



SECRETARIAT OF THE PACIFIC COMMUNITY

**FORTY-THIRD MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Suva, Fiji, 12–15 November 2013)

Operations and Management

AGENDA ITEM 3.1 – FINANCIAL YEAR 2014 BUDGET

(Paper presented by the Secretariat)

SUMMARY

1. This paper presents the SPC budget (the ‘green book’) for financial year 2014 for consideration and endorsement by CRGA.
2. The budget reflects SPC’s 2014 organisational structure in the new SPC corporate plan 2013–2015, which takes on board the changes approved following the independent external review (IER).
3. The green book complements the information on work programmes provided in the divisional reports. The budget narratives list key programme outputs that the financial inputs are expected to help achieve.
4. The budget presented is balanced with anticipated income matching expenditure. The total of 95,357,400 CFP units comprises a core budget of 26,762,600 CFP units and project funding of 68,594,800 CFP units. The core budget makes up 28% of the total budget and project funding makes up the remaining 72%.
5. There is progress towards achieving the reserves target set by CRGA to be met by 2015.

RECOMMENDATIONS

6. CRGA is invited to:
 - i. consider for approval the proposed budget for financial year 2014;
 - ii. note the progress update on SPC’s reserves.
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FINANCIAL YEAR 2014 BUDGET

PURPOSE

1. This paper presents the SPC budget for financial year 2014 for consideration and endorsement by CRGA.

INTRODUCTION

2. The 2014 budget is contained in the 'green book'. Other relevant meeting papers include:
 - 2.1.3 Corporate Strategic Plan
 - 2.2 Programmes Directorate reports
 - 2.4.2 Annual Market Data and FY 2014 Salaries
 - 2.4.5 FY 2013 Revised Budget
 - 5.3 Review of Assessed Contributions and Host Country Grants
3. The budget reflects SPC's 2014 organisational structure in the new SPC corporate plan 2013–2015, which takes on board the changes approved following the independent external review (IER).
4. As per SPC's longstanding policy, only assured funding is included in the budget; pipeline projects are not included.

TERMS USED IN THE PAPER

5. Funding in the 2014 green book is classified under the headings of *Core funding* and *Project funding*.
6. *Core funding* refers to income received from the following sources: members' assessed contributions, host country grants, voluntary contributions, bank interest, miscellaneous income and project management fees. It also includes student or service fees charged by SPBEA. *Voluntary contributions* (previously also referred to as programme funding) are provided by Australia, France and New Caledonia. Core funding is used to fund core business operations such as key technical positions in divisions, most administration, programme management and support functions and expenses under Common Charges (Chapter X), such as utilities and building maintenance.
7. *Project funding* refers to contributions by development partners, including both SPC members and non-members (e.g. the European Union and Global Fund), that are earmarked for specific time-limited activities.

STRUCTURE OF THE BUDGET

8. The presentation of the last year's budget has been retained for the 2014 budget. It consists of the Income budget (both core and project funding) and Expenditure budget, which is a summary of expenditure by budget chapter (i.e. by division).

9. Each division's budget is by budget chapter and shows :
- Funding categories – core and project.
 - Expenditure, which retains the basic standard categories used in the 2013 budget structure (e.g. personnel costs, general operating costs, duty travel, etc.) but is divided into core expenditure and project expenditure.
 - Results (outputs), which are divided into those expected to be achieved with core funding and those expected to be achieved with project funding.
 - Narratives and resources are shown together for ease of reference.
 - Budget forecasts for two forward years, FY 2015 and FY 2016, in addition to FY 2014 and the revised 2013 budget.
10. While outputs for core and project funding are set out in the budget narratives, higher-level results are described in more detail in the divisional reports, in particular in the sections on their 2014 work programmes.

