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Programme Alimentaire Mondial

World Food Programme

Programa Mundial de Alimentos

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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

UPDATE ON THE WFP MANAGEMENT PLAN (2006–2007)

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

DRAFT DECISION*

The Board:

(i) authorizes the Executive Director to fund variances between standard staff rates and actual staff expenditures at the end of each financial period, as follows:

a) variances arising on positions funded from PSA to be funded from (or refunded to) the PSA Equalization Account; and

b) variances arising on positions funded from non-PSA sources to be funded from (or refunded to) the General Fund;

(ii) approves up to US$6.9 million for a general service staff salary increase to be funded from the PSA Equalization Account;

(iii) approves a revised regular PSA appropriation of US$371.8 million and a revised property, plant and equipment capital appropriation of US$4.0 million, as follows:

	Original appropriation (including carryover)	**Revised appropriation**
	US$ million	
Programme support: regional and country offices	123.8	120.6
Programme support: Headquarters	38.6	38.4
Management and administration	208.4	212.8
Total regular PSA	**370.8**	**371.8**
Property, plant and equipment capital appropriation	5.0	4.0
Total	**375.8**	**375.8**

(iv) approves the Secretariat’s proposal to fund the 2006 Walk-the-World income deficit of US$2.6 million from the General Fund;

(v) approves the use of the General Fund to cover DSS-related expenditures for 2006–2007 up to a maximum of US$22.6 million; and

(vi) approves the provision of a US$10 million advance to the WINGS II Special Account from the General Fund.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.1/2007/16) issued at the end of the session.

INTRODUCTION

1. In the discussion of the Biennial Management Plan (2006–2007) at the 2006 Second Regular Session of the Board, the Secretariat reaffirmed its commitment to provide updates on the implementation of the plan during the biennium. This is the fourth such update.

BACKGROUND

2. The Biennial Management Plan (2006–2007) used a needs-based methodology for programme costs; the Programme Support and Administrative (PSA) budget took into consideration the expected level of resources on the basis of past funding levels.

3. The Secretariat, recognizing that the projected level of funding may not be available from donors, continuously reviews the operational level, the level of funding forecast and indirect support cost (ISC) income to ensure that PSA expenditure levels are sustainable.

4. This update provides an overview of WFP's position with regard to the operational budget presented in the Management Plan, an overview of the implementation of the PSA budget and the status of the PSA Equalization Account.

5. As mentioned in the previous two update notes, additional PSA requirements have developed since the beginning of the biennium. As outlined in the last update note (WFP/EB.2/2006/5-G/1), the Secretariat is committed to keeping PSA and other indirect expenditures at a level sustainable in future years: it has therefore undertaken a re-prioritization exercise, which was finalized on 1 December 2006, to maintain the PSA at its current level. This exercise is outlined in the current paper; approval is sought for the consequent change in appropriation lines. The total of the appropriations is unchanged.

6. The update note also outlines a policy on the treatment of variances between standard staff rates and actual staff expenditures and requests approval for (i) the funding of an increase in general service staff salaries, (ii) the United Nations Department of Safety and Security (DSS) security costs for 2006–2007 and (iii) a shortfall in funding the 2006 Walk the World programme.

OPERATIONAL OVERVIEW

7. The biennial programme of work – all the direct costs outlined in the Biennial Management Plan – was US$5.8 billion, of which 45 percent was for food, 12 percent for external transport, 24 percent for landside transport, storage and handling (LTSH), 8 percent other direct operational costs (ODOC) and 11 percent direct support costs (DSC).

8. Since the approval of the Biennial Management Plan, the Programme of Work had increased by US$125 million as at 30 November 2006 to US$5.9 billion. An overview of the major changes and adjustments in the Biennial Programme of Work is provided in Table 1.

TABLE 1. CHANGES TO THE PROGRAMME OF WORK

	US$ million
Original Management Plan	5 793
Kenya EMOP*	254
Indonesia PRRO**	65
Pakistan PPRO	61
Niger PRRO	35
Mali PRRO	22
Lebanon EMOP	20
Philippines EMOP	18
Tanzania EMOP	16
DPRK*** EMOP	-459
DPRK PRRO	83
Pakistan SO****	52
Lebanon SO	37
Indonesia SO	36
Kenya SO	11
Other adjustments*****	-126
Sub-total revised	**125**
Revised Programme of Work	**5 918**

*Emergency operation
** Protracted relief and recovery operation
*** Democratic People's Republic of Korea
**** Special operation
*****The reduction of US$126 million takes into account the higher-than-expected carry-over stock and estimated adjustments to closing stocks.

