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FINANCE COMMITTEE

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Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2004-2005 Biennium

Highlights

The 2004-05 spending in the unaudited accounts of the Organization represents 99.9% of the US\$ 749.1 million Appropriation and results in a surplus balance of US\$ 0.9 million.

In line with previous reports to the Committee¹, the 2004-05 performance is mainly impacted by a substantial unfavourable variance between actual and standard staff costs of US\$ 16 million for the biennium. As previously reported to the Finance Committee, transfers between budgetary Chapters are required for the biennium from Chapters 1, 2 and 5 to Chapter 3 (US\$ 1.5 million) and Chapter 6 (US\$ 1.3 million). The final required transfers are within the amounts previously approved by the Finance Committee².

The Finance Committee had authorized the use of arrears from the major contributor for unbudgeted redeployment and separation costs (US\$ 4.1 million) and security expenditure (US\$ 2.8 million)³ on the understanding that every effort was made to absorb these costs within the Regular Programme budget. This was successfully achieved with the result that arrears funding remains earmarked exclusively for the purposes originally approved by Conference under Resolution 6/2001. The resulting unused arrears balance of US\$ 10.1 million will be transferred to the Capital Expenditure Facility, as authorized by the Finance Committee⁴.

The Committee is requested to take note of this report.

¹ FC 110/2, *Programme and Budgetary Transfers in the 2004-05 Biennium* (September 2005); FC 109/3, *Annual Report on Budgetary Performance and Programme and Budgetary Transfers* (May 2005).

² CL 129/4, para 10

³ CL 127/14, para 79, and CL 129/4, para 9

⁴ CL 129/4, para 11

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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 (FR) 4.6 requires the Director-General to manage the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium, and calls for the Finance Committee to review annually the Director-General's implementation of this regulation. This report summarises, for information and discussion, the budgetary aspects of the Regular Programme performance for 2004-05 and provides the details of the final budgetary transfers between Chapters.

Overall Biennial Regular Programme Financial Performance

2. The Director-General manages the appropriations via annual institutional allotments for the Regular Programme of Work issued by the Office of Programme, Budget and Evaluation (PBE) to allottees. The institutional allotments by programme heading constitute spending limits for allottees. The allotments are adjusted by PBE during the implementation cycle to take account of emerging programme requirements, under-budgeted activities and cost adjustments that were not planned in the PWB 2004-05.

3. Table 1 summarises the overall budgetary performance versus the appropriation approved by Conference. A surplus balance of US\$ 0.9 million is recorded against the 2004-05 appropriation of US\$ 749.1 million, with 99.9% of the appropriation utilized.

4. The 2004-05 performance is based on the actual expenditure in the unaudited accounts of the Organization, adjusted for the US dollar/euro exchange rate established in the PWB 2004-05 of 1.19 (the budget rate)⁵. The difference arising from the translation of euro expenditures at the budget rate versus the UN rate of exchange (i.e. the actual rate used for accounting purposes) is reflected as an adjustment figure in Statement IV of the final 2004-05 accounts of the Organization.

Table 1. Overview of 2004-05 Regular Programme Performance (US\$ millions)

	2004-05
Budgetary Appropriation	
Programme of Work	841.0
Less Other Income	91.9
Appropriation adopted by Conference Resolution 7/2003	749.1
Net Expenditure	748.2
Expenditure vs. Net Appropriation	0.9

5. The biennial performance is mainly affected by a significant unfavourable staff cost variance. Consistent with previous estimates and explanations to the Committee⁶, the final unfavourable variance of US\$ 16 million results from a number of elements, including higher

⁵ FC 110/2 para 8.

⁶ FC 110/2 paras 4-5 and FC 109/3 paras 10-14.

than budgeted costs for after-service benefits, entitlement travel, education grants, and medical premium claims.⁷

6. The other main unbudgeted costs which were incurred against the Regular Programme this biennium were US\$ 4.0 million in redeployment and separation costs, as a result of the budget being approved at a level US\$ 51.2 million less than zero real growth, and US\$ 2.8 million in additional security costs. The Finance Committee had authorized the use of arrears from the major contributor under Resolution 6/2001 for these two items, on the understanding that every effort was made to absorb these costs within the Regular Programme budget. The Organization was indeed able to absorb these costs within the final 2004-05 Regular Programme performance reported above, with the result that arrears funding remains earmarked exclusively for the purposes originally approved by the Conference under Resolution 6/2001.

2004-05 Budgetary Transfers and Performance by Chapter

7. As tabulated below, budgetary chapter transfers fall within the levels previously approved, with transfers from Chapters 1, 2 and 5 in favour of Chapters 3 and 6. The Chapter performances reflected below include the distribution of the unfavourable staff cost variance, and the absorption of redeployment and separation costs and security expenditures.

Table 2. 2004-05 Budgetary Performance by Chapter (US\$ '000)

		2004-05		
Chapter/Title	2004-05 Appropriation	2004-05 Expenditure	Balance vs. Appropriation	
1 General Policy and Direction	67,355	66,979		376
2 Technical and Economic Programmes	329,136	326,417		2,719
3 Cooperation and Partnerships	140,773	142,303		(1,530)
4 Technical Cooperation Programme	103,027	103,027		0.0
5 Support Services	59,415	59,356		59
6 Common Services	48,794	50,139		(1,345)
7 Contingencies	600	14		586
Grand Total Regular Programme	749,100	748,235		865

8. The required transfer into Chapter 3 is significantly lower than the amount projected in the report to the Finance Committee in September (US\$ 1.5 million versus US\$ 4.2 million) due to under-spending against the allotments in two areas:

- The Investment Centre Division (TCI) undertakes agriculture and rural development project formulation work with major financing and related institutions on a cost-sharing basis. TCI, under Major Programme 3.2, under-spent as a result of higher than budgeted cost reimbursements during the biennium, coupled with economies achieved through careful cost control mainly through increased use of in-house expertise.
- The FAO Representations (Major Programme 3.4) under-spent mainly due to higher than expected cost reimbursements for office support and for operating extrabudgetary projects in the latter part of 2005.

⁷ Document FC 113/11, *Treatment of Staff Cost Variance*, outlines possible measures that could be put in place to improve financial management of the staff cost variance and lessen the undesirable effect on the implementation of the approved programmes of the Organization.

Arrears

9. The September report on 2004-05 programme and budgetary transfers estimated unspent arrears resources under Resolution 6/2001 at approximately US\$ 5.7 million⁸. Together with the US\$ 4.1 million, previously reserved to cover one-time costs of redeployment and separation, the final unused arrears balance as at 31 December 2005 is US\$ 10.1 million.

10. As authorized by the Committee in its September 2005 report, the unused balance of arrears resources under Resolution 6/2001 as at 31 December 2005 will be transferred to the Capital Expenditure Facility for its effective operation. The Revised Programme of Work and Budget 2006-07 provides a detailed funding plan for these resources.

Conclusion and Action for the Committee

11. The Committee is requested to:
- a) take note of the final 2004-05 Regular Programme budgetary performance;
 - b) take note of the transfers between chapters and of the fact that they fall within the levels already approved by the Committee; and
 - c) take note of the transfer from arrears under Resolution 6/2001 to the Capital Expenditure Facility, as previously authorized and further detailed in the Revised Programme of Work and Budget 2006-07.

⁸ FC 110/2 para 17.