BUDGET ASSUMPTIONS

11. From FY 2013, assessed contributions have been increased by 500,000 CFP units for island members. The 2014 budget also includes the additional contributions approved by CRGA last year for five members¹ (6,600 CFP units each, totalling 33,000 CFP units), which will align their contributions with those of other members receiving the services of the Applied Geoscience and Technology (SOPAC) Division (refer paper 5.3 for fuller discussion).
12. Other core generated income (such as bank interest, project management fees, etc.) is forecast taking into account 2013 results, current market rates and approved projects and strategies planned, such as to recover more of the indirect costs incurred in administration of projects. For the first time, a levy was made on all divisions to support the funding of corporate priorities in areas relating to human resources, ICT, procurement, finance and communication. The assumptions for the 2014 budget are also used for the FY 2015 and FY 2016 forecasts.
13. Foreign currency amounts are converted at reasonably conservative rates. The 2014 budget rates are set out compared to the 2013 revised budget:
- | | |
|---------|------------------------|
| AUD | = 82 (from 84) |
| NZD | = 71 (unchanged) |
| USD | = 90 (unchanged) |
| FJD | = 52 (unchanged) |
| SDR | = 140 (unchanged) |
| SDR/FJD | = 2.77 (unchanged) |
| SDR/USD | = 1.50 USD (unchanged) |
14. All staff positions, whether filled or vacant, have been conservatively budgeted for the full year. Salary costs are budgeted on the assumption that CRGA will consider favourably the secretariat's request for a modest increase of 2% for internationally recruited staff. Provision has also been made for a minor

¹ American Samoa, CNMI, Pitcairn Islands, Tokelau and Wallis and Futuna.

increase in salaries for locally recruited positions in New Caledonia and Fiji, and for any increases for locally recruited staff in Federated States of Micronesia (FSM) and Solomon Islands. CRGA paper 2.4.2 discusses salary matters in more detail.

2014 BUDGET HIGHLIGHTS

15. The secretariat presents a balanced budget of 95,357,400 CFP units, comprising the core budget of 26,762,600 CFP units and project funding of 68,594,800 CFP units. The core budget makes up 28% of the total budget and project funding makes up the remaining 72%.
16. Members contribute 46% of the total budget (metropolitan members 42.3%, Pacific Island members 3.8%). Non-members contribute 47.2%, and the remaining 6.7% comes from other income sources (green book annexes provide details).
17. The green book presents a summary of breakdown of income by type (core funding, project funding). Annex 2 of this CRGA paper contains comments on major changes in expenditure (amounting to at least 10% or 100,000 CFP units) between the revised 2013 budget and the 2014 budget.
18. The fall in the AUD in 2013 resulted in a significant decrease in the core funding available in 2014 of about 2.2 million CFP units. Approximately half of this impact has been met by a reduction in the core budgets of technical divisions of about 8.8% (compared to their 2013 budgets), with the other half coming from increases in core income (such as management fees and indirect cost recoveries) and a transfer from the general reserve of about 986,000 CFP units.
19. The Applied Geoscience and Technology Division becomes the largest of the technical divisions at 16.7% of the total SPC budget, due to new projects funded by EU and New Zealand.
20. The Public Health and Land Resources Divisions account for 11.9% each of the total budget. While overall funding for LRD is expected to remain unchanged compared to 2013, PHD's budget will be significantly smaller as projects such as the Pacific Response Fund may come to an end.
21. In terms of budget size, the next largest divisions are Fisheries, Aquaculture and Marine Ecosystems (FAME) at 10.6% and the Economic Development Division at 9%.
22. The Education Training and Human Development Division is at 7.9% of the total budget. The budget recognises the closure of CETC at the end of 2013, with most of the resources shifted to the DDG (Programmes) and Common Charges for the maintenance of the existing CETC premises.
23. The budget of the Statistics for Development Division represents approximately 4% of the total SPC budget in 2014, as in 2013.
24. Chapter I, 'Director-General and Deputy Directors-General', includes the three DDG offices, the Strategic Engagement, Policy and Planning Facility and the Communications and Public Relations unit. The internal audit function is expected to be fully operational from 2014, for which funding has been provided. As recommended by the IER report, a programme support unit will be formed within the office of the DDG Programmes. Projects of a multi-sectoral nature (such as climate change) currently administered through SEPPF will be transferred to this unit. Collectively, all these units make up 15.3% of the total budget.

