

**Information Note no. 2 – March 2015**

***Further efficiency gains and savings***

*Summary:* At its session of March 2015, the Finance Committee recalled and appreciated the significant efforts and results achieved by the Director-General in identifying efficiency savings, and encouraged the Secretariat to continue the identification of further savings and efficiency measures, which should not impact negatively on the delivery of the Programme of Work.

*Significant and unprecedented incremental biennial efficiency gains and savings of USD 108.2 million were achieved in the two biennia 2012-13 and 2014-15. Half of the savings were in staff costs and mainly in the administrative units, resulting in the abolition of 235 posts over the two biennia.*

*The PWB 2016-17 identifies and provides for new efficiency gains and savings of USD 14.2 million in the next biennium, of which USD 5.0 million of efficiency gains in Capital Expenditure and USD 9.2 million savings in areas of programmatic de-emphasis.*

*The opportunity for identifying further savings relates mainly to reducing the cost of staff. The vast majority of costs associated with staff entitlements and benefits are not under the control of FAO and will depend on the output of the ICSC's comprehensive review of staff compensation (see Information Note no. 3). Others relate to containing the costs of the current medical insurance plan, including through changing FAO's cost-sharing arrangements of health insurance premiums between the Organization and plan participants, which requires further review and consultation.*

**I. Policy context and achievements**

1. The Conference has emphasized that identification of efficiency gains and savings should be driven by the goal of ensuring the most efficient and effective use of resources, and not at the expense of the delivery of the Programme of Work. Furthermore, the Conference has stressed the importance of reducing the increases in staff costs of the Organization, and requested that further efficiency gains and savings be achieved particularly by measures aimed at reducing the staff costs, which constitute approximately 75 percent of the budget.<sup>1</sup>
2. The pursuit of efficiency gains and savings remains a high priority for the Organization. The Director-General's transformational change for FAO, starting in 2012, included as a prime element the need to institute a mindset of value-for-money within the Organization. The approach taken was framed by the overarching principle of minimizing the impact on decentralized offices and the technical departments of the Organization. This has resulted in substantial efficiency savings of USD 108.2 million over the two biennia while delivering the approved Programme of Work. Half of the savings were in staff costs, mainly in the administrative units through the abolition of 235 posts.<sup>2</sup>
3. USD 71.6 million savings were found in the 2012-13 biennium, as reported in the PIR 2012-13 and set out in Annex 1. The savings can be grouped in three areas:
  - a) *Post review*, leading to abolition of 135 posts and savings of USD 24.3 million (34 percent)
  - b) *Non-staff resource review* (other human resources, travel, procurement, administrative and management systems and processes, information technology, publications), resulting in savings of USD 27.2 million (38 percent)
  - c) *Improved cost recovery* for support costs and technical services of USD 20.1 million (28 percent)

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<sup>1</sup> C 2013/REP paragraphs 97-110

<sup>2</sup> C 2015/8 paragraphs 424-426



4. USD 36.6 million savings are being achieved during the 2014-15 biennium, as agreed in the Adjustments to the PWB 2014-15 and set out in Annex 2. The savings arise from four sets of actions:
- a) *Critical review of established posts in 17 non-technical headquarters offices*, building on the transformational changes of 2012-13 and resulting in the abolition of 100 posts and savings of USD 26.3 million (72 percent)
  - b) *Review of staff benefits under the control of the Director-General*, resulting in savings of USD 1.4 million (4 percent)
  - c) *Freeze on staff remuneration by the ICSC*, resulting in estimated savings of USD 2.7 million (7 percent)<sup>3</sup>
  - d) *Further review of non-staff resources*, resulting in measures to achieve savings of USD 6.2 million (17 percent).
5. At its session of March 2015, the Finance Committee recalled and appreciated the significant efforts and results achieved by the Director-General in identifying efficiency savings, and encouraged the Secretariat to continue the identification of further savings and efficiency measures, which should not impact negatively on the delivery of the Programme of Work. The Finance Committee further recognized that efficiency savings efforts should focus on staff costs, and noting that the vast majority of these costs were not under the authority of the Director-General, encouraged the Secretariat to follow the discussion in the ICSC and FAO Members to engage with the Fifth Committee of the UN General Assembly.<sup>4</sup>

