



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Fourteenth Board Meeting
Guatemala City, 31 October - 3 November 2006**

**GF/B14/9
Addendum**

REPORT OF THE FINANCE AND AUDIT COMMITTEE

Addendum, 31 October 2006

Outline: This addendum to the Report of the FAC updates the Board on the conclusion of the review by the FAC of the proposed 2007 budget for operating expenses (as flagged in the Report).

Update to Part 12: Proposed 2007 Budget for Operating Expenses

Budget for 2007

1. Since circulation of the FAC Report to the Fourteenth Board and as mentioned in that Report, the Committee has further considered the proposed 2007 budget. At a further session of the 7th FAC meeting in Guatemala City on 30 October 2006, the FAC unanimously agreed to recommend approval of the budget.
2. As set out in Annex 8, the budget proposed for 2007 amounts to US\$104.7 million, comprising Secretariat Expenses, In-country Oversight (by LFAs) and expenses of the Office of the Inspector General (OIG). The FAC has reviewed the Secretariat Work Plan that underlies the budget and other information provided by the Secretariat including in response to the queries of the FAC.
3. The increase of 21% over the 2006 budget results from:
 - The increased number of grants following approval of Round 6;
 - Additional in-country oversight measures to enhance performance-based funding in response to requests of the TERG and the Board; and
 - Scaling-up of OIG activities towards full operating capacity.
4. The budget proposes an increase of staff in the Secretariat and OIG to a total of 300 positions (fixed-term and short-term), to be filled in the course of 2007.
5. The FAC recommends that the incoming Executive Director should initiate an external evaluation of the Global Fund's staffing, including its structure and size. The FAC will review the findings of this evaluation and advise the Board accordingly, including of the need, if any, to adjust staffing in 2007.
6. The FAC notes that other decisions recommended to the Fourteenth Board meeting, which are separate from this budget proposal, have budgetary implications totaling US\$14.6 million in 2007 that are additional to the above-mentioned budget amount. Almost the entirety of these budgetary implications would apply for the limited duration of the related projects and is not an ongoing addition to budgetary need. (See Annex 8, Part 1, paragraph 7).

Decision Point:

The Board approves the 2007 Operating Expense budget in the amount of US\$ 104,728,000 as set out in Annex 8 to GF/B14/9 and as recommended by the Finance and Audit Committee and proposed by the Secretariat.

Development of a Budgetary Policy

7. The FAC observed that as the volume of grant activity increases and as additional tasks and expectations are assigned to the Global Fund, there is an inevitable need to adjust operating resources. However, this need is sometimes in conflict with varying expectations of what a 'lean and mean' Secretariat should mean. With the strategy development process now producing recommendations that will alter future operational processes, it is not apparent that the business model will undergo any radical change in the near future. Hence it is timely to reach an agreed understanding of the appropriate resources needed to run the Global Fund in the manner expected by the Board, and how these resources should be adjusted to handle ongoing changes of activity.

8. Accordingly, the FAC recommends that the Board develop a budgetary policy that would guide the FAC and the Board in arriving at Secretariat budgets for future years. Such a policy should facilitate clearer and better aligned expectations of the resources that should be allocated to running the Global Fund. It should also guide the FAC in its budget reviews by setting parameters that would allow the Committee to focus its attention on matters outside the expected norm.

Decision Point:

The Board requests the Finance and Audit Committee (FAC) to develop a framework to guide future reviews by the FAC of the Secretariat's annual budget proposals. As part of the framework development process, (i) the Board requests the Executive Director, in consultation with the FAC and other Board committees, to initiate an external evaluation of the Global Fund's staffing, including its structure and size; and (ii) the FAC will identify appropriate budgetary parameters to assist future budget reviews. The Board requests that the FAC report to the Board on its progress at the Fifteenth Board meeting.