25. The Operations and Management Directorate, which provides the necessary administrative and logistical support for the work of the technical divisions, represents 9.8% of the total budget. It consists of Corporate Services (Administration, Finance, Human Resources) and Programme Support Services (ICT, Library, Publications, Translation & Interpretation). In addition, it now includes the North Pacific Regional Office and Solomon Islands country office, which previously were part of the Director-General's office.
26. FY 2014 personnel costs are estimated at 40,174,200 CFP units², making up approximately 42% of the total budget. This percentage is low for a technical assistance agency and is partly explained by the relatively large amount of grant funding being channelled through SPC to member countries.
27. Comparisons made in this document refer to differences between the FY 2014 budget and the FY 2013 revised budget.

Core budget

28. The core budget is balanced at 26,762,600 CFP units. This compares to 25,840,600 CFP units in the revised 2013 budget, an increase of 3.6% (992,000 CFP units).

Core income

29. In line with SPC's conservative approach to budgeting, the green book is based on currently approved levels of assessed contributions (10,607,447 CFP units) and host grants (86,452 CFP units). Annex 1 of the green book provides details.
30. CRGA will consider the review of assessed contributions and host grants (Agenda item 5.3). The proposals, if approved, will lead to a minor increase in core income, which the secretariat proposes to use to reduce the amount it is currently planning to transfer from the reserve.
31. Voluntary contributions are made by Australia, France and New Caledonia. Australia's core funding while maintained in home currency terms, decreased significantly with the fall of the AUD (from 98 originally in 2013, to 82). France's funding is maintained at the same level at 563,920 CFP units. For New Caledonia, the grant for maintenance of 700,000 CFP units per annum for SPC's headquarters is added to its contribution of 510,000 CFP units, taking this contribution to 1.21 million CFP units for 2014.
32. Income from project management fees is expected to increase by approximately 1,123,000 CFP units (compared to the revised 2013 budget). It includes the levy of about 800,000 CFP units charged to all divisions to strengthen specific priority areas in the Operations and Management Directorate such as recruitment, ICT, procurement and the budget unit, and the communications unit in the Director-General's office. It also includes a conservative 200,000 CFP units in recoveries of indirect costs from work underway.
33. Student fees (SPBEA) are conservatively forecast to decrease by about 26,000 CFP units with more countries planning to set their own exams in 2014.

² Excludes personnel costs for Housing and Canteen, which are self-funding operational units.

34. Bank interest is maintained at the 2013 revised budget level, at 350,000 CFP units, which was reduced from the original 2013 level with anticipated lower interest rates and tightening of cash flow. Miscellaneous income is prudently maintained at the 2013 amount of 50,000 CFP units.

Core expenditure

35. While core income decreased as a result of the fall in the AUD, this effect was mitigated by weakness in the SDR against the CFP and FJD, which resulted in lower personnel costs.
36. The secretariat continues to make efficiency gains through, for example, bulk purchasing and competitive tenders. General overhead non-personnel related costs categorised under Common Charges (green book, Chapter X) are planned to decrease overall in 2014 with a reduction in capital expenditure and the reduced cost of running only a CRGA meeting next year, despite some increases in expenditure, such as for communications and utilities.
37. Annex 2 provides comments on major changes in core funding between the 2014 budget and the revised 2013 budget.

