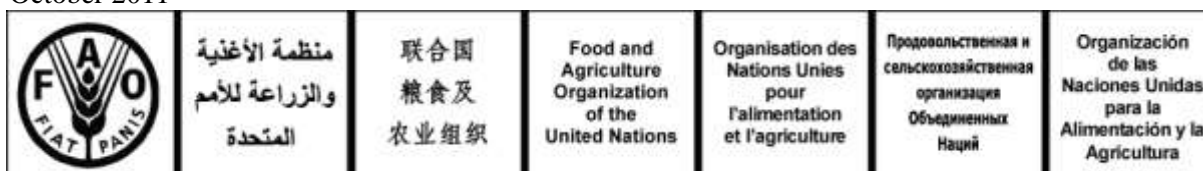


October 2011

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COUNCIL

Hundred and Forty-third Session

Rome, 28 November - 2 December 2011

Report of the 141st (Special) Session of the Finance Committee Rome, 2 - 4 November 2011

Executive Summary

The 141st (Special) Session of the Committee was convened primarily to discuss, and provide recommendations to the Council on adjustments to the Programme of Work and Budget 2012-13. In its report of the session, the Committee:

- Recommends to the Council (i) to approve the proposals for adjustments to the Programme of Work and Budget 2012-13 and the resulting revised distribution of the net appropriation by budgetary Chapter contained in document CL 143/3 (para. 16); and (ii) to consider for endorsement the Director-General's proposals for improving recovery of the Organization's support costs policy which was supported by a large majority of the Committee (para. 14)
- Informs the Council of its discussion relating to (i) progress on implementation of the Immediate Plan of Action (para. 25); (ii) on the modalities for treatment of any further adjustments to the PWB 2012-13 during the implementation phase (para. 17); and (iii) on its own methods of work (para. 30).

Suggested action by the Council

- The Council is requested to approve the recommendations of the Committee on the revised distribution of the net appropriation by budgetary Chapter resulting from the proposals for adjustments to the Programme of Work and Budget 2012-13 contained in document CL 143/3
- The Council is requested to consider for endorsement the proposals for improving recovery of the Organization's support costs policy contained in document *FC 140/8 – reissued*
- The Council is requested to endorse the Committee's views on the implementation of the IPA, the modalities for treatment of any further PWB adjustments during the 2012-13 implementation phase, and on its own methods of work.

Queries on this document may be addressed to:

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REPORT OF THE HUNDRED AND FORTY-FIRST (SPECIAL) SESSION OF THE FINANCE COMMITTEE

2 - 4 November 2011

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Forty-first (Special) Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following representatives of Members were present:
 - Ms Emily Collins (Australia)
 - Mr Olyntho Vieira (Brazil)
 - Mr Laurent D. Couliati (Burkina Faso)
 - Mr Shobhana K. Pattanayak (India)
 - Mr Hideya Yamada (Japan)
 - Ms Manar Sabah Mohammad Al-Sabah (Kuwait)
 - H.E. Miguel Ruíz-Cabañas Izquierdo (Mexico)
 - Mr Fouzi Lekjaa (Morocco)
 - Mr Ronald Elkhuizen (Netherlands)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Ms Karen Johnson (USA)
3. The Chairperson informed the Committee that:
 - Ms Emily Collins (Australia) had been designated to replace Mr Travis Power at this session;
 - Mr Fouzi Lekjaa had been designated to replace Mr Amal Belcaïd as the representative of Morocco for the remainder of its term of office;
 - Ms Eva van Woersem (Netherlands) had been designated to replace Mr Elkhuizen for part of this session; and
 - Mr Mohamed Eltayeb Elfaki Elnor (Sudan) was unable to attend this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/en/>
5. In addition, silent observers from the following Member Nations attended the 141st (Special) Session of the Committee:
 - Canada
 - France
 - Germany
 - Philippines

FAO Matters

Measures to Improve Implementation of the Organization's Support Cost Policy

6. The Committee recalled that the Conference at its 37th Session in June-July 2011 had reaffirmed the policy of full cost recovery that had been approved by the Council in November 2000 in line with Financial Regulation 6.7, and directed the Council to implement measures to improve such recoveries from extra-budgetary-funded activities, building on the experience of other UN Agencies.¹

¹ Resolution 5/2011, operative paragraph 4

7. The Committee also recalled that the Conference had stated its concern about the persistent under-recovery of administrative and operational support costs and urged the Director-General to: a) vigorously pursue improving administrative and operational support cost recovery from extra-budgetary activities, including in areas such as country-level costs, security, and information systems and technology, as previously proposed to the Finance Committee in July 2009; b) develop new mechanisms, as appropriate, building on the experience of other UN Agencies, notably an uplift on project employee costs to recover those costs most closely associated with the level of staffing of programmes and projects; and c) present the means for improved cost recovery for consideration by the Finance Committee at its session in October 2011 and endorsement by the Council before the end of 2011.²

8. The Committee reviewed the measures proposed by the Director-General to reduce the cost recovery gap, and acknowledged that they were in accord with the instructions of the 37th Session of the Conference.