The budgetary implications for this decision are US\$50,000

Update to Part 2: 2006 Operating Expense Review

1 As mentioned in Part 2, paragraph 2 of the Report, the FAC noted that the US\$4 million savings target set by the FAC for In-country Oversight Services (by LFAs) in the 2006 budget was unlikely to be fully achievable and requested an update from the Secretariat prior to the Fourteenth Board meeting.

2 Following completion of Quarter 3 of 2006, the Secretariat forecasts that approximately US\$1 million of the savings target is likely to be achievable. Hence the cost of In-country Oversight Services may exceed budget by up to US\$3 million. While this may be partially offset by savings on Secretariat expenses, the budgets for these two items are not fungible. Accordingly, the FAC asks the Board to note this potential need to exceed the budget in 2006.

**PROPOSED 2007 BUDGET
FOR OPERATING EXPENSES OF THE GLOBAL FUND
(Revision 1, 31 October 2006)**

Introduction

This paper outlines the 2007 proposed budget for Operating Expenses of the Global Fund, as proposed by the Secretariat (and by the Inspector General in respect of the OIG budget) and as adjusted following review by the FAC. Parts 1 and 2 have been revised following completion of the review by the FAC.

Part 1: Overview of the 2007 Proposed Budget

Part 2: Secretariat Expenses

Part 3: In-country Oversight (unchanged)

Part 4: Office of the Inspector General (unchanged)

Part 1: Overview of the 2007 Proposed Budget

Introduction

- 1 The Operating Expense budget proposed for 2007 totals **US\$104.7 million**, representing an increase of 21% on the 2006 budget.
- 2 The principal factors underlying the budgetary increase are:
 - a. Growth in the grant portfolio, which is expected to increase by 19% from 2006 to 2007 as Round 6 grants commence, before taking account of any further new rounds.
 - b. Additional in-country oversight services to enhance performance based funding. These measures are directed at strengthening monitoring and evaluation capacity at country level and improving the quality of programmatic data reported by grant recipients, in response to the recommendations of the TERG and as requested by the Board.
 - c. Increased activity of the Office of the Inspector General as the Office scales-up towards full operating capacity.
- 3 The budget is derived from detailed work plans for each Secretariat Team, which have been consolidated by Unit into a Summary Workplan and Budget that has been reviewed by the FAC.
- 4 The Fourteenth Board meeting will consider a number of separate decisions arising mainly from the strategy development process. These decisions have budgetary implications totaling US\$14.6 million in 2007. If all of these decisions were approved, the overall budget for 2007 would expand to US\$119.3 million.

The Main Numbers

5 Prior to taking account of the budgetary implications of the separate decisions regarding strategy and other matters, and without provision for any new rounds after Round 6, the budget amount totals **US\$104.7 million**, as summarised below:

US\$ millions	2006		2007	% Increase on 2006 Budget	2008	2009
	Budget	Forecast	Budget		Indicative	
Secretariat	64.1	60.5	73.9	15%	81.0	84.8
Office of the Inspector General	2.0	2.0	2.8	37%	3.3	3.3
In-country Oversight	22.8	26.0	31.1	37%	29.6	27.8
Total Operating Expenses (before new Rounds after Round 6)	88.9	88.5	107.7	21%	113.9	115.9
less: Efficiency/savings Target	(2.5)		(3.0)	20%		
Net of Efficiency/Savings Target	86.4	88.5	104.7	21%	113.9	115.9

Staff numbers: (Fixed-term and short-term)	2006		2007 Proposed		% Increase on 2006 Budget	2008	2009
	Positions Approved	Posts Forecast	FTEs Budget	Positions Budget		Posts Indicative	Posts
	Secretariat	252	252	276		285	13%
Office of the Inspector General	8	8	12	15	88%	15	15
Total Staff	260	260	288	300	15%	332	348

Note: The indicative numbers for 2008 and 2009 are as estimated by the Secretariat and will be revised prior to Board consideration of the budgets for those years; these indicative numbers have not been reviewed by the FAC and are provided for information only.