## II. Further efficiency gains and savings in 2016-17

6. The biennial efficiency gains and savings of USD 108.2 million in 2012-15 are of a recurrent nature and are incorporated fully in the PWB 2016-17.
7. The Director-General is committed to continue the quest for further efficiencies and savings, particularly in the prevailing global financial climate, while not having a negative impact on the Programme of Work. To ensure continuity in the strategic direction of the Organization and consolidate the transformational change measures taken during 2012-15, the opportunities for identifying further savings related to posts and non-staff resources are limited in 2016-17. In this context, the Director-General is taking a four-pronged approach to identifying further efficiency gains and savings within the PWB 2016-17.
- a) *Capital Expenditure – Information Technology*. The PWB 2016-17 identifies and provides for efficiency gains arising from the expected reduction in requirements for future Capital Investments in information technology infrastructure and systems. The USD 5 million in savings is reallocated for technical work.<sup>5</sup>
  - b) *Areas of programmatic de-emphasis*. For the first time, the PWB 2016-17 identifies 13 areas of programmatic de-emphasis and realignment. The areas were identified from reduced demand for some technical areas of work or services in delivering the Strategic Objective work plans in 2014; streamlining work in the corporate technical activities; focus on regional priorities and in particular on regional initiatives in decentralized offices; and use of strategic partnerships. The USD 9.2 million savings identified is reallocated to higher priority areas of work (see Information Note no. 4).
  - c) *ICSC comprehensive review of staff compensation*. Information Note no. 3 addresses the possible options to reduce increases in FAO staff costs relating to salaries, allowances and other benefits, which are under the purview of the ICSC. The Director-General is closely following the deliberations of the ICSC through the active participation of the Director of Human Resources in the ICSC sessions and the HR Network of the High Level Committee on Management (HLCM). While the decisions of the ICSC and the UN General Assembly will only be known in the fourth quarter of 2015, the anticipated cost increases for 2016-17 already take account of a freeze in staff

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<sup>3</sup> FC 157/8 paragraph 8

<sup>4</sup> CL 151/REP, paragraph 20

<sup>5</sup> C 2013/3, paragraphs 129-133

emoluments through 2016. Continued engagement is necessary to ensure that the ICSC review results in lasting savings.

- d) *Further review of administrative services.* Opportunities for further efficiencies and saving are being sought but cannot yet be quantified in translation, printing, mail and distribution of correspondence and documents, while respecting Members expectations for timely distribution in the languages of the Organizations; facility maintenance, while addressing safety concerns; and security services within the Security Expenditure Facility.
- e) At its 157<sup>st</sup> Session in March 2015, the Finance Committee “*urged the Secretariat to contain the costs of the current medical insurance plan, including through changing FAO’s cost-sharing arrangements of health insurance premiums between the Organization and plan participants.*”<sup>6</sup> Any review of cost-sharing arrangements, and implementation thereof will involve consultation with the Organization’s Staff Representative Bodies.

8. Since taking office in January 2012, the Director-General has imbued the Organization with a pervasive culture of value-for-money, and pursued efficiencies and savings with demonstrated success. Accordingly, efficiency and potential savings with continue to be sought throughout the 2016-17 biennium, and the Director-General will report to the Members through the established governance mechanisms.

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<sup>6</sup> CL 151/3 paragraph 14d)

