

SECRETARIAT OF THE PACIFIC COMMUNITY
THIRTY-SIXTH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS
(Noumea, New Caledonia 13-17 November 2006)

YEAR 2007 BUDGET

(Paper presented by the Secretariat)

INTRODUCTION

1. This paper introduces the proposed budget for Financial Year (FY) 2007, which CRGA is invited to consider and approve.
2. The budget paper should be read in conjunction with paper 6.3 “CROP Remuneration Issues – Outcome of Triennial Review of CROP terms and conditions of service” and paper 6.4 “Revision of the Assessed Contribution Formula”. These will have been considered by CRGA prior to the discussion of the 2007 budget.
3. SPC is presenting a balanced budget. Increases in its operating costs, including the proposed salary adjustments, have been covered in full, partly because of efficiency measures and partly due to the impact of other factors such as relatively favourable exchange rates, in particular the weak SDR.
4. In addition, the Secretariat is requesting that the membership consider and approve an increase of 10 per cent in assessed contributions to further improve direct service delivery to the island members of the Pacific Community. The plan for how to allocate the additional resources is proposed in the main budget document (see its attachment 2) and is also summarised in this paper.
5. The Secretariat has maintained the format of the budget presentation (the “green document”) as it has been very well received by Pacific Community members. The budget document highlights the strategic objectives, expected outputs and key performance indicators of SPC programmes and programme support units, sourced from the various strategic plans including those approved by CRGA last year. It also links these objectives, outputs and indicators with identified resources in the budget.

BUDGET SUMMARY

6. Table 1 shows total expected income and transfers (from reserves) by major source of funding and expenditure for FY 2007 for the two budget scenarios. It also indicates the estimated share of the total budget that would go to administration.

Table 1: Total expected income and transfers, with and without an increase in assessed contributions, FY 2007

Source of funding	Amount in CFP units	
	No increase in assessed contributions	10% increase in assessed contributions
Core		
<i>Income from assessed contributions</i>	7,603,269	8,363,596
<i>Other core income</i>	1,275,000	1,275,000
Subtotal core income	8,878,269	9,638,596
Transfers from reserves	405,715	405,715
Total core (income and transfers)	9,283,984	10,044,311
Non-core (programme and project funding)	33,814,560	33,814,560
Total core and non-core funding	43,098,544	43,858,871
Expenditure	43,098,544	43,858,871
Administration share of overall budget	7.1%	7.0%

- 7, CRGA may wish to note that:
- in line with approved policy, both scenarios involve balanced budgets (i.e. expenditure matches the funding available);
 - administration's share of the overall budget is well below the organisation's target of 10 per cent; and
 - the increase in assessed contributions, if approved, would be used to improve direct service delivery (see later in this document for details).

TOTAL AVAILABLE FUNDING IN 2007

8. Total available funding is made up of (a) core income and transfers from reserves and (b) non-core income from donors for projects and programmes.
9. **(a) Core income and transfers from reserves**
Core income (see also page 2 of the main budget document)
The sources of core income are assessed member contributions, voluntary contributions, bank interest, miscellaneous income, project management fees, and canteen rental. Where any of these sources has seen significant change, it is discussed below.
10. Under the first budget scenario ("no increase"), *assessed contributions* amount to CFP units 7,603,269, maintaining the FY 2006 level. If CRGA approves the requested increase of 10 per cent, the total of assessed contributions would rise by CFP units 760,327 to CFP units 8,363,596.

11. Introduced in FY 2001, *project management fees* have become a major source of income for the organisation. The Secretariat forecasts that it will earn CFP units 835,000 from these fees in FY 2007, compared to CFP 720,000 in the revised 2006 budget. The anticipated increase will result from the higher level of project and programme funding and the Secretariat's plan to raise the project management fee to 7 per cent for member donors and 15 per cent for non-member donors (from its current rates of 3 and 7 per cent respectively). This will align SPC fees more closely with the rates charged by other regional and international organisations. The financial impact of this decision will be gradual, with the rates phased in as they are applied to new projects.
12. Operating as a self-financing entity, the *canteen* is expected to earn an additional CFP units 7,000 for the core budget in FY 2007 compared with FY 2006. Given the growth in staff numbers, there should be a corresponding increase in turnover.
13. The total core income is forecast at CFP units 8,878,269 without an increase in assessed contributions and CFP units 9,638,596 if assessed contributions are increased.
14. *Transfers from reserves*
SPC is proposing to bring back CFP units 405,715 from reserves, as detailed in Table 2.

