respectively), recruitment and transfer allowances, and entitlement travel. This unfavourable variance is reflected in the forecasted expenditure figures above; it affects all Chapters in accordance with relative staff costs.

Conclusion

11. The Secretariat requests the Committee's authorization of the forecasted chapter transfers in order to carry out the planned work of the Organization during the remainder of the biennium. Chapter transfers are requested into *Chapters 7* and *13* from the other Strategic and Functional Objective Chapters.

12. While full expenditure of the net appropriation of USD 1,005.6 million is currently foreseen, it is recalled that in 2012-13 the reporting is taking place against 17 chapters. While this level of desegregation 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.

13. 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 2012-13 of Euro 1 = USD 1.36 (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.

14. An updated report on forecasted budgetary chapter transfers will be provided to the Finance Committee at its Session in October 2013.