Project funding

38. Compared to the revised 2013 budget of 82,657,200 CFP units, the 2014 SPC project budget is currently forecast to be lower at 68,594,800 CFP units, a decrease of 14,062,400 CFP units. Most of this reduction in project funding relates to three divisions. Project funding for the Economic Development Division is reduced by 3.1 million CFP units mainly as a result of the EU-funded North-Rep project reducing the amount of equipment procurement in 2014. The Public Health Division's project funding is expected to decrease by 8.2 million CFP units with the completion of Global Fund HIV Round 7 and TB Round 7 projects in June 2013, and the Malaria Control in the Pacific and TB Control in the Solomon Islands projects expected to be completed in 2014. Project funding in FAME Division is reduced by 3.3 million CFP units mainly as a result of the completion of projects funded by various donors.
39. SPC's policy is to include in its budget only projects for which formal approval has been given at the time of budget preparation. The secretariat's forecast of project funding therefore tends to be quite conservative, and an increase in project income can be expected as pipeline projects progress through appraisal processes. For example, project funding in the revised 2013 budget is approximately 12.7 million CFP units more than it was in the original 2013 budget.
40. Project budget variances are discussed in Annex 2. The green book includes a four-year project income forecast in an annex. It also provides further information on project funding by development partner. In 2014, members contribute 23.6 million CFP units (34.5%) with non-members providing 45.0 million CFP units (65.5%) of project funding. The EU is anticipated to be the single largest project donor with 32.4 million CFP units (47.3%), followed by Australia at 19.8 million CFP units (28.8%) and the Global Fund at 8.1 million CFP units (11.9%).

2015–2016 OUTYEAR BUDGET HIGHLIGHTS

41. The 2014 green book includes two additional years, FY 2015 and FY 2016. Budget assumptions are the same as for the revised 2013 budget.
42. The main feature of both outyear budgets is the decrease in project funding (from 68.5 million CFP units

in FY 2014 to 41 million CFP units in FY 2015, and 31 million CFP units in FY 2016). However, this is a reflection of current projects coming to an end. New projects should compensate for this decrease.

43. In line with SPC's conservative budget approach, increases in assessed contributions and host grants are only shown from FY 2015 and not yet for 2014. These increases are the subject of Paper 5.3 (Review of Assessed Contributions and Host Grants). The outcomes of CRGA's discussion will be reflected in the approved version of the green book to be printed after the meeting.
44. In collaboration with development partners, SPC is undertaking significant work to achieve greater cost recovery from projects in future. The FY 2015 and FY 2016 budget figures include an additional 200,000 CFP units and 100,000 CFP units, respectively. The secretariat considers these to be minimum targets that may be exceeded.

SPECIFIC BUDGET ISSUES

Implementation of CROP remuneration increases

45. As discussed in CRGA paper 2.4.2, the secretariat recommends to CRGA a modest increase for internationally recruited staff in 2014 of 2%. The cost of implementation has been provided for in the 2014 budget as approximately 440,000 CFP units (215,000 CFP units for core-funded, and 225,000 CFP units for project-funded staff).
46. The adjustment of between 2.0% and 3% for salary bands 1 to 7 for Fiji-based positions advertised locally has been budgeted for. The total cost of 44,000 CFP units has been provided for in the 2014 budget.
47. An increase of 2% for all salary bands for New Caledonia based positions advertised locally has been provided for in the budget (37,000 CFP units). Increases for locally advertised positions in FSM and Solomon Islands that may be granted (to maintain parity with those awarded by the Western and Central Pacific Fisheries Commission and Forum Fisheries Agency) have also been allowed for in the budget.

Progress on increasing SPC's reserves

48. Two years ago, CRGA 40 approved the secretariat's proposal to build the organisation's reserves to improve its capacity to deal with temporary funding shortfalls and unforeseeable funding requirements. Target levels to be achieved by FY 2015 were agreed on. The IER last year endorsed CRGA's decision and the Special Session of CRGA confirmed that savings should be used to build the reserves over time.
49. Annex 1 of this paper shows the audited status of SPC's reserves at the end of FY 2013. It also includes projections until the end of FY 2014 and compares these with CRGA approved targets.
50. The table shows that the General Reserve (2,990,939 CFP units) is just under 3 million CFP units. The target of one million CFP units for the exchange rate fluctuation reserve, which has the crucial role of providing a buffer for sudden unfavourable exchange rate changes, seems achievable too. Some of the core funding surplus in the 2012 accounts was applied to the other specific reserves (plant and equipment, minor works), which are still below the targeted levels.
51. At the end of FY 2014, the total of all reserves is expected to be approximately 4.45 million CFP units. Another 1.25 million CFP units will be required to reach the targets set for the end of FY 2015.