9. The Committee requested further information from the Secretariat on the rationale for using WHO as comparator agency and was further informed that FAO and WHO were specialized technical agencies undertaking normative and operational work including through a substantial field presence, had similar planning and reporting systems, and used the same information system software for accounting purposes.

10. The Committee also reviewed the Secretariat's rationale for recovering support costs through a "post occupancy charge". The Committee recalled that an approach entailing "an uplift on project employee costs to recover those costs most closely associated with the level of staffing of programmes and projects" was specifically stated in the instructions given by the 37th Session of the Conference.

11. The large majority of the Committee supported the use of an uplift of project staff costs and project consultant costs to: a) recover the indirect variable costs of services provided in connection with recruiting and managing project personnel where PSC rates were applied below the ceiling rates, recognizing that the application of such an uplift would not result in the applicable ceiling rate for that project being exceeded; and b) to improve cost recovery for categories of variable indirect costs that had been largely excluded from the FAO Support Cost Policy, but were normally recovered by other UN Organizations, specifically: information technology-related costs, office occupancy related charges and headquarters security, recognizing that these areas had been previously proposed to the Finance Committee in July 2009 and highlighted by the 37th Session of the Conference for recovery.

12. One member did not support the use of the proposed measures at this time and requested further information to ensure full transparency of the methodology and the impact on donors. Another member expressed some reservation with the proposed approach, expressing a preference for the approach followed by the United Nations Funds and Programmes, which favoured more direct costing against project budgets. These two members proposed to defer taking a decision on the matter upon availability of more information for thorough analysis and discussions before taking a final decision.

13. One other member noted that in the last few years the amount of voluntary contributions exceeded the total amount of FAO's assessed contributions and the Council's decision on this subject could impact future voluntary contributions to FAO projects.

14. Recalling the instructions from the Conference that the means for improved cost recovery be submitted for endorsement by the Council before the end of 2011, **the Committee:**

- a) **transmitted the proposal from the Director-General in document FC 140/8 re-issued, with the support of the large majority of the Committee**
- b) **requested that further consultations be informally held between the Secretariat and the interested members, as appropriate, to facilitate consensual endorsement of the proposal by the 143rd Session of the Council**

² C 2011/REP, paragraph 100

- c) **stressed the importance of continuously seeking the most efficient and cost-effective means of providing administrative and operational support to projects**

Adjustments to the Programme of Work and Budget 2012-13

15. The Committee considered the adjustments to the Programme of Work and Budget (PWB) 2012-13, focusing in particular on the Shared Services Centre, the post adjustments, structural adjustments, allocations for Strategic Objective K (Gender), the further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance. The Committee expressed its satisfaction with the document overall and appreciated the consultations undertaken by the Director-General with the Director-General Elect in developing the approach and resulting adjustments.

16. **The Committee:**

- a) **took note that the guidance and decisions of Conference had been followed in all areas**
- b) **concurred with the revised budgeted post establishment and structural changes**
- c) **recommended that the Council approve the resulting revised distribution of the net appropriation by budgetary Chapter**
- d) **noted that the amount of USD 6.5 million still to be identified provided flexibility to the incoming Director-General to identify savings**

17. The Committee considered 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. In addition, the Committee acknowledged that activities could be further redefined in 2012 to provide flexibility to the incoming Director-General. In this regard, **the Committee:**

- a) **reiterated the guidance of the Joint Meeting at its session in October 2011, which rejected the proposal to automatically allocate additional savings, if any, under Functional Objectives X and Y to the decentralized offices³**
- b) **stressed that any further PWB adjustments should be addressed in accordance with agreed procedures, recalling that within Chapter transfers, and transfers from one Chapter to another during the biennium would be handled in accordance with Financial Regulation 4.5**

Progress Report on the Immediate Plan of Action Implementation (IPA)

18. The Committee reviewed document CL 143/10 *Progress Report on the Immediate Plan of Action Implementation* which reported on progress of IPA implementation in the second half of 2011, updating the information provided to the 37th Session of the FAO Conference. It welcomed the emphasis of the report on describing key achievements to date in the context of the vision and anticipated benefits of reform, and noted that the first progress report of 2012 would include details of progress on all IPA actions, as well as full financial information for the year 2011.

