



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
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Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and tenth Session

Rome, 19 - 23 September 2005

Programme and Budgetary Transfers in the 2004-05 Biennium

Highlights

Full utilisation of the 2004-05 Appropriation of US\$ 749.1 million is foreseen.

The 2004-05 performance is mainly impacted by a hold-back of funds to cover:

- a significant forecasted unfavourable staff cost variance, currently estimated at US\$ 15.3 million for the biennium; and
- unbudgeted security provisions, currently estimated at US\$ 2.8 million.

In accordance with Financial Regulation 4.5(b), the Committee is requested to authorise transfers between budgetary Chapters from Chapters 1, 2 and 5 in favour of Chapters 3 (US\$ 4.2 million) and 6 (US\$ 1.8 million). It is noted that these are consistent with the tentative forecast presented to the Committee at its May 2005 session.

The Committee's approval is also sought to apportion up to US\$ 2.8 million of uncommitted arrears resources under Resolution 6/2001 for unbudgeted security expenditures in 2004-05.

For the effective operation of the Capital Expenditure Facility, and in line with the Funding Plan presented in the Medium Term Plan 2006-11 and the Summary Programme of Work and Budget 2006-07, the Committee is also requested to authorise the transfer of any unused balance of arrears resources under Resolution 6/2001 as at 31 December 2005 to the Capital Expenditure Facility.

Introduction

1. Conference Resolution 7/2003 on the Budgetary Appropriations for 2004-05 approved a budget of US\$ 749.1 million, and Financial Regulation (FR) 4.1(a) authorises the Director-General to incur obligations up to the amount voted. Financial Regulation 4.5(b) requires transfers from one chapter to another to be approved by the Finance Committee. This document provides updated estimates of the chapter transfers foreseen in 2004-05, for approval by the Finance Committee.

Overall Biennial Forecast

2. At its 109th session in May 2005, the Finance Committee reviewed the Thirty-eighth Annual Report on Budgetary Performance and Programme and Budgetary Transfers¹, which was subsequently endorsed by the Council at its 128th session in June 2005. The document tentatively indicated that transfers between budgetary chapters for the biennium would be required from Chapters 1, 2 and 5 in favour of Chapters 3 (US\$ 5.5 million) and 6 (US\$ 0.65 million). The Committee acknowledged that the formal request for transfers would be presented in the September 2005 session, based on updated information.

3. The Committee noted that the biennial performance was affected by the significant forecasted unfavourable staff cost variance, estimated at US\$16 million. The main elements contributing to the unfavourable variance included the impact of the strengthening of local currencies against the US dollar in decentralized offices, a change in methodology for the actuarial valuation of staff related liabilities and an increase in premiums of staff medical schemes. The other main unbudgeted expenses to be incurred during 2004-05 concerned security costs estimated at approximately US\$ 2 million for the biennium.

Staff Cost Variance

4. Since the report to the May 2005 session of the Finance Committee, the forecasted unfavourable staff cost variance has declined slightly from US\$ 16 million to US\$ 15.3 million, due mainly to the recent strengthening of the US dollar.

5. Despite sophisticated forecasting techniques, the staff cost variance continues to be a risk to the implementation of programmes as, for example, the exact impact and amount by staff category is difficult to predict. The Council, at its 128th Session in June 2005, acknowledged the undesirable effect of a significant forecasted unfavourable staff cost variance, which would require a reduction in planned programmes. The Council was informed that, to partly address these difficulties, the Organization was changing the timing and scope of the actuarial valuation for after-service staff liabilities so as to better coincide budgeted and actual costs. Further measures were possible, but required approval by the governing bodies.

Security Provisions

6. The unbudgeted security costs are currently estimated at US\$ 2.8 million. The US\$ 0.8 million increase from the amount previously reported is mainly due to unforeseen Minimum Operating Security Standards (MOSS) requirements for the Regional and Subregional Offices. The financial management of security costs is complicated by unanticipated costs and fluctuating costs estimates, with unbudgeted amounts absorbed to the detriment of the programmes. To facilitate planning and management of security costs in future, a proposal has been put forward in the PWB 2006-07 for the establishment of Chapter 8 Security Expenditure.

7. For 2004-05, the chapter transfers requested below assume that the full, unbudgeted security requirements would be absorbed within the Regular Programme Appropriation at the

¹ FC 109/3

expense of the programme budget. However, given the extraordinary budgetary pressures on the Organization in the current biennium, the Secretariat recommends putting an additional funding option in place in case security or other expenditures rise unexpectedly during the final months of the biennium. The funding option is presented under the section on Arrears.

Split Assessments

8. As recalled in FC 109/3, budgetary reporting at the end of the biennium is based on the US dollar/euro exchange rate established in the PWB 2004-05 of 1.19 (the budget rate). Any difference arising from the translation of Euro expenditures at the budget rate versus the UN rate of exchange (used for accounting purposes) is monitored throughout the biennium and will be reflected as an adjustment figure in Statement IV of the final 2004-05 accounts of the Organization.

9. The forecasted budgetary performance figures in the table below are reflected at the budget rate of exchange. Some variations by Chapter may occur if the final percentage of expenditures in euro differs significantly from the assumptions used in the budget. Variations may also occur due to fluctuations of the US dollar against the Euro.