Table 2: Amount of transfer from each reserve, FY 2007

Amount to be brought back from reserve	Reserve title and commentary
CFP units 188,715	<p><i>General reserve</i></p> <p>In line with agreed policy, SPC proposes to use this excess amount in the general reserve to augment the capacity of the divisions to respond to specific needs of the membership (through the "minor projects" budget line of the divisional leaders). After this transfer, the general reserve will stand at CFP units 600,000, the level that has been agreed to be desirable.</p> <p>This transfer requires approval by CRGA.</p>
CFP units 67,000	<p><i>Foreign exchange reserve</i></p> <p>Through conservative management, SPC has been able to build this reserve over the last few years. It is now appropriate to bring back some of it into operations, leaving CFP units 199,653 in the reserve (which is comfortably within the CRGA-endorsed range of CFP 150,000 to CFP 300,000 for this reserve).</p>
CFP units 150,000	<p><i>Conference reserve</i></p> <p>Conference and CRGA will be held in 2007. For this purpose, SPC transferred to this specific reserve CFP units 100,000 in FY 2005 and CFP units 50,000 in FY 2006.</p>

15. **(b) Non-core income**
Almost 80 per cent of SPC's income is received as non-core funding earmarked for specific projects (e.g. an HIV/AIDS project) or programmes (e.g. Coastal Fisheries). Unlike the core part of the budget, its non-core part has grown rapidly over the last 10 years or so (see Attachment 4 of the main budget document).
16. The main budget document distinguishes the two non-core categories of project funding and programme funding. Programme funding has become increasingly important as Australia, France and New Zealand have moved to providing annual block grants to help achieve the programme objectives set by CRGA for SPC's programmes.
17. The non-core budget includes only those initiatives where assurances for funding by development partners have been secured at the time of preparing the budget; the Secretariat's forecast of donor contributions therefore tends to be conservative. An increase over the FY 2006 revised budget is very likely to be achieved in FY 2007.

COMMENTARY ON BUDGET HIGHLIGHTS

18. *General*
While SPC has again produced a balanced budget for FY 2007, it is clear that the current size of the core income budget is making this achievement more difficult each year. The Secretariat will continue to seek efficiency gains in its operations as well as to increase funding from sources other than assessed contributions, in particular the project management fee. However, it is becoming increasingly difficult to guarantee the same level of high-quality service that the membership has come to expect and, indeed, to meet the new demands placed on the Secretariat, for example, through the SPC Corporate Review, the various Conference/CRGA decisions and the Pacific Plan.
19. There will be capacity to take on some new initiatives on the core budget if the Secretariat's request for an increase in assessed contributions is approved.
20. *Personnel cost*
Although low for a technical assistance agency, personnel cost is the single largest expenditure item in SPC's budget. The Secretariat aims to control personnel cost tightly through measures such as appointing new staff on the lower steps of the relevant salary scale. Unlike many organisations, it also currently rewards good performances through one-off bonuses rather than permanent increments. In some areas, the Secretariat is increasingly exploring the outsourcing of services (e.g. through the use of consultants and freelancers). For FY 2007 it forecasts the share of personnel cost of the total budget to be just under 50 per cent; it was approximately 57 per cent in FY 2006.