19. The Committee noted that although only 20% of IPA actions were forecast to carry forward into 2012-13, these represent 40% of the outstanding costs and effort due to their complexity, risks, and interdependencies.

20. The Committee noted that IPA expenditures (i.e. recorded expenditures and commitments) between January through September 2011 amounted to USD 18.76 million, leaving approximately one third of the 2011 budget available for spending in the final three months of 2011 (USD 10.17 million). The Committee expressed concern regarding the Secretariat's capacity to spend the balance within the remaining time frame, and was provided with an explanation on the modality of expenditure. It also took note of the projected unspent balance of USD 3.5 million, comprising both savings in recurrent IPA costs and deferral of one-time investment costs from 2011 to 2012. This left a balance of USD 6.67 million to be expended between October and December 2011.

³ CL 143/7, paragraph 9e)

21. The Committee noted that in accordance with Conference Resolution 5/2011, any unspent balance of the 2010-11 appropriation would be used for full implementation of the IPA in 2012-13.
22. The Committee commended the work performed on IPA risks and encouraged the Secretariat to continue giving high priority to IPA risk management with a view to ensuring full realization of benefits of FAO renewal. The Committee noted the capacity constraints of IPA Project Leaders to continue to lead reform actions whilst continuing to deliver on their other responsibilities represented a key risk.
23. The Committee encouraged further member engagement to obtain consensus on outstanding IPA issues, including in particular those which had been identified by management as incurring “major delays”.
24. The Committee welcomed the ongoing advisory assignment by an external consulting firm to provide recommendations on IPA implementation strategy, with specific attention to corporate change management actions needed to maximize the expected benefits of the IPA.
25. **The Committee:**
- a) **acknowledged that IPA implementation had reached a critical stage, with some of the most difficult IPA actions in terms of complexity, risk and interdependencies carrying forward to 2012-13**
 - b) **looked forward to receiving a full report on IPA expenditure for 2011 in the next progress report on IPA implementation**
 - c) **encouraged the Secretariat to continue to place emphasis on IPA risk management and change management so as to ensure realization of the expected impact and benefits of FAO reform**

Working Methods of the Finance Committee

26. The Committee continued discussion begun during its 140th Session on the possibility of the Chairperson and/or the Vice-Chairperson attending Regional Conferences of the Organization, as well as opportunities for field visits by the Committee to enhance delivery on its responsibilities.
27. The Committee recognized that under FAO Reform the governance role of the Regional Conferences was of increasing importance to the Organization, and at the same time of greater relevance to the mandate of the Committee than in previous years. It was acknowledged that the presence of either the Chairperson or the Vice-Chairperson at Regional Conferences could be beneficial to the discussions in matters relating to the Finance Committee’s mandate, including discussions on the PWB, as long as a clearly defined role for the FC representative would be agreed with Regional Conference organizers. It was also agreed that discussions of the Finance Committee would be better informed by close understanding of inputs from Regional Conferences.
28. The Committee noted that it would be beneficial from a cost perspective to explore other modalities, such as the use of remote audiovisual tools, for optimising knowledge exchange at the meetings of the Regional Conferences.
29. Similarly, with regard to possible field visits, the Committee agreed that it was important to consider participation of Committee members in visits targeted to locations and in a manner specifically relevant to the mandate of the Committee. It acknowledged that such visits would fall outside the arena of field visits by Permanent Representatives.
30. **The Committee:**
- a) **endorsed in principle the proposal for either the Chairperson or the Vice-Chairperson attending Regional Conferences of FAO, provided they have a clearly defined role, and requested the Secretariat to comment on optimal modalities and cost implications of implementing the proposal**

- b) **supported the idea for members of the Committee to participate in field visits relevant to the mandate of the Committee, and requested the Secretariat to comment on optimal modalities and cost implications of implementing the proposal**

Date and Place of the Hundred and Forty-second Session

31. The Committee was informed that the 142nd Session was scheduled to be held in Rome from 7 to 8 November 2011.