6 The budget proposes an increase of staff in the Secretariat and OIG to 300 positions (including 32 short-term). Taking account of the dates during which additional staff would commence in the course of 2007, the staffing need during 2007 would equate to 288 full-time equivalents (FTE). By the end of 2007, the workforce would total 300 (including OIG).

7 If all of the decisions regarding strategy and other matters being considered separately by the Board were approved, the budget and staffing would increase for the duration of the projects, impacting 2007 as follows:

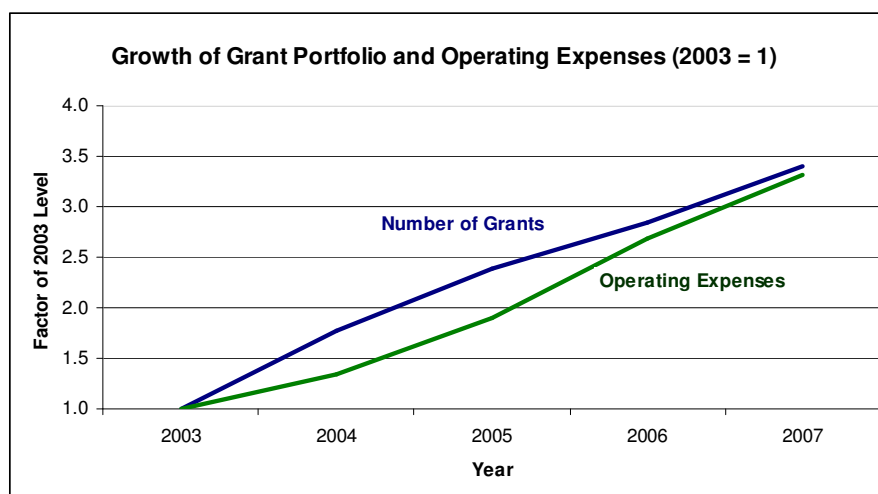
Overall Budget, if all decisions are approved		2007	
		US\$ '000	Staffing (Positions)
Budget, prior to separate decision points		104,728	300
Budgetary implications in 2007 of other decision points being considered at 14th Board meeting:			For project duration only
PSC	Grant consolidation*	1,148	4.0
PSC	Five-year evaluation	12,592	2.5
PSC	Policy on Product & Services Contributions	169	1.0
PSC	'Rolling Continuation' of Grants	269	2.0
FAC	Transitions Options Project - 2 nd phase	300	-
PSC	2008 Partnership Forum, preparation	100	1.0
		14,578	10.5
Total, if all above decisions are approved		119,306	

* Grant consolidation includes US\$ 240,000 for In-country Oversight services

8 Of the \$14.6 million additional costs, approximately 95% would end on completion of the projects (ranging from six months to two years, approximately). Costs of an ongoing nature arise only in the case of implementing the Resource Mobilization strategy and the Rolling Continuation of Grants. The staffing needs arising from these decisions are almost entirely for the duration of the projects only and any ongoing staffing needs would be taken into account in the external evaluation of the Global Fund's staffing which the FAC has recommended should be initiated by the Executive Director in 2007.

Comparison with growth of grant portfolio

9 The chart below compares growth in Operating Expenses (i.e. all costs other than grant expenditures), with the growth in the grant portfolio (number of active grants) since 2003. Taking the 2003 levels as "1", the grant portfolio is forecast to have grown to a factor of 3.4 by the end of 2007, and Operating Expenses to a factor of 3.3 over the same period. This is a simple comparison based on grant numbers and does not take into account the growth in grant management complexity over that period.