PROGRAMME SUPPORT AND ADMINISTRATIVE (PSA) EXPENDITURES

9. For the 2006–2007 biennium, the Board approved a PSA budget of US$375.8 million, including carry-over allotments and departmental capital expenditures. At the end of November 2006, the related expenditure amounted to US$169 million, equivalent to 45 percent of the approved budget. The budgeted amount for the same period was US$173 million.

PROJECTED RESOURCE LEVELS

10. The contribution and ISC forecast remains unchanged from the last Management Plan update. The Secretariat is currently forecasting a contribution level of US$5.6 billion for the biennium, split between US$5.248 billion for operational costs and US$352 million for

ISC. This is US$20 million less than the PSA budget of US$372 million, but US$25 million more than the US$327 million envisaged in the Management Plan. This forecast is also somewhat above the historical funding level of 81 percent on which the Management Plan is based.

11. As outlined in the Biennial Management Plan, the small deficit in 2006–2007 ISC income will be funded from the ISC of any new emergencies – which are not budgeted for in the Programme of Work – or the PSA Equalization Account, should the level of emergencies be lower in 2006–2007 than in the past.

POLICY ON STANDARD STAFF COSTS

12. The salaries and entitlements of international and Headquarters-based staff are budgeted and funded on the basis of standard rates, as noted by the Board in its 2004 Annual Session (2004/EB.A/13) and as outlined in Annex IV of the Biennial Management Plan (2006-2007). Most positions are funded either by DSC or PSA; a limited number of staff are funded by extra-budgetary resources such as trust funds and special accounts. The standard rates are an estimate of future staff costs based on past expenditures.

13. Up to and including the 2004–2005 biennium, WFP used standard rates based on those of the Food and Agriculture Organization of the United Nations (FAO).

14. For the 2006–2007 biennium, the Secretariat developed its own standard staff rates for the first time. The need to establish the rates before the start of the biennium and the requirement to use a complete year as the base period to ensure that all seasonal expenditures are covered mean that the 2006–2007 rates are based on actual 2004 expenditures.

15. Given this timing difference and the changing nature of WFP staff costs, there will almost always be a variance between standard rates and actual expenditures for a given period. Some of the reasons for this include (i) changes to the salary scale, (ii) changes to the amount, timing and number of staff allowances, (iii) changes to the average step-in-grade for a given grade, (iv) changes in the number and cost of staff re-assignments and (v) exchange rate fluctuations.

16. WFP has established a standard staff cost variance account that captures the difference between the standard rates charged and actual expenditures.

17. For the 2004–2005 biennium, there was a deficit on this account of US$79.2 million, including a foreign exchange component of US$58.6 million.[1] This deficit was funded from ISC income and the PSA equalization account (WFP/EB.A/2006/6-A/1/1).

18. On the basis of actual expenditure incurred to date, the Secretariat projects that there will be a deficit on this account of US$14.5 million for the current biennium. This deficit, which represents 3 percent of total budgeted staff costs for the biennium, is primarily a result of the timing issue outlined above. As outlined in paragraph 24, the projected portion of this amount that relates to PSA – US$6 million – has been absorbed into the current PSA appropriation.

[1] The foreign exchange exposure for 2006–2007 has been hedged, eliminating the risk for the current biennium.

19. A policy for the treatment of variances between standard and actual is needed. The Secretariat is proposing the following treatment for variances, both positive and negative:

1. Every effort will be made to fund variances between standard rates and actual expenditures for positions funded by PSA from the approved PSA appropriation, but any remaining variance will be funded from or refunded to the PSA Equalization Account; this will ensure the correct funding and accounting of all PSA expenditures.
2. Variances between standard rates and actual expenditures for positions funded from non-PSA sources will be funded from or refunded to the General Fund. This approach is recommended because projects have a limited duration and may be closed at the time when overall staff variances are settled. Standard project reports (SPRs) may have been issued to donors, making it difficult to change reported expenditures.