21. At the same time SPC recognises the need to keep pace with reference labour markets as a key way to attract high-quality staff who will provide excellent service to the Pacific Community. This matter is the subject of paper 6.3 “CROP Remuneration Issues – Outcome of Triennial Review of CROP terms and conditions of service”. The cost of the adjustment proposed in that paper has been fully funded in the FY 2007 budget; the increase in assessed contributions being sought is not for this purpose. In covering this cost, the Secretariat has been helped by relatively favourable SDR–CFP and SDR–FJD exchange rates. The SDR has continued to weaken and, as a result, professional staff salaries have gradually been declining in local currency terms.
22. It is worth noting, though, that the downward trend of the SDR may well reverse in the future, which would increase budgetary pressures.
23. *Major expenditure changes between 2006 revised core budget and 2007 core budget by division/budget chapter*
(Note that background information on any major changes to the **non-core** budget has been described in the divisional overviews. See paper series 2.2.)
24. In line with established practice, this commentary provides background information on major changes between the 2007 and revised 2006 budgets. (**Major changes** are defined as changes amounting to 10 per cent or more; see pages 2 and 3 of the main budget document.)
25. *Chapter 1: Administration.* An additional core budget provision of CFP units 150,000 has been made for the cost of the Conference of the Pacific Community, which is held every other year, and CRGA in Apia, Samoa in 2007. This increase has been fully funded by a corresponding transfer from the conference reserve.
26. *Chapter 2: Programme Management and Support.* In 2006 the position of Deputy Director-General (Suva) was vacant for a number of months. In FY 2007 the provision is for a full 12 months as the position is now filled.
27. *Chapter 3: Social Resources.* A core budget provision of CFP units 30,000 has been made to cater for the forthcoming joint SPC–WHO meeting of Ministers and Directors of Health in March 2007 in Apia, Samoa.
28. *Chapter 4: Marine Resources.* No significant change.
29. *Chapter 5: Land Resources.* This chapter shows a significant decrease of some 15 per cent. However, the reason for it is a simple presentational change: the position of Land Use Policy Adviser has been moved from here to chapter 2 (Office of the Director, Land Resources).

SPC'S REQUEST FOR AN INCREASE IN ASSESSED CONTRIBUTIONS

30. The Secretariat is requesting that CRGA consider a 10 per cent increase in assessed contributions relative to the FY 2006 level. If approved, the additional resources would be used to further improve direct service delivery to members.
31. The total amount of assessed contributions has not increased since FY 2000, when CRGA decided to abandon the policy of "same real" (with automatic annual adjustments for inflation) in favour of a "same nominal" approach. Individual contributions of members were adjusted for FY 2005 to compensate for the financial impact of the withdrawal of the United Kingdom from the Pacific Community. However, as a result of the United States decision to provide only 50 per cent of the requested adjustment, the overall level of assessed contributions is now actually lower than it was in financial years 2000 to 2004.
32. Table 3 shows income by major funding source for the 10 financial years to 2006. It also shows how assessed contributions increased up to FY 2000, when the "same real" policy was abandoned, and then remained static until the decline in FY 2005.
33. The share of total income represented by assessed contributions has almost halved over the last 10 years, from 44 per cent in 1997 to 23 per cent in 2006. Their share of total **core** income has also fallen significantly, from 99.5 per cent in 1997 to 85.6 per cent in 2006, corresponding to the growth in importance of income from project management fees.

Table 3: Income by major funding source and the share of assessed contributions, FY 1997 to FY 2006

	Amount in CFP units				
	2006	2005	2004	2003	2002
Core income	8,881,214	8,924,895	8,657,020	8,839,963	8,884,882
Non-core income	24,747,700	21,287,927	24,408,233	18,484,887	18,060,262
Total income budget	33,628,914	30,212,822	33,065,253	27,324,850	26,945,144
Assessed contributions (AC)	7,603,269	7,603,269	7,646,933	7,646,933	7,646,933
AC as % of total income	22.6%	25.2%	23.1%	28.0%	28.4%
AC as % of total core income	85.6%	85.2%	88.3%	86.5%	86.1%
	2001	2000	1999	1998	1997
Core income	8,206,058	8,401,033	8,004,715	7,603,831	6,924,600
Non-core income	13,892,667	13,887,494	10,499,851	13,782,080	8,072,620
Total income budget	22,098,725	22,288,527	18,504,566	21,385,911	14,997,220
Assessed contributions	7,646,933	7,646,933	7,460,422	7,194,235	6,615,023
AC as % of total income	34.6%	34.3%	40.3%	33.6%	44.1%
AC as % of total core income	93.2%	91.0%	93.2%	94.6%	95.5%