52. Surpluses and deficits of the self-funding operations, Housing and Canteen, are closed off to their specific reserves. The green book includes their operating budgets for the first time (Annex 5). The Canteen fully recovers its cost and, in addition, makes an annual contribution of 25,000 CFP units to the SPC core budget. It is steadily building up its specific reserve.
53. In 2014, the Housing Unit, which manages SPC's property operations in Noumea, will have paid off the loan for the Receiving housing compound. Capital and interest payments will be reduced by a significant 400,000 CFP units every year. Most or all of the savings are expected to be spent on the maintenance of SPC's now ageing housing stock.

RECOMMENDATIONS

62. CRGA is invited to:
 - i. consider for approval the proposed budget for financial year 2014;
 - iii. note the progress update on SPC's reserves.
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ANNEX 1

SPC's Reserves 2012-2014

	31.12.12	2013 movements	31.12.13	2014 movements	31.12.14	Target levels	Additional Required
General Reserve	3,695,753	280,967	3,976,720	(985,781)	2,990,939	3,000,000	9,061
Emergency Evacuation	30,000		30,000		30,000	30,000	
Plant & Equipment Replacement	400,000		400,000		400,000	800,000	400,000
Minor works	200,000		200,000		200,000	300,000	100,000
Foreign Exchange Fluctuation	1,434,759	(975,000)	459,759		459,759	1,000,000	540,241
Conference Reserve						200,000	200,000
Total Specific Reserves:	2,064,759	(975,000)	1,089,759		1,089,759	2,330,000	1,240,241
Housing	232,058		232,058	12,700	244,758	n/a	
Canteen	117,820	3,600	121,420	1,000	122,420	n/a	
Total Special Reserves	349,878		353,478	13,700	367,178		
Total Reserves	6,110,390	(694,033)	5,419,957	(972,081)	4,447,876	5,330,000	1,249,302

Notes:

1. Table shows the audited SPC's reserves as at 31 December 2012
2. Target levels to be achieved by end of 2015 as approved by CRGA 40 in 2010
3. Rounding applies

ANNEX 2

**Commentary on major variances between the 2014 and Revised 2013 budgets
by budget chapter and budget category**

This commentary provides information on major changes (amounting to at least 10% and 100,000 CFP units) between the 2014 budget and the revised 2013 budget. The core budget is discussed first followed by the project budget.

A.1 Core budget

Core budget Chapter	Variance (CFP Units)	Commentary
I. Director-General's office and Deputy Directors-General		
DDG (Programmes)	477,100	DDG Programmes position was vacant until October 2013. With position filled, increased 101,000 CFP units in 2014 for initiatives and operating costs. Also includes 180,000 CFP units pool set aside for possible market increase and other costs for technical divisions
DDG (Operations & Management)	118,700	120,000 CFP units pool set aside for possible market increase and other costs for support divisions.
Strategic Engagement, Policy and Planning Facility (SEPPF)	105,800	Restores planning adviser position in 2014, which was redesignated as adviser/liaison position in the Director-General's office in 2013
Communications and Public Relations	149,500	New communications head position in Noumea. Also Coordinator – RMC position redesignated as communications officer position in Suva.
II. Applied Geoscience & Technology (SOPAC)		
Director's office	-103,400	SOPAC annual division meeting will not be held in 2014.
III. Economic Development		No significant variances
IV. Education, Training and Human Development		
SPBEA	-215,200	Two positions not to be filled in 2014 (HR assistant and cleaner); also two positions partially funded by projects in 2014. In 2013, once-off cost for replacement of server.
Community Education Training Centre	-351500	Divestment of CETC in 2014 with resources relocated to DDG Programmes and to Common Charges for maintenance of existing CETC premises.