## Annex 1: Efficiency gains and savings in 2012-13<sup>7</sup>

1. Conference Resolution 5/2011 approved a 2012-13 budgetary appropriation of USD 1 005.6 million, which included a reduction of USD 34.5 million of efficiency gains and one-time savings in addition to the USD 26.5 million included in the PWB 2012-13. Against this target of USD 61 million, FAO secured efficiency savings for the 2012-13 biennium of USD 71.6 million. This is a 49 percent increase over 2010-11 (USD 48 million) and more than double the savings generated in 2008-09 (USD 35.1 million).
2. The 2012-13 savings were generated by better managing the cost of inputs (USD 51.5 million) and improving recovery of costs incurred on overheads for extrabudgetary projects (USD 20.1 million).
3. *Post review* (estimated efficiency gains of USD 24.3 million). FAO undertook two post review exercises during the course of the 2012-13 biennium: one in late 2011 to prepare the Adjustments to the PWB 2012-13,<sup>8</sup> and the second during 2012 to prepare the Further Adjustments to the PWB 2012-13.<sup>9</sup> Together these exercises resulted in the abolition of 135 posts, contributing to cost savings of USD 24.3 million. This includes the adjustment to the structure of the Office of Corporate Communications and External Relations which resulted in savings of USD 2.1 million.
4. *Other human resources* (estimated efficiency gains of USD 7.0 million). Efficiency savings initiatives were the consequence of more streamlined human resource processes, which freed staff time to be used for other priorities, a freeze on the remunerations of consultants and PSA subscribers, and increased use of leave rather than payments to compensate staff for overtime worked.
5. *Travel* (estimated efficiency gains of USD 6.5 million). Transferring responsibility for the selection and payment of hotels from the traveller to FAO allowed the Organization to reap savings generated by the negotiation of preferential rates. FAO also changed the entitlement criteria for business class travel and for other travel entitlements; introduced the use of low-cost carriers in Europe and the USA; and encouraged alternatives to travel, such as more extensive use of teleconferencing and videoconferencing facilities.
6. *Procurement* (estimated efficiency gains of USD 4.6 million). Savings under this category were generated mainly from the joint tendering of all headquarters-related goods and services for the three Rome-based agencies, and introducing a new procurement model that allowed greater decentralization of procurement activity.
7. *Administrative and management systems and processes* (estimated efficiency gains of USD 4.3 million). The reform of FAO registries led to modernization of record-keeping policies, processes, technology and support arrangements. Further savings were also achieved by: transferring to the Shared Services Centre and regional offices responsibility for TCP budget-related support and processing of UNDP inter-office vouchers; outsourcing mail room functions and the production of verbatim records for Conference and Council sessions; more closely coordinating of translation and interpretation services; a new printing and distribution facility; and extending the replacement cycle of FAO vehicles, especially in the field.
8. *Information Technology* (estimated efficiency gains of USD 2.8 million). The main areas of savings were in IT governance (biennial savings of USD 0.8 million); revision of policy on use of mobile telephones (savings of USD 1 million); a new multifunctional printer contract (savings of USD 0.4 million); and extending the lifecycle of all FAO desktop and laptop computers from four to five years (biennial savings of USD 0.6 million).
9. *Publications* (estimated efficiency gains of USD 2 million). The deployment of an Information Product Planning tool resulted in a substantial reduction in expenditure on formal publishing activities. In compliance with the new Publishing Policy, the approval of proposals was more selective and based on a

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<sup>7</sup> C 2015-8 PIR 2012-13, paragraphs 424-433

<sup>8</sup> CL 143/3

<sup>9</sup> CL 144/3

more precise targeting of information products, and much greater emphasis was given to digital formats and targeted electronic dissemination of FAO's publications.

10. *Improved cost recovery of support costs and technical services* (estimated efficiency gains of USD 20.1 million). To improve recovery of administrative and operational support (AOS) costs, the Conference in 2011 urged the Director-General to vigorously pursue cost recovery measures, and the Improved Cost Recovery Uplift (ICRU) was endorsed by the Finance Committee in November 2011. As described in Section III.D, the Improved Cost Recovery Uplift (ICRU) generated incremental cost recoveries of USD 10.1 million in 2012-13. Other initiatives produced increased recoveries of USD 4.0 million, such as the budgeting of project staff with functions to relieve the budget holder from direct operational and administrative tasks. The increased budgeted cost recovery target of USD 6 million for technical support services (TSS) in the Adjustments to the PWB was attained by simplifying the claiming process and improving staff awareness.

