

**2012 OPERATING EXPENSES BUDGET**

**PURPOSE:**

This document sets out the 2012 budget after the incorporation of reductions to the Secretariat Operating Expenses Budget that were required by the Board at the Twenty-Fifth Board meeting on 21-22 November 2011 (GF/B25/DP15). It supplements the budget information that was presented to the FAC and subsequently the Board (GF/B25/14 Attachment 1 and Annex 1).

## PART 1: INTRODUCTION

1.1. During the Board meeting in Accra, the Secretariat was asked to provide a budget paper to be presented to the Finance and Operational Performance Committee and shared with the Board showing the budget for 2012 Operating Expenses with a zero increase compared to the 2011 budget for Secretariat Operating Expenses (GF/B25/DP15).

## PART 2: 2012 ANNUAL OPERATING BUDGET

2.1 The 2012 Operating Expenses Budget has been developed taking into consideration the development of the Consolidated Transformation Plan (CTP), and the recommendation from the High Level Independent Review Panel that resources needed for implementing their recommendations could be found from within the existing budget.

Table 1. Overview of 2012 Operating Expenses Budget

US\$ millions	2010	2010	2011	2012	Increase on 2011	% Increase
	Actual	Budget	Budget	Budget		
Secretariat	189.8	194.3	225.1	225.1	(0.0)	0.0%
In-country Oversight (LFA fees)	57.9	67.3	74.2	84.5	10.3	13.9%
Funding of CCMs	4.1	6.9	12.4	13.5	1.1	8.9%
TERG		1.1	1.1	0.9	(0.2)	-18.2%
<b>Sub-total Secretariat Operating Expenses</b>	<b>251.8</b>	<b>269.6</b>	<b>312.8</b>	<b>324.0</b>	11.2	3.6%
Office of the Inspector General	12.2	12.2	19.8	28.0	8.2	41.2%
<b>Total Operating Expenses</b>	<b>264.0</b>	<b>281.8</b>	<b>332.6</b>	<b>351.9</b>	19.3	5.8%
Foreign Exchange effect fixed in 2012 Hedge:				3.8		
<b>Amount of Board Decision Point:</b>				<b>355.7</b>		

2.2 As the CTP and budget have been developed at the same time, and as the Secretariat will need to have sufficient flexibility to shift both budget and staff as required to deliver on the CTP, the 2012 budget amount will be an envelope within which the Secretariat must operate. The Secretariat expects to report as required to the Finance and Operational Performance Committee on its use of funds to implement the CTP.

2.3 The 2012 Operating Expenses Budget was prepared using the conventional zero-based, activity based budgeting across the six clusters of the Secretariat. Comprehensive work plans for all teams using standard activities and cost drivers have been developed in the process.

2.4 The detailed budget (over 6,500 specific lines) has been further categorized as either non-discretionary, and therefore must be paid (e.g. Trustee Fees), and discretionary (with further ranking by priority), and therefore available for reallocation to support priority tasks such as implementation of the Consolidated Transformation Plan.

2.5 The budget process started on 18<sup>th</sup> July 2011. It has undergone formal rounds of discussions with EMT+ (all Directors), Finance, and the EMT. In between, Finance have had several budget meetings with respective cluster directors understanding their work plan and budget estimates to help them identify efficiency savings ensuring an overall zero growth.

2.6 The FAC has been updated on budget preparations at its 17<sup>th</sup> meeting in October. The FAC held a conference call with interested Board Constituencies on 4<sup>th</sup> November on the budget, and then discussed the budget in detail on the 7<sup>th</sup> November.

2.7 The final objective is zero growth on the core Secretariat budget. Additional costs only focused on CTP items such as the full annual cost of US\$ 5m in 2012 for the temporary increase of 25 Full Time Equivalent Staff approved by the Board in July 2011 to support the Consolidated Reform Plan (now integrated in the CTP), plus a further Central Salary Reserve Provision for US\$ 5.5m (before FX effect) to ensure that the Secretariat has flexibility to reassign staff to grant facing activities, and failing that, to separate existing staff and/or replace them.

2.8 It is important to note that the temporary increase in the Secretariat headcount approved by the Board in July 2011 will be reversed over the course of 2012 and 2013 to reach the levels originally approved for 2011.

Table 2: Staff Overview to 2014

Secretariat FTE	2011 Budget	2012 Budget	2013 Budget	2014 Budget
Secretariat FTE	578	603	588	578
Approved in 2011	25			
End of year 2011	603			
Reduction end 2012		-15		
End of year 2012		588		
reduction end 2013			-10	
End of year 2013			578	

2.9 It is also intended that the Secretariat Budget will flat-line and possibly reduce in nominal terms from 2013 onwards as the exceptional costs of the CTP are no longer relevant, and as CTP related efficiencies and reduction in headcount offset any inflation related increases.