20. Board approval is required for any use of the PSA Equalization Account and General Fund. This policy is therefore submitted for the approval of the Board.

General Service Staff Salary Scale Increase

21. A cost-of-living study carried out by the International Civil Service Commission (ICSC) for general service staff in Rome resulted in a 12.16 percent increase to the general service salary scale, retroactive from November 2005. This adjustment was approved by FAO Council in November and consequently became a legal liability for WFP because FAO staff rules apply to WFP staff.

22. General service staff in Rome are budgeted, funded and accounted for using standard staff rates, as outlined above. The 2006–2007 rates were developed by the Secretariat on the basis of past expenditures, but cost increases resulting from cost-of-living studies were not foreseen and therefore not included in the standard rates. The estimated cost of this salary scale increase is US$6.9 million for the period November 2005 – December 2007.

23. The Secretariat recommends adoption of the policy outlined above on variances in standard and actual staff costs. General service staff in Rome, with very few exceptions, are funded by PSA. It is therefore proposed to fund the estimated US$6.9 million from the PSA Equalization Account.

PSA Budget Re-Prioritization

24. Since the preparation of the Biennial Management Plan during the summer of 2005, a number of new priorities have developed. As outlined in the last update, the Secretariat's re-prioritization of the PSA concluded in December 2006; the main changes were:

- inclusion of the PSA-related projected deficit on the standard staff cost account, estimated at US$6 million for the biennium – see above – in the PSA appropriation;
- analysis of increased capacity to address three major emergencies;
- improved fundraising capacity to increase the levels of contributions by strengthening the Fundraising and Communications Department (FD), including communications and private-sector fundraising;
- improved financial controls by allocating additional resources for the Division of the Chief Financial Officer (CFO) and the Inspector General and Oversight Services Division (OSD);

- an increased focus on child hunger for approved programmes; and
- mainstreaming of results-based management (RBM), the National Staff Project, risk management and improved career development.

25. To fund these changes within current appropriations, the Secretariat reduced all PSA travel budgets and all staff reassignments for 2007 by 20 percent. An additional 3.5 percent downward adjustment has been implemented for all budget units.

26. In the Management Plan, the Board approved US$5 million for property, plant and equipment expenditure funded from the PSA Equalization Account. It is proposed that this appropriation be adjusted downwards to US$4 million for the current biennium.

27. The adjustments to the original approved appropriations are summarized in Table 2.

TABLE 2. PSA BUDGET, 2006–2007 (US$ million)

	Proposed[2]	Original Management Plan
Field programme support		
Country offices	69.5	70.5
Regional bureaux	49.1	51.3
Field contingency	2.0	2.0
Total	**120.6**	**123.8**
Headquarters programme support		
Operations Department (OD)	38.4	38.6
Management and administration		
Administration Department (AD)	84.2	86.9
Fundraising and Communications Department (FD)	46.0	39.8
Policy and External Affairs Department (PD)	34.4	37.1
Division of the Chief Financial Officer (CFO)	16.8	15.7
Inspector general and Oversight Services Division (OSD)	9.3	8.0
Results-Based Management Division (OEDR)	6.4	5.4
Office of the Executive Director (OED)	15.7	15.5
Total	**212.8**	**208.4**
Total regular PSA	**371.8**	**370.8**
Property, plant and equipment capital appropriation	4.0	5.0
Total	**375.8**	**375.8**

28. The revised priorities reallocate PSA budget from the field, PD and AD to improve fundraising capacity, financial controls, oversight and RBM. The Secretariat recommends the moves among the main appropriation lines for approval by the Board.

[2] The proposed PSA appropriations are net of expected savings from vacant staff positions.

WALK THE WORLD

29. WFP established a Walk the World Division in February 2005 to lead the annual event, which was piloted in 2004 by WFP's corporate partner TNT, with a view to supporting the launch of an initiative to end child hunger by 2015.

30. During discussion of the 2006–2007 Management Plan, WFP management decided that the walk would not be funded by the PSA budget in 2006 or 2007: WFP would seek corporate sponsors to fund the 2006 walk. In December 2005, the Secretariat provided US$2.6 million from the 2006 PSA budget as an advance in the expectation that it would be recovered from sponsorship and the proceeds of the walk.