## **Annex 2: Efficiency gains and savings in 2014-15<sup>10</sup>**

1. The Conference appreciated the significant and unprecedented level of efficiency gains and savings achieved during the 2012-13 biennium while delivering the approved Programme of Work.
2. The Conference welcomed the efforts of the Director-General to identify savings and efficiency gains for 2014-15 and took note of USD 10 million in efficiency savings programmed in the PWB 2014-15<sup>11</sup> and USD 4 million in further efficiency gains forecast for the biennium.<sup>12</sup> The Conference also requested the Director-General to put in place measures to achieve further efficiency gains and savings in the amount of USD 22.6 million.<sup>13</sup> Therefore, the total amount to be found in 2014-15 through efficiency gains and savings is USD 36.6 million.
3. The Conference emphasized that identification of further efficiency gains and savings should be driven by the goal of ensuring the most efficient and effective use of resources within a renewed FAO, and not at the expense of the delivery of the Programme of Work. Accordingly, the approach taken in identifying efficiency gains and savings in the adjustments to the PWB 2014-15 has been framed by the overarching principle of minimizing the impact on decentralized offices and the technical departments of the Organization.
4. Furthermore, the Conference stressed the importance of reducing the increases in staff costs of the Organization, and requested that further efficiency gains and savings be achieved particularly by measures aimed at reducing the staff costs, which constitute approximately 75% of the budget. In line with the guidance of the Conference, efficiency measures related to staff costs identified in the adjustments to the PWB 2014-15 account for approximately 76% of the overall savings target.
5. The principles for achieving these, and other efficiencies and savings, flow from the guidance provided by the Conference. These principles were implemented by a process involving managers of headquarters-based, non-technical offices identifying opportunities for efficiency gains and savings in their respective areas of responsibility. In turn, this process has enabled the identification of the requisite savings and efficiencies in the adjustments to the PWB 2014-15.

### *Savings from staff costs*

6. The key exercise in identifying savings from staff-related costs was a critical review of established posts in 17 non-technical offices located at FAO headquarters, particularly within the Apex and the Corporate Services Department. This critical review has led to the net abolition of 100 positions.
7. The results of the critical review build upon transformational changes introduced in 2012-13, and are consistent with priority and efficiency actions in the PWB 2014-15 endorsed by the Conference. This includes the modernization of the Information Technology Division (CIO), and the rationalization for greater effectiveness of the Office for Corporate Communication (OCC) and the Office for Partnerships, Advocacy and Capacity Development (OPC).
8. Furthermore, a review of Director-level positions and areas of staff benefits under the purview of the Director-General has resulted in savings within the adjustments to the PWB 2014-15.

### *Information Technology Division (CIO)*

9. The modernization of the Information Technology Division (CIO) complements the transformation of other support functions such as finance, human resources and administration undertaken in 2012-13. It is driven by a holistic assessment of the information technology and information systems' needs of the Organization, and follows on from specific streamlining measures introduced in CIO during 2012-13, as well as efficiencies resulting from the successful implementation of the Global Resource Management System (GRMS)<sup>14</sup> in 2013.

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<sup>10</sup> CL 148/3 Adjustments to PWB 2012-13, paragraphs 8-39

<sup>11</sup> C 2013/3, paragraphs 262 – 271

<sup>12</sup> C 2013/3, Information Note no. 9

<sup>13</sup> Resolution 7/2013, paragraph 3

<sup>14</sup> FC 151/3

10. The transformation of CIO is driven by the principle of the need to shift the focus on improving the support to the core corporate business, and thus to complement the provision of basic IT/IS services. Greater use of integration, standardization and virtualization, along with increased use of outsourcing basic IT/IS services such as infrastructure management and application development, will allow for the establishment of a new business model and structure for CIO.

11. The renewed structure will coalesce functions of architecture, planning, and information security within the office of the Chief Information Officer (Director, CIO), who as a member of FAO's senior management team will continue to provide high-level leadership and direction to the division. The Director will be supported by a Chief Operating Officer (at D-1 level), who will oversee the implementation of operations and interaction with business users and outside service providers. The structural changes included abolitions, transfer and reclassification of posts, and have resulted in significant savings from a net reduction of 41 established positions in CIO.