34. In summary, the Secretariat has had to rely increasingly on funding sources other than assessed contributions to finance service delivery to island member countries and territories. These sources are inherently more volatile and therefore reduce funding security and flexibility.
35. CRGA may also note that the share of the administration budget (chapter 1 of the budget) was an average of 13.7 per cent for the five financial years from 1997 to 2001 and then an average of 9.8 per cent for the following five financial years to 2006. In FY 2007 that share is expected to be as low as 7 per cent.
36. SPC is now requesting that members consider an increase in assessed contributions. If the proposed 10 per cent increase is approved, assessed contributions would provide an additional CFP units 760,327. The Secretariat proposes to allocate this amount as summarised in Table 4 and detailed in the discussion that follows.

Table 4: Allocation of additional income from proposed increase in assessed contributions, FY 2007

Area of spending	Amount in CFP UNITS
Development and implementation of country strategies	300,327
Development of the new Regional Office in Pohnpei, FSM	200,000
Strengthening of Human Development Programme	170,000
Continuation of SPC Library outreach work	30,000
Subsidies to triennial sectoral meetings of (a) statisticians and national planners and (b) Council of Pacific Arts in preparation for the 2008 Festival of Pacific Arts, American Samoa	60,000
Total	760,327

37. *Country strategies.* The development of country strategies is a key recommendation of the 2005 SPC Corporate Review and has also been endorsed by the recent “Regional Institutional Framework” report. Having begun to develop three such strategies in 2006, assisted by one-off financial non-core support from New Zealand, the Secretariat sees this work as a major ongoing priority for the next few years. Funding would be applied to support the development and implementation of country strategies through country missions, consultations and technical assistance.
38. *Regional Office in Pohnpei, FSM.* The formal opening of the Pohnpei office early this year has been welcomed by all members of the Pacific Community and is a key component of the new SPC Corporate Plan. At present, office staffing and activities are funded entirely from non-core sources, mainly projects. Allocating the proposed amount to this new regional office would strengthen its funding security and help establish a basic core operation (e.g. director or similar position, office administrator/support staff, communication and utility budgets).

39. *Human Development Programme.* A key recommendation of the 2005 SPC Corporate Review was to strengthen the Cultural Affairs Programme, Pacific Women's Bureau and Pacific Youth Programme by merging them and providing additional resources. While the merger (now also including the Community Education Training Centre) has been formalised, further improvement to the resources of the new Human Development Programme is needed.
40. *Library outreach.* Traditionally the SPC Library has provided technical assistance to libraries in the region, in addition to providing its core support service to other SPC programmes and the general public in Noumea and Suva. Continuing this outreach service to island countries and territories is a priority that the FY 2007 budget currently does not cater for.
41. *Meetings of statisticians and national planners and of Council of Pacific Arts.* SPC's policy has been to provide a core budget subsidy of CFP units 30,000 to triennial sectoral meetings (while programme managers are expected to raise additional funding from non-core sources). Although it has provided this subsidy to the Pacific Women's Bureau and the Public Health Programme for their meetings in 2007, no such provision has been made for the forthcoming meetings of either statisticians and planners or the Council of Pacific Arts. Both meetings are important.

CONCLUSION

42. CRGA is invited to consider and approve:
 - a. the SPC budget for Financial Year 2007, including the:
 - b. transfer from the General Reserve; and
 - c. proposed 10 per cent increase in assessed contributions.
43. CRGA is also invited to note that:
 - a. inescapable cost increases and the remuneration adjustments arising from the 2006 CROP remuneration review have been fully absorbed by SPC for the 2007 budget year; and
 - b. the Secretariat plans to use the proposed increase in assessed contributions to further improve direct service delivery to the island members of the Pacific Community.

27 September 2006