

**FIFTIETH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(17–19 November 2020, Virtual Meeting)

AGENDA ITEM No. 5: SPC proposed 2021 budget

(Paper presented by the Secretariat)

Purpose of the paper

1. This paper presents the proposed 2021 budget in accordance with paragraphs 32–38 of the *Pacific Community Governance Arrangement* and regulations 7–9 of SPC’s Financial Regulations.

Recommendations

2. CRGA is invited to:
 - i. approve the proposed 2021 budget;
 - ii. approve the Secretariat’s proposal to liaise with members of the working group on assessed contributions and host country grants to assess whether consultations on this matter can recommence in 2021;
 - iii. encourage all development partners to consider adopting a multi-year restricted programme funding modality;
 - iv. note the budgets for 2022 and 2023 are provisional and will be updated in 2021.
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SPC proposed 2021 budget

Summary

3. The proposed 2021 budget is a balanced budget, with total income and expenditure of EUR 86.17 million.
4. The projected budgets for 2022 and 2023 are provisional at this stage, as in previous years, due to lack of firm estimates for income and expenditure that can be accurately included in such projections.
5. Full details of planned income and expenditure are provided in the paper along with the 'Green Budget Book'.

Introduction

6. The proposed 2021 budget is set out in the standard Green Book format, which contains details of the income and expenditure forecast together with a summary of expenditure by division.
7. The Green Book also contains a number of annexes with supporting information, such as assessed contributions and host country grants, and an early prediction of income through to 2023.
8. The Secretariat intends to liaise with members of the working group on assessed contributions and host country grants to assess whether consultations on this matter can recommence in 2021, as per circular 20/09, dated 2 June 2020.

Proposed 2021 budget overview

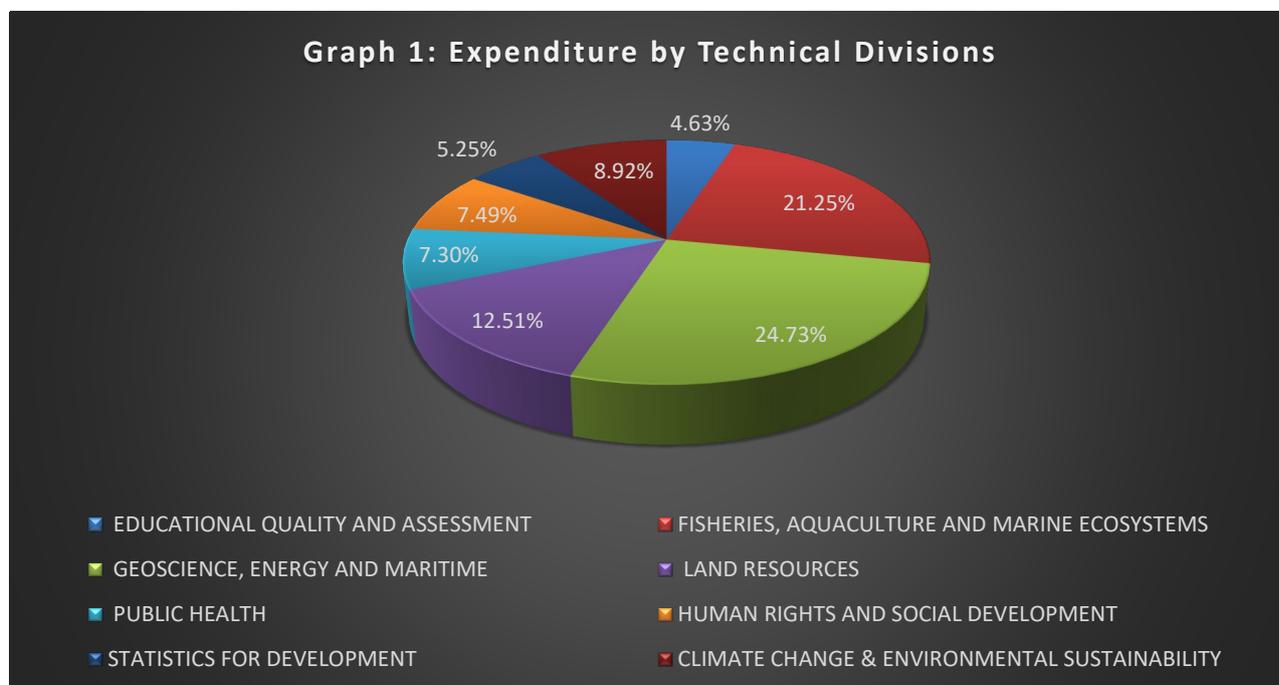
9. Table 1 provides a summary of the proposed 2021 budget with variances over the 2020 revised budget, as per CRGA Paper 5.3.