31. The resources raised were used in consultation with the donors in one of three ways: (i) to sponsor overhead expenses, (ii) to cover some local expenses or (iii) as donations to WFP school feeding or other child hunger programmes.

32. Receipts directly attributable to the 2006 walk and related events were US$1.872 million – US$1.7 million in donations to WFP child hunger projects and US$172,000 in sponsorship income.

33. More than 60 private companies contributed cash in support of one or more local walks, but only US$10,000 was received from corporate sponsors for overheads.

34. The Secretariat therefore proposes that the income deficit for 2006 of US$2.6 million be covered directly from the General Fund.

35. WFP does not plan to sponsor the 2007 walk, but will support a walk sponsored by TNT. The Secretariat can therefore focus on raising corporate sponsorship for the 2008 walk.

WINGS II SPECIAL ACCOUNT

36. As part of the 2006–2007 Management Plan, the Board approved a US$15 million allocation to launch WINGS II. This sum could not cover the entire project, but WFP believed that the work of the first biennium could be organized with regard to the amount available. When the scope of the project became clear, however, it was evident that this funding approach would not be feasible. More work has to be done in this biennium than was envisaged.

37. To avoid the risk and expense of keeping two financial systems, the human resources module must be upgraded now and, on the recommendation of the External Auditor, the upgrade of the Commodity Movement Processing and Analysis System (COMPAS) must now be included, which was not foreseen as part of WINGS II.

38. The total cost of WINGS II, originally estimated at US$39 million, is now estimated at US$49 million, as outlined in the document WFP/EB.2/2006/5-F/1. The project is currently US$34 million short of this target; US$17 million is needed in this biennium.

39. At the Board's 2006 Second Regular Session, WFP proposed to fund WINGS II through a combination of PSA and direct donor contributions (WFP/EB.2/2006/5-F/1). Solicitations for direct donor contributions started immediately and are continuing. Several donors have shown interest in WINGS II following presentations made to them, but no firm contributions have been made.

40. To ensure that project implementation continues smoothly, the Secretariat requests the Board's approval of a US$10 million advance from the General fund to the WINGS II special account. The Secretariat will continue to try to secure direct donor contributions;

private-sector donors will also be approached. The advance will be reimbursed, with the Board's approval, as direct donor contributions are received.

UNITED NATIONS DEPARTMENT OF SAFETY AND SECURITY (DSS) COSTS

41. At its First Regular Session in 2005, the Board agreed to continue support for the Secretary-General in implementing enhanced and unified security management for United Nations staff (WFP EB.1/2005/10) so that WFP staff can continue their work in hazardous locations.

42. The organizations participating in DSS are collectively responsible for the safety and security of United Nations personnel. Field-related costs are apportioned among the participating organizations; central management costs are assumed by the United Nations. The cost-sharing formula is based on the number of staff based in countries that are not members of the Organisation for Economic Co-operation and Development (OECD), for whose safety and security the United Nations system is responsible.

43. Under the cost-sharing formula, WFP's share will be US$22.6 million for 2006–2007 on the basis of 9,230 staff in the field, as indicated in the Biennial Management Plan (2006-2007) (WFP/EB.2/2005/5-A/1). This is equivalent to 13.3 percent of all United Nations field staff.

44. WFP believes that United Nations staff safety and security costs should be paid out of the United Nations regular budget and not through voluntary contributions. It continues to advocate this approach with Member States. Until this becomes a reality, however, WFP must continue to fund its share of DSS costs.

45. The Biennial Management Plan (2006–2007) outlined the intention to recover these costs from projects as DSC. The Secretariat has reviewed this option and has found it to be impractical.

46. DSS costs are a pro-rata share of the costs of another organization, so they cannot usually be linked with individual WFP projects. It is therefore difficult to justify these costs to project managers and donors. This also means that the costs are not "directly linked with the provision of support to an operation", the first prerequisite for categorizing a cost as DSC under Financial Regulation 1. The second prerequisite for categorizing a cost as DSC is that it "would not be incurred should that activity cease". Because these costs have to be incurred regardless of the number and size of individual projects, they cannot be classified as DSC.

47. The Secretariat therefore proposes that DSS costs be funded from the General Fund, in line with the treatment in the 2004–2005 biennium.