Ratios

10 Based on the budget as proposed and taking account of growth in the grant portfolio following approval of Round 6, the evolution of key operating expense ratios is as follows:

Key Ratios	2004	2005	2006	2007
	Actual	Actual	Forecast	Budget
Operating Expenses as:				
As % of Expenditure ^(a)	4.8%	3.9%	4.0%	4.5%
As % of Disbursements ^(b)	6.8%	5.8%	5.9%	6.2%
As % of Value of Active Grants ^(c)	2.2%	1.7%	1.6%	1.3%
Operating Expenses per Active Grant ^(d)	\$230k	\$217k	\$250k	\$248k

(a) New grant commitments (on signing agreements) plus Operating Expenses
(b) Grant disbursements in the year
(c) Cumulative funds committed to active grants ('grants under management')
(d) Grants (with signed agreements) that have not yet reached completion

Note: The above chart and ratio table do not include the budgetary implications of the separate Board decisions mentioned at 7 above, which could increase the 2007 budget by up to \$14.6 million.

Part 2: Secretariat Expenses

1 The Secretariat budget, which has been compiled through detailed work plans for each team, is summarised below. The Secretariat work plan has been reviewed by the FAC (GF/FAC7/10 Annex 3).

<i>By Function</i>	In US\$m	2006	2006	2007	Change	
		Budget	Forecast	Budget		
Secretariat Expenses						
Operations		21.1	19.9	24.3	3.3	16%
Performance Evaluation & Policy		5.1	5.1	6.1	1.0	19%
External Relations		10.0	10.3	12.1	2.1	21%
Office of the Executive Director		3.9	2.7	4.4	0.4	10%
Business Services		17.0	16.9	20.6	3.6	21%
Finance		3.9	3.9	4.1	0.1	3%
Legal		1.8	1.5	2.1	0.3	16%
Office of the Chair of the Board		0.2	0.2	0.1	(0.1)	-51%
Staff reduction (across Units)				(0.9)	(0.9)	
Contingency		1.0		1.0		
Secretariat		64.1	60.5	73.9	9.7	15%
Office of the Inspector General		2.0	2.0	2.8	0.7	37%
In-country Oversight		22.8	25.9	31.1	8.3	37%
Total Operating Expenses		88.9	88.4	107.7	18.8	21%
Efficiency Target		(2.5)		(3.0)	(0.5)	20%
Net of Efficiency Target		86.4	88.4	104.7	18.3	21%

<i>By Expense Type</i>	In US\$m	2006	2006	2007	Change	
		Budget	Forecast	Budget		
Staff		32.0	33.1	38.6	6.5	20%
Professional fees		10.9	8.9	13.5	2.6	24%
Travel & meetings		10.6	9.1	13.0	2.4	22%
Office infrastructure		7.8	7.3	7.5	(0.3)	-4%
Communication materials & services		1.8	2.0	1.5	(0.2)	-12%
External co-funding				(1.2)	(1.2)	
Contingency		1.0		1.0		
Secretariat		64.1	60.5	73.9	9.7	15%
Office of the Inspector General		2.0	2.0	2.8	0.7	37%
In-country Oversight		22.8	26.0	31.1	8.3	37%
Total Operating Expenses		88.9	88.5	107.7	18.8	21%
Efficiency Target		(2.5)		(3.0)	(0.5)	20%
Net of Efficiency Target		86.4	88.5	104.7	18.3	21%

2 The increase of 15% in Secretariat Expenses is in the context of a 19% increase in the number of grants being managed, from 354 grants in 2006 to 433 in 2007 (average number of active grants throughout the year).