Budgetary Transfers between Chapters

10. As tabulated below, the pattern of the requested transfers is consistent with that in FC 109/3, with transfers from Chapters 1, 2 and 5 in favour of Chapters 3 and 6. The transfer requested into Chapter 3 has decreased by US\$ 1.3 million compared with the previous forecast, while the transfer into Chapter 6 has increased by US\$ 1.1 million.

Table 1. 2004-05 Forecasted Budgetary Transfers between Chapters (US\$ million)

Chapter	Title	2004-05 Appropriation	2004-05 Forecasted Performance	Surplus/(Deficit) vs. Appropriation
1	General Policy and Direction	67.4	66.8	0.6
2	Technical and Economic Programmes	329.1	324.6	4.5
3	Cooperation and Partnerships	140.8	145.0	(4.2)
4	Technical Cooperation Programme	103.0	103.0	-
5	Support Services	59.4	58.5	0.9
6	Common Services	48.8	50.6	(1.8)
7	Contingencies	0.6	0.6	-
8	Capital Expenditure	0.0	0.0	-
Grand Total Regular Programme		749.1	748.5	0.6

11. The forecasted deficit in Chapter 3 has declined mainly due to the continued high delivery of the field programme which has led to a higher forecasted recovery of AOS² income for this chapter. Unbudgeted security requirements originally foreseen under Chapter 3 are also somewhat lower than originally forecast.

12. The forecasted deficit in Chapter 6 has increased mainly due to additional security requirements in the Regional and Subregional Offices. It should also be noted that, as a significant share of funds in this chapter is euro-based due to headquarters building and maintenance

² Administrative and operational support

expenditures, further variations due to the impact of the budget rate versus the UN rate may occur, as explained above under Split Assessments.

Chapter 8: Capital Expenditure

13. As outlined in the *Capital Budgeting* section of the Summary Programme of Work and Budget 2006-07³, and earlier in the Medium Term Plan 2006-11⁴, it was foreseen that the Finance Committee would be requested to transfer US\$ 1 million of unspent balances from Chapters 1 to 6 into Chapter 8 for the effective operation of the Capital Expenditure Facility in 2006-07. Given the tight budgetary situation forecast for this biennium, no such transfer request is currently foreseen.

Arrears

14. It is recalled that in approving Budget Resolution 7/2003, the Conference invited the Director-General to make proposals to the Finance Committee for the reallocation of arrears to cover one-time redeployment and separation costs associated with the implementation of the adjusted budget. At its May 2004 session, the Finance Committee approved the setting aside of an amount of US\$ 4.1 million for possible use in covering one-time costs related to redeployment and separation and security infrastructure, on the understanding that the Organization would make every effort to absorb these costs within the Regular Programme⁵.

15. At its May 2005 session, the Secretariat informed the Committee that total costs for redeployment and separation were estimated at US\$ 4.0 million, implying that close to the full contingency would be required for these costs. Unbudgeted security expenditures would, therefore, need to be absorbed within the Regular Programme.

16. Significant pressure, however, is put on the implementation of the approved programmes of the Organization when substantial unbudgeted items need to be absorbed, including, this biennium, the impact of the unfavourable staff cost variance and the unbudgeted security costs. To alleviate some of this pressure, the Secretariat requests the Finance Committee's approval to apportion up to US\$ 2.8 million of uncommitted arrears resources from Resolution 6/2001 to security expenditures in 2004-05 on the continued understanding that the Organization would make every effort to absorb these costs within the Regular Programme.

17. The Committee is also formally requested to endorse the transfer to the Capital Expenditure Facility of the remainder of any unused balance of arrears as at 31 December 2005. It is recalled that this was already approved in principle by the Committee at its September 2004 session and received the Council's concurrence in its November 2004 Report⁶. Unspent arrears resources are currently estimated at approximately US\$ 5.7 million.

Decision Sought

18. In accordance with FR 4.5(b), the Finance Committee is requested to approve the transfer of up to US\$ 6 million from Chapter 1: *General Policy and Direction*, Chapter 2: *Technical and Economic Programmes*, and Chapter 5: *Support Services*, to Chapter 3: *Cooperation and Partnerships* (US\$ 4.2 million) and Chapter 6: *Common Services* (US\$ 1.8 million).

³ CL 128/3 para 107

⁴ CL 127/7 para 642

⁵ CL 127/14 para 79

⁶ CL 127/REP para 54

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19. The Committee's approval is also sought to apportion up to US\$ 2.8 million of uncommitted arrears resources under Resolution 6/2001 for unbudgeted security expenditures in 2004-05.
20. For the effective operation of the Capital Expenditure Facility, and in line with the Funding Plan presented in the Medium Term Plan 2006-11 and the Summary Programme of Work and Budget 2006-07, the Committee is also requested to authorise the transfer of any unused balance of arrears resources under Resolution 6/2001 as at 31 December 2005 to the Capital Expenditure Facility.
21. The forecast budgetary performance and the required transfers are partially influenced by factors that are largely outside the Organization's direct control, including the US dollar/euro UN rate of exchange versus the budget rate of exchange; and, the impact of the US dollar rate of exchange against the non-euro currencies of FAO's Regular Programme operations. The precise amounts transferred can only be determined after the finalisation of the 2004-05 Regular Programme accounts in early 2006.
22. As per past practice, the Director-General will report to the Finance Committee, at its first session in 2006, the exact amounts transferred.