12. From 2014-15, CIO will thus be able to better support the Organization's core activities, consistent with comparable industry standards. At the same time, there will be no compromise on the quality of basic IT/IS services, and key functions relating to compliance and security will be maintained under direct control of CIO. Further opportunities for efficiency and improvements may be identified during 2014-15, in particular by a broader review of IT/IS capacity throughout the Organization, which lies currently outside of CIO.

#### *Office for Corporate Communication (OCC)*

13. The consolidation of the structure and functioning of the Office for Corporate Communication is a natural progression of the transformational changes to the communication function introduced in 2012-13, and the proposals for its further rationalization in the PWB 2014-15.

14. Specifically, it reflects the Conference decision identifying communication as a priority area, establishing OCC as a separate office within the Apex, and integrating capacity transferred from the former Office for Knowledge Exchange, Research and Extension (OEK), in particular in relation to archive and management of information resources.

15. The adjustments undertaken are underpinned by the principle that OCC is singularly responsible for all FAO communication activities, and are driven by the need to obtain synergies, avoid duplication and identify efficiencies. This has enabled abolition and reclassification of posts within OCC, as well as the transfer of six positions to OPC resulting in an overall net reduction of 16 established positions in OCC.

16. The improvements to effectiveness and efficiency of OCC have led to consolidation of the publications and library functions, with a focus on new technologies, improved management of publications and multi-media archiving. In turn, this will ensure maintenance of the highest standards of knowledge-based services, with increased focus on accessibility and greater use of Internet and online dissemination.

#### *Office for Partnerships, Advocacy, and Capacity Development (OPC)*

17. As with OCC, the enhancements to the Office for Partnerships, Advocacy and Capacity Development (OPC) also follow naturally the transformational changes of the previous biennium and decisions by the Conference in June 2013. The improved structure and function of OPC implements Conference decisions on partnerships, capacity development and advocacy as priorities for FAO, its establishment as a separate office in the Apex, and integration of capacity development functions from the former OEK.

18. In particular, the work on capacity development and knowledge management will be refocused to contribute directly to the new Strategic Objectives of the Organization. Efficiency savings will be obtained by streamlining the structure and relying more heavily on partnerships. Capacity within OPC relating to other important functions such as gender advocacy and the Right to Food will be maintained and strengthened.

19. For example, FAO's support to the global CIARD<sup>15</sup> Movement on strengthening countries' capacities to open agricultural knowledge for development will be transformed through innovative partnerships with research and academia, the private sector and civil society. A concrete programme for the co-production and co-delivery for the transformation and improvement of the AGRIS<sup>16</sup> database and the global normative standard of AGROVOC<sup>17</sup> will also be devised and implemented.

20. The adjustments in OPC include the abolition of five posts for greater efficiency, as well as transfer of seven positions for strengthening capacity development and Right to Food functions, resulting in a net increase of two in the overall post count of the Office.

#### *Review of Director-level posts*

21. In line with the proposal in the PWB 2014-15<sup>18</sup> to pursue measures for value-for-money within the context of transformational changes by improving the balance of managerial functions within the Organization, a review of Director-level posts was undertaken in the process of preparing adjustments to the PWB 2014-15.

22. The review was driven by the goal of seeking more effective management at FAO by streamlining management structures. In particular, instances where D-1 level directors report directly to D-2 level directors in a given office or division were examined carefully for managerial effectiveness and efficiency, as well as for potential overlap and redundancy.

23. It was ascertained that some D-1 positions of critical or particular importance were necessary for effective and efficient management of the office or function in question. This includes offices with a very large number of direct reports, secretaries of major bodies established under Articles VI and XIV of the FAO Constitution (such as the Commission on Genetic Resources for Food and Agriculture, the Codex Alimentarius Commission, the International Plant Protection Convention, the International Treaty on Plant Genetic Resources for Food and Agriculture), or other specific functions (such as the Chief Medical Officer).

24. The review identified a number of areas for managerial improvement, and resulted in the abolition or downgrading of 7 D-1 level positions, all of which are located at headquarters. This action will yield savings of USD 1.3 million per biennium. There is potential for more efficiencies and savings by further review with expanded scope of director-level positions which may be undertaken in 2014-15.