Comparison with 2006

3 Further details of the budget composition and the changes that comprise the 15% increase in the Secretariat budget from 2006 to 2007 are provided below:

Budget 2006		Budget 2006 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target	
Secretariat:											
Operations	24%	21,052	13,574	2,004	3,747	1,087	60	580	-		
Performance Evaluation & Policy	6%	5,146	3,507	933	313	270	34	89	-		
External Relations	12%	10,047	4,344	1,015	2,325	1,374	38	951	-		
Office of the Executive Director	5%	3,949	2,541	723	488	151	18	28	-		
Business Services	20%	17,020	5,648	3,115	443	93	7,617	105	-		
Finance	5%	3,945	1,317	2,590	11	3	25	-	-		
Legal	2%	1,786	1,108	410	267	-	-	-	-		
Office of the Chair of the Board	0%	193	-	109	52	-	32	-	-		
Contingency	1%	1,000	-	-	-	-	-	-	-	1,000	
Secretariat	74%	64,139	32,039	10,899	7,646	2,977	7,824	1,753	-	1,000	
Office of the Inspector General	2%	2,014	1,340	300	100	-	235	40	-	-	
In-country Oversight	26%	22,764	-	-	-	-	-	-	22,764	-	
Total, before efficiency target		88,917									
Efficiency target	-3%	(2,500)								(2,500)	
Total Operating Expenses	100%	86,417	33,379	11,199	7,746	2,977	8,059	1,793	-	22,764	

\$86m

Budget 2007		Budget 2007 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target	
Secretariat:											
Operations	23%	24,336	16,941	1,134	4,096	1,766	-	399	-		
Performance Evaluation & Policy	6%	6,145	4,215	1,027	407	370	20	106	-		
External Relations	12%	12,113	5,695	2,437	3,007	1,141	126	892	(1,185)		
Office of the Executive Director	4%	4,358	2,647	960	500	191	22	39	-		
Business Services	20%	20,602	7,058	5,042	1,036	90	7,266	110	-		
Finance	4%	4,077	1,645	2,390	15	3	25	-	-		
Legal	2%	2,068	1,283	430	355	-	-	-	-		
Office of the Chair of the Board	0%	95	-	55	24	-	16	-	-		
Staff reduction (across Units)		(933)	(933)	-	-	-	-	-	-		
Contingency	1%	1,000	-	-	-	-	-	-	-	1,000	
Secretariat	71%	73,861	38,551	13,474	9,439	3,561	7,475	1,546	(1,185)	1,000	
Office of the Inspector General	3%	2,761	1,921	306	163	-	351	20	-	-	
In-country Oversight	30%	31,107	-	-	-	-	-	-	31,107	-	
Total, before efficiency target		107,728									
Efficiency target	-3%	(3,000)								(3,000)	
Total Operating Expenses	100%	104,728	40,472	13,780	9,602	3,561	7,826	1,566	(1,185)	31,107	

\$105m

Changes from 2006 to 2007		Changes from Budget 2006 to 2007 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target	
Secretariat:											
Operations	16%	3,284	3,367	(870)	348	679	(60)	(181)	-	-	
Performance Evaluation & Policy	19%	998	708	93	94	100	(14)	17	-	-	
External Relations	21%	2,066	1,351	1,422	682	(233)	88	(59)	(1,185)	-	
Office of the Executive Director	10%	409	105	237	12	39	4	11	-	-	
Business Services	21%	3,582	1,410	1,927	593	(2)	(350)	5	-	-	
Finance	3%	132	328	(200)	4	-	-	-	-	-	
Legal	16%	283	175	20	88	-	-	-	-	-	
Office of the Chair of the Board	-51%	(99)	-	(55)	(28)	-	(16)	-	-	-	
Staff reduction (across Units)		(933)	(933)	-	-	-	-	-	-	-	
Contingency		-	-	-	-	-	-	-	-	-	
Secretariat	15%	9,721	6,512	2,575	1,793	583	(349)	(207)	(1,185)	-	
Office of the Inspector General	37%	746	581	6	63	-	116	(20)	-	-	
In-country Oversight	37%	8,344	-	-	-	-	-	-	8,344	-	
Total, before efficiency target	21%	18,811									
Efficiency target	20%	(500)								(500)	
Total change on prior year	21%	18,311	7,093	2,581	1,856	583	(233)	(227)	(1,185)	8,344	

\$18m

Change as % of 2006 budget

Staff Numbers

4 The budget proposes an increase of staff in the Secretariat and OIG to 300 positions (fixed-term and short-term). Taking account of the dates during which additional staff would commence in the course of 2007, the staffing need during 2007 would equate to 288 full-time equivalents (FTE). By the end of 2007, the workforce would total 300 (including OIG).