Table 3: 3 Year Overview

in US\$ million	2011		2012		2013		2014	
	Budget	Change 1	Budget	Change 2	Projection	Change 3	Projection	
Secretariat - Staff costs	116.4	8.9	125.3	(8.0)	117.3	(2.0)	115.3	
Secretariat - non-Staffing costs	108.7	(8.9)	99.8		99.8		99.8	
<b>Secretariat costs before 2012 FX:</b>	<b>225.1</b>	<b>-</b>	<b>225.1</b>	<b>(8.0)</b>	<b>217.1</b>	<b>(2.0)</b>	<b>215.1</b>	
Actual FX effect for 2012 (ex OIG):			3.5					
<b>Secretariat Total costs after FX 2012:</b>			<b>228.6</b>					
In-country Oversight (LFA fees)	74.2		84.5		84.5		84.5	
Funding of CCMs	12.4		13.5		13.3		13.4	
TERG	1.1		0.9		0.9		0.9	
Office of the Inspector General	19.8		28.0		28.0		28.0	
<b>Total before FX effect:</b>	<b>332.6</b>		<b>355.5</b>	→	<b>343.8</b>	→	<b>341.9</b>	
Actual FX effect for 2012 (OIG):			0.2		no FX		no FX	
			<b>355.7</b>		assumed		assumed	
<u>Notes re Changes:</u>	<u>Change 1:</u>		<u>Change 2:</u>		<u>Change 3:</u>			
Inflation assumed to be offset by efficiencies.	Full year cost of 25 extra staff agreed in 2011 \$5.0m		15 FTEs less at year end (\$3.0m)		10 FTEs less at year end (\$2.0m)			
	Central Sal. Reserve \$3.9m		\$5m less CSR (\$5.0m)					

2.10 The Secretariat budget envelope before any adjustment for foreign exchange rate changes is the same as in 2012. The increase in staff costs relates to the exceptional costs of the CTP (25 extra staff and Central Salary Reserve for separating staff that cannot be reassigned). This is offset by reductions in non-staffing costs, notably in Professional Fees. It is important to note that the temporary increase in Staffing levels of 25 at the beginning of the year will be reversed by 15 by the end of 2012 and a further 10 by the end of 2013 to return to the original 2011 approved headcount.

2.11 The LFA budget has increased significantly (13.9%) caused by strengthening the calibration of LFA services to the main risks in each country's implementation environment, and the higher number of PRs and grants in 2012 compared with 2011. The cost of implementing the CTP deliverables related to LFAs are captured in this budget.

2.12 The CCM Funding budget increases by 8.9% based on an expected increase in the number of grants and requests for the expanded CCM funding.

2.13 The result is that the Secretariat Operating Expenses Budget including LFA and CCM funding shows no increase for 2012, before adjustment for foreign exchange movements between the US Dollar and Swiss Franc.

2.14 The OIG budget increases by 41%. However, on a like for like basis with 2011, the increase is 35% (after excluding costs previously covered by the Secretariat budget) including 5 additional posts. As in 2011 the budget includes a contingency of US\$ 3 million for professional fees which must be recommended by the Audit and Ethics Committee and approved by the Finance and Operational Performance Committee before use. The increase recognizes the need to strengthen management capacity and technical expertise in the OIG, improve timeliness and maintain quality of OIG reports. The intention is that the OIG budget will flat-line in 2013 and 2014, however the Investigation budget is linked to the caseload and is less predictable than the audit budget. The OIG budget was not reviewed by the Secretariat but by the Chair and Vice-Chair of FAC. This process is designed to reinforce the independence of the OIG.

2.15 Total Operating Expenses Budget including OIG increases by 5.8% in 2012, before any adjustment for foreign exchange movements between the US Dollar and Swiss Franc.

2.16 In line with the financial procedures approved by the Board in 2010 to manage foreign exchange transactions in a manner which minimizes the exposure of the budget to volatility in the exchange rate between the USD and the CHF (GF/B22/DP18), a forward foreign exchange hedge contract for 2012 was taken out on 10th January 2012 to ensure that the Global Fund will have a fixed rate for the conversion of the majority of its Swiss Franc transactions throughout 2012. The rate at which the hedge was contracted was 1 Swiss Franc = US\$ 1.059 (2011 Swiss Franc 1 = US\$ 1.039). This gives rise to a final adjustment in the budget of US\$3.6 million for the Secretariat and US\$0.2 million for the OIG, making the total move from US\$351.9 million to US\$355.7 million.

2.17 A more detailed document will be sent to Finance and Operational Performance Committee once the Consolidated Transformation Plan budget has been determined and approved and the 2012 budget de-prioritization exercise has been finalized.