#### *Staff benefits*

25. The Conference recognized that most of FAO staff benefits and entitlements are determined under the United Nations Common System and approved by the International Civil Service Commission (ICSC) and/or the United Nations General Assembly in New York.

26. However, benefits under the control of the Director-General were reviewed. A decrease in the service cost of the Separations Payment Scheme for General Service staff in Rome through alignment with the Italian scheme, and reduction in the maximum number of accrued annual leave days to be paid to staff on separation, from 60 days to 30 days, will result in biennial savings of USD 1.4 million in 2014-15.

#### *Summary*

27. A total of USD 27.7 million in savings from staff-related costs have been identified, representing approximately 76% of the USD 36.6 million target in line with the guidance of Conference. This includes a net decrease of USD 26.3 million from regradings and from the net abolition of 100 established positions in 15 non-technical offices, and USD 1.4 million from efficiencies in staff benefits under the control of the Director-General (see Table 1).

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<sup>15</sup> Coherence in Information for Agricultural Research for Development (CIARD)

<sup>16</sup> International Information System for the Agricultural Sciences and Technology (AGRIS)

<sup>17</sup> A multilingual structured and controlled vocabulary designed to cover the terminology of all subject fields in agriculture, forestry, fisheries, food and related domains (AGROVOC)

<sup>18</sup> C 2013/3, paragraph 270



28. Seventy of the posts abolished in this exercise were encumbered, and incumbents were either redeployed to vacant positions, separated by mutual agreement (SMA) from the Organization, or otherwise separated where neither solution was available.

29. Measures have been introduced following consultation with the Staff Representative Bodies to minimize the budgetary cost to the Organization from redeployment and separation. While the current exercise is still ongoing, a range of USD 5 million to USD 7 million is estimated in one-time costs of separations and redeployment, to be funded from regular budgeted resources for separations and the unspent balance of the 2012-13 appropriations. Members will be updated with the final cost figures through standard reporting on budgetary performance to the governing bodies in 2014.

*Savings from non-staff costs*

30. In addition to savings from staff costs, a review of efficiency in non-staff related operating costs was undertaken and savings have been identified in the amount USD 6.2 million. These operating savings result primarily from efficiencies in the use of official travel, and contracts with external providers. Specifically, changes have been introduced to duration criteria for determining the class of travel from business class to economy class for all FAO staff and non-staff travellers; extension of the Preferred Hotel Programme scheme; greater emphasis on e-learning in staff development; and renegotiation of contracts with external providers of cleaning and portering services, as well as maintenance of IT equipment such as printers.

*Further savings*

31. Further to efficiency gains and savings of USD 33.9 million already identified, areas to find the balance of USD 2.7 million during the course of 2014-15 have been diagnosed. These savings will be found from efficiencies to be identified and put in place during 2014-15, in particular from the following areas: procurement services, mail and distribution services, and security. In addition, the comprehensive review by the ICSC of costs of staff salaries and benefits throughout the UN common system may provide opportunity for further savings related to staff costs.

*Conclusion*

32. The decisions and guidance provided by the Conference called for adjustments to the PWB 2014-15 which included the identification of efficiency gains and savings totalling USD 36.6 million (see Table 1). Applying the principles flowing from the guidance of Conference, the Director-General has now identified USD 33.9 million in savings, and has diagnosed areas where a further USD 2.7 million in efficiency gains and savings will be identified and put in place. Furthermore, in line with the transformational changes introduced since 2012, the Organization will also continue to pursue better value-for-money and efficiency and effectiveness in the delivery of the Programme of Work throughout the 2014-15 biennium.

**Table 1: Efficiency gains and savings 2014-15 (USD million)**

Description	Amount
Net staff cost savings from posts	26.3
Staff cost savings from changes in benefits	1.4
<b>Total staff cost savings</b>	<b>27.7</b>
Non-staff cost savings	6.2
<b>Total savings identified (staff and non-staff)</b>	<b>33.9</b>
Further savings	2.7
<b>Total savings</b>	<b>36.6</b>