OTHER COST CONSIDERATIONS

48. As outlined in the last Management Plan update, the Secretariat is aware of two other potential cost risks: (i) after-service medical liabilities and (ii) expenditures for avian influenza contingency planning.

49. The biennial financial statements for 2004–2005 showed an excess of US$31.7 million in actuarial liabilities over assets on the staff benefit fund. The Secretariat commissioned an actuarial valuation of this fund and related liabilities to verify the deficit, with a

valuation date of 31 December 2006. Implementation of International Public Sector Acounting Standards (IPSAS) from 1 January 2008 will affect the ways in which this liability is expensed and funded; previously unrecorded staff liabilities such as termination benefits and annual leave may have to be recorded in the financial statements. The Secretariat therefore plans to produce an overview of the situation for the 2007 Annual Session of the Board, with an outline of the accounting implications and a plan for funding of any related deficits.

50. As indicated in the last Management Plan update, the Secretariat has incurred contingency planning costs in relation to avian influenza. An SO costing US$2.9 million was approved in December 2005 and a DSC advance was made. To date, however, contributions received from donors are sufficient to cover all expenditures incurred.

STATUS OF THE PSA EQUALIZATION ACCOUNT

51. As mentioned in the previous update note, the actual balance of the PSA Equalization Account at 31 December 2005 was higher than expected. The Management Plan forecast a 2005 year-end balance of US$78 million, but the actual balance reported in the Audited Financial Statements was US$122 million. The current ISC income forecast is slightly higher than the US$327 million envisaged in the Management Plan. The latest forecast for the PSA Equalization Account is therefore outlined in Table 3.

TABLE 3. PSA EQUALIZATION ACCOUNT, 2006–2007 (US$ million)

	PSA equalization forecast, Management Plan (2006–2007)	**Current PSA equalization forecast**
1 January 2006 opening balance	78	122
2006–2007 ISC income	327	352
2006–2007 PSA expenditure	(368)	(372)
2006–2007 capital and capacity funds	(25)	(28)
General service staff cost increase		(7)
Transfer to IRA	-	(20)
31 December 2007 forecast	**12**	**47**

52. In “Review of the Indirect Support Cost Rate” (WFP/EB.A/2006/6-C1), a target level of US$66 million for the PSA Equalization Account was established for the 2006–2007 biennium on the basis of a reserve for four months of indirect expenditures.

53. The current forecast balance for 31 December 2007 is therefore below the target level, but it represents approximately three months of indirect expenditures. The ISC income forecast does not include unforeseen emergencies in the remainder of the biennium.

STATUS OF THE GENERAL FUND

54. The portion of the General Fund balance not already earmarked for a special account or other activities is available, at the discretion of the Board, to meet the above expenditures. The evolution of this balance is outlined in Table 4.

TABLE 4. UN-EARMARKED GENERAL FUND BALANCE, 2006–2007 (US$ million)	
Actual, 1 January 2006	12.7
Actual, 30 September 2006	53.1
Projected, 31 December 2006	62.4
Projected, 31 December 2007	91.3

55. On the assumption that the draft decisions in this document are approved, the projected balance at 31 December 2007 would be reduced by US$43.7 million: composed of an expected US$8.5 million deficit on standard staff costs for non-PSA positions (see paragraph 18 above), and the US$35.2 million related to draft decisions (iv), (v) and (vi) of this document. The final projected balance for 31 December 2007 is therefore US$91.3 million

Acronyms Used In The Document

AD	Administration Department
ADH	Human Resources Branch
CFO	Chief Financial Officer
CFOB	Office of Budget and Financial Planning
COMPAS	Commodity Movement Processing and Analysis System
DPRK	Democratic People’s Republic of Korea
DSC	direct support costs
DSS	United Nations Department of Safety and Security
EMOP	emergency operation
FAO	Food and Agriculture Organization of the United Nations
FD	Fundraising and Communications Department
ICSC	International Civil Service Commission
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support cost
LTSH	Landside transport, storage and handling
OD	Operations Department
ODOC	other direct operational costs
OECD	Organisation for Economic Co-operation and Development
OED	Office of the Executive Director
OEDR	Results-Based Management Division
OSD	Oversight Services Division
PD	Policy and External Affairs Department
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative
RBM	results-based management
SO	Special Operation
WINGS	WFP Information Network and Global System