5 Of the total staff budgeted, 11% are on short-term contracts (up to 11 months) and the remainder are on fixed-term contracts (typically of a two-year duration).

Staff numbers: (Fixed-term and short-term)	2006	2007 Proposed		Change	
	Positions Approved	FTEs Budget	Positions Budget	Positions	%
Operations	106	124	132	26	25%
Performance Evaluation & Policy	28	30	31	3	11%
External Relations	35	41	43	8	24%
Office of the Executive Director	17	17	18	1	6%
Business Services	49	52	54	6	11%
Finance	10	12	12	2	20%
Legal	8	9	9	1	13%
Staff reduction (across Units)		(8)	(13)	(13)	
Secretariat	252	276	285	34	13%
Office of the Inspector General	8	12	15	7	88%
Total Staff	260	288	300	40	15%

Fixed-term (2 year)	206		268	89%
Short-term (up to 11 months)	54		32	11%

Note: The curtailment of 13 of the proposed additional positions across Units is to be determined by the Secretariat.

Causes of the 15% Increase in Secretariat budget

6 The factors causing the 15% increase in the Secretariat budget needs for 2007 are detailed for each Unit in the Secretariat work plan that has been reviewed by the FAC (GF/FAC7/10 Annex 3).

7 The \$9.7 million increase in Secretariat Expenses is comprised as follows:

Staff costs	\$6.5 million
Professional Services	\$1.5 million (net of external co-funding)
Travel & Meetings	\$2.4 million
Office costs	-\$0.7 million (reduction on 2006 needs)

8 Staff costs (\$6.5 million): Staff numbers will increase by 18% in total, with cost increases in the following areas:

- a. \$4.1 million in Fund Portfolio Operations and Performance Evaluation and Policy, which will manage 19% more grants in 2007.

- b. \$1.4 million in External Relations. Of this, 60% is for the further development of private sector partnerships (including Product RED) and global partnerships (including IDPF-UNITAID and GFDC). A further 25% is to support Board and donor relations, including for replenishment.
- c. \$1.4 million in Business Services, to strengthen the HR, IT and contracting teams and to provide further support to Operations and to PRs on grant-related procurement matters.
- d. The remaining \$0.5 million is in Finance, Legal and OED, due mainly to increased workload as the grant portfolio increases.
- e. The foregoing is prior to a reduction of \$0.9 million arising from the curtailment of 13 positions within the increases outlined above, across Units to be determined by the Secretariat.

9 Professional fees (\$1.5 million), comprised:

- a. \$0.5 for Secretariat-wide training. This one-time investment is urgently required and has been postponed in previous years' budgets
- b. \$0.4 million to upgrade staff performance management process and develop associated systems (one-time investment)
- c. \$0.4 million for IT systems development to support mainly PEP and HR needs.
- d. \$0.6 million to provide for increased Administrative Services Agreement fee.
- e. -\$0.3 million from net reductions in other needs

10 Travel and meetings (2.3 million), comprised:

- a. \$1.0 million for Fund Portfolio Operations, for visits to an increased number of grants as well as visits and meetings in response to Board and donor mandated-initiatives such as efforts to harmonize and align programs with partners in-country, fulfill GTT requirements, strengthen CCMs and undertake joint missions and build partnerships in-country.
- b. \$0.4 million for Board and Donor Relations, mainly for Replenishment
- c. \$0.2 million for to support the TERG and for harmonisation of M&E and data systems.
- d. \$0.5 million for recruitment travel
- e. \$0.2 million for in-country support on procurement matters and legal support to grant management

Parts 3 and 4 of the Report remain unchanged