V. Fisheries, Aquaculture & Marine Ecosystems		
Oceanic Fisheries	-130500	
VI. Land Resources		No significant variances
VII Public Health		No significant variances
VII. Statistics for Development	-126,800	No triennial meeting in 2014. One position, and operating costs met by project funding in 2014.
IX. Operations & Management		
Administration	311,900	Additional positions to strengthen the section – Administration Manager, team leader for procurement. Cleaner and gardener positions transferred with closure of CETC; 3 maintenance staff previously project funded moved onto core funding.
Finance	256,200	Establishment of budget unit consisting of a budget unit manager and accountant.
Human Resources	226,700	Director, Human Resources position was filled in second half of 2013; recruitment unit consisting of a team leader and recruitment adviser established. Also fund HR assistant.
Information Communication Technology	216,800	Additional staffing to deliver services – 2 system administrators and 7 technicians. Position of support engineer not required in 2014.
Translation & Interpretation	138,700	Translator position vacant in 2013 is expected to be filled in 2014.

A.2 Project budget

Projects Chapter	Variance (CFP Units)	Commentary
I. Director-General's office and Deputy Directors-General		
Director-General's office	-764,000	One-off funding from AusAID in 2013 for executive recruitment, Audit & Risk Committee and contingencies.
Deputy Director-General (Programmes)	3,520,100	Expected increase in implementation for EU funded GCCA, RESCUE and INTEGRE projects in 2014.
II. Applied Geoscience & Technology		
Disaster Reduction	-1,912,100	2 EU projects (EDF 9B envelope & 9C envelope – Reducing Vulnerability projects), together with TAF/OFDA funded project completed in 2013.
Ocean and Islands	1,455,700	Increased funding allocations for EU funded projects (Environmentally Safe Aggregates – Tarawa) and final project year for Deep Sea Minerals project.

Projects Chapter	Variance (CFP Units)	Commentary
III. Economic Development		
Energy	-3,459,800	Reduction in EU-funded North-Rep project allocation for 2014 with most of major equipment expenditure occurring in 2013.
Transport	313,600	Increased funding allocation for AusAID funded projects.
IV. Education, Training and Human Development		
Human Development	374,400	Increased funding allocation for AusAID funded Progressing Gender Equality in PICTs.
RRRT	-1,394,600	Reduced funding allocation for AusAID project on training & technical support to human rights and good governance and UN Women; completion of EU & EU/PIFS funded projects.
V. Fisheries, Aquaculture and Marine Ecosystems		
Director's office	-609,000	Completion of AusAID & France (FFEM) projects in 2013.
Coastal Fisheries	-724,800	Reduction in project funding allocation – France (AFD), NZ, EU, ACIAR. Completion of project funding by Canada & IRD.
Oceanic Fisheries	-1,955,600	Completion of EU SciCOFish project NZ funded project (support allocation & NZ/FFA Pac Economic Growth Observer Prog) in Q1 2014, certain WCPFC & ACIAR funded projects completed in 2013; reduced funding allocation from World Bank and New Caledonia
VI. Land Resources		
Director's office	2,482,000	Increase in EU PAPP (ACP Agriculture Policy Programme) project allocation in 2014.
Trade and Agribusiness	-2,673,700	Reduction in project allocation for EU funded IACT project in 2014 as major project implementation is in 2013. CTA, FAO and NZ projects completed in 2013.
Sustainable Resource Management	503,700	Increased project funding allocation for EU funded Key Services to Agriculture in Sugar sector Fiji project.
VII Public Health		
Grant Management	-8,004,300	Completion of AusAID & NZ funded projects (Pac HIV/AIDS, STIs Response Fund in 2013; Global Fund HIV Prevention in PIC's to be completed in 2013; Malaria Control in the Pacific & TB Prevention in Solomon Islands for completion in 2014.
Health Advancement	-149,700	Completion of Pacific NCD 2-1-22 project in 2013.

Projects Chapter	Variance (CFP Units)	Commentary
Statistics for Development	-389,900	Reduction in various projects (New Zealand, ADB, OECD and others).
VIII Operations & Management		
Human Resources	-183,000	Reduction due to completion of projects such as HRIS and review of HR policies in 2013.
Information Communication Technology	-296,000	One year funding from Australia for ICT systems and support is for 2013.