Table 1: Summary of proposed 2021 budget

	2021	Revised 2020	Variance (Value)	Variance (%)
		<i>(EUR million)</i>		
Core Income	16.17	16.31	-0.15	-0.89%
Restricted Programme	8.99	8.66	0.33	3.79%
Restricted Project	61.01	52.30	8.71	16.65%
Total Project and Programme	70.00	60.96	9.04	14.83%
Total Income	86.17	77.28	8.89	11.51%
Total Net Core Expenditure	16.17	16.02	-0.15	-0.92%
Total Expenditure – Programme and Project	70.00	60.96	-9.04	-14.83%
TOTAL EXPENDITURE	86.17	76.98	-9.19	-11.93%
Net surplus	0.00	0.29		

10. Total income consists of unrestricted (core) funding (including grants and voluntary contributions), restricted programme and restricted project amounts based on expected implementation level. SPC's accounting standards, the International Public Sector Accounting Standards (IPSAS), require recognition of income based on levels of execution. Therefore, restricted programme and project income is recognised based on levels of execution.
11. Overall, the proposed 2021 income projection reflects an increase of EUR 8.89 million (11.51%) compared to the revised 2020 budget of EUR 77.28 million. As stated in CRGA Paper 5.3, the 2020 approved budget was revised to take into account the impact of COVID-19 on project and programme implementation. Therefore, the positive variance in project income reflects an expected turnaround in levels of implementation in 2021.
12. Unrestricted (core) funding has marginally declined by EUR 0.15 million (0.89%) to EUR 16.17 million in 2021 compared to EUR 16.31 million for the revised 2020 budget. The decline is primarily due to exchange rate impacts on the voluntary contribution from Australia's Department of Foreign Affairs and Trade (DFAT), which is received in AUD.
13. Restricted programme funding has increased by EUR 0.33 million (3.79%) to EUR 8.99 million, compared to EUR 8.66 million for the revised 2020 budget. The increase mainly reflects a slightly higher level of projected programme funding execution in 2021.
14. Restricted project funding has increased by EUR 8.71 million (16.65%) to EUR 61.01 million, compared to EUR 52.30 for the revised 2020 budget. As stated above, the positive variance reflects a likely turnaround in implementation levels in 2021.
15. Members contribute 48.69% of the total budget (metropolitan members 46.30%, Pacific Island members 2.39%). Development partners contribute 51.19% and other income comprises 0.12%.
16. The Secretariat draws members' attention to multi-year pipeline projects, totalling EUR 71.45 million. As is SPC's usual conservative budgeting practice, these funds have not been included in the 2021 budget. They will assist in enhancing the organisation's financial sustainability if signed later in 2020 or 2021.
17. From that perspective, the Secretariat encourages all development partners and members that contribute project funding to consider adopting a multi-year restricted programme funding modality. This would provide the Secretariat with more flexibility in adapting to a rapidly changing context and responding to members' needs (in particular, to needs related to the ongoing COVID-19 pandemic and economic recovery).
18. SPC's financial situation and outlook remain generally positive, and the Secretariat will continue efforts to achieve the highest possible levels of implementation. However, given the volatility of current global and regional contexts, the Secretariat is continuously monitoring the situation and has contingency planning measures in place to cushion any potential shocks over the coming year. SPC has also built its General Reserves to EUR 5.18 million as at December 2019, which is adequate to cover more than three months of core expenditure.
19. The Green Book contains details of the income and expenditure budget and a summary of expenditure by division. It also contains several annexes with supporting information, such as assessed contributions and host grants, and an early income projection through to 2023.

20. Chapters I – VIII cover the budgets of all the technical divisions. Graph 1 shows the level of total expected implementation by technical divisions in 2021, with Geoscience, Energy and Maritime being the largest technical division at 24.73%, followed by Fisheries, Aquaculture and Marine Ecosystems at 21.25%.



21. Chapter IX - Unallocated Funds (0.51% of the total budget) relates to funding for Incubator, Integration and Intra-Pacific capacity development, to be allocated to divisions based on their project proposals.
22. Chapter X - Director-General's Office also covers the two Deputy Directors-General, including the Micronesia Regional Office and Melanesia Regional Office, and additional investments in integrated country programming and resource mobilisation. Both these areas will help contribute to the delivery of an enhanced level of support to member countries. Further details of the budget and structure of the Director-General's Office are included in the Green Book. Chapter X also includes Strategy, Performance and Learning, and Corporate Communications. Together these units account for 3.64% of the total budget.
23. Chapter XI deals with the Operations and Management Directorate (OMD), which is responsible for providing strategic direction, operational support and an enabling environment across the following broad corporate areas: administration, finance, human resources, legal services, library services, publishing, and translation and interpretation. Under full cost recovery (FCR), the Secretariat continues to recover direct attributable costs for publishing and translation and interpretation services, and ICT as reflected in Chapter XIII. The areas under Chapter XI represent 3.85% of the total budget.
24. Chapter XII includes capital budgeting (CAPEX) covering all major capital investments planned during the year. CAPEX for 2021 is EUR 0.31 million. It accounts for 0.36% of the total budget and is fully budgeted in conformity with IPSAS.
25. Chapter XIII - ICT, Facilities, Housing Unit and Canteen covers self-funded operations, and FCR activities that are in transition to fully self-funded operations.

Member/Non-member funding

26. Annex 3.1 of the Green Book includes an income forecast by development partner. In 2021, members will contribute EUR 41.96 million (48.69% of total funding), development partners will provide EUR 44.11 million (51.19%), and other income will comprise EUR 0.1 million (0.12%). The European Union is expected to be the single largest donor, contributing EUR 24.8 million (28.78%), followed by Australia, which will contribute EUR 22.26 million (25.83%).
27. SPC's policy is to only include in its budget those programmes or projects that have received formal approval at the time of budget preparation. The forecast of project funding therefore tends to be conservative, and an increase in project income can be expected as pipeline projects progress through appraisal processes during the budget period. Limited exceptions to the above approach are noted below. Based on commitments from the donors, these amounts are included in the 2021 budget:

Project	Status	Value for 2021 (EUR million)	PMF for 2021 (EUR million)
PRISE (EU)	Expected to be signed in October	4.2	0.275
Coconut and other non-traditional forest resources (ACIAR)	Expected to be signed in October	0.22	0.011
New statistics project (DFAT)	Expected to be signed in October	0.90	0.117
GRAND TOTAL		5.32	0.403

Assessed contributions and host country grants

28. Assessed contributions for 2021–2023 have been based on the levels agreed on by the 8th Conference of the Pacific Community in 2013. All individual members' contributions are shown in Annex 1 of the Green Book.
29. Metropolitan member's assessed contributions for 2021 are forecast at EUR 7,682,500 (81.26% of total assessed contributions):

Australia	2,681,600
France	2,095,000
New Zealand	1,717,900
<u>USA</u>	<u>1,188,000</u>
TOTAL	7,682,500

30. The 22 Pacific Island members of SPC contribute EUR 1,771,200 (18.74% of total assessed contributions).

31. The current levels of host country grants are as follows:

Host country	2021
Fiji	33,500
New Caledonia	183,300
Federated States of Micronesia	15,000
Vanuatu	58,700
TOTAL	290,500

32. CRGA Paper 5.3 provides the details and status of arrears in assessed contributions and host country grants at the time of writing this report.

Review of assessed contributions and host country grants

33. CRGA 49 approved the establishment of two ad hoc working groups tasked with taking forward consultations with members on the review of assessed contributions and host country grants and providing detailed recommendations on both matters to CRGA 50.
34. The Secretariat informed members (circular 20/09, dated 2 June 2020) of the working group's decision to defer the review and other suggested actions, taking into account the impact of the COVID-19 pandemic in particular. A date for the continuation of this exercise will be determined in consultation with members of the working group later in 2020. Should it be decided that the working group will reconvene in early 2021, this would allow options and recommendations to be presented to CRGA 51 and the 12th Conference of the Pacific Community.

Overview of 2022 and 2023 budget

35. In addition to the proposed 2021 budget, the budget summaries include forecast information for the 2022 and 2023 financial years.
36. As mentioned earlier, the budgets for 2022 and 2023 are for information only and entirely provisional due to SPC's policy of not including unconfirmed pipeline funding in its budget estimates, and lack of firm estimates for income and expenditure that can be accurately included in such projections.

Project management fee and full cost recovery

37. As noted in CRGA Paper 5.3, the project management fee continues to progress towards the 15% target fixed by CRGA (12.16% at the time of writing). The Secretariat will continue to work with all development partners for recovery of applicable project management fees and full cost recovery as part of ongoing financial sustainability efforts.

Recommendations

38. CRGA is invited to:

- i. approve the proposed 2021 budget;
 - ii. approve the Secretariat's proposal to liaise with members of the working group on assessed contributions and host country grants to assess whether consultations on this matter can recommence in 2021;
 - iii. encourage all development partners to consider adopting a multi-year restricted programme funding modality;
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