

36th Board Meeting

Secretariat operating expenditures: F2 2016 reforecasts and 2017 Budget

For Board Information

GF/B36/05A

Montreux, Switzerland

16-17 November 2016



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- **F2 2016 reforecasts**

- 2017 Budget

F2 OPEX Forecast by Nature

In thousands of USD, at budget rates

	F2	Budget	Variances	
	Full Year @ Budget Rate	Full Year 2016 Budget	F2 @ Budget Rate vs Budget	
	kUSD	kUSD	kUSD	%
LFA costs	54,984	55,000	(16)	(0%)
CCM Costs	9,500	9,500	0	0%
Costs Secretariat & OIG	236,292	235,677	614	0%
Staff	142,750	140,979	1,771	1%
Professional fees	38,352	39,241	(889)	(2%)
Travel	19,505	20,274	(769)	(4%)
Meetings	3,233	3,634	(401)	(11%)
Communications	1,858	2,270	(411)	(18%)
Office Infrastructure	25,184	25,668	(484)	(2%)
Board Constituency	1,000	1,000	(0)	(0%)
Depreciation	5,720	6,004	(284)	(5%)
External Co-Funding (-) = Favorable*	(1,310)	(3,393)	2,083	(61%)
Total Opex before non-recurring	300,776	300,177	599	0%
Non-recurring non-staff costs	(1,666)	0	(1,666)	
Non-recurring staff costs	3,391	4,812	(1,421)	(30%)
Non-recurring costs	1,725	4,812	(3,087)	(64%)
Total operating costs @ budget rate	302,500	304,989	(2,489)	(0.8%)

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* External co-funding budgeted at \$3.4M in 2016 OPEX (i.e. corresponds to a reduction of the OPEX cost base);

F2 2016 indicates that out of this amount \$1.3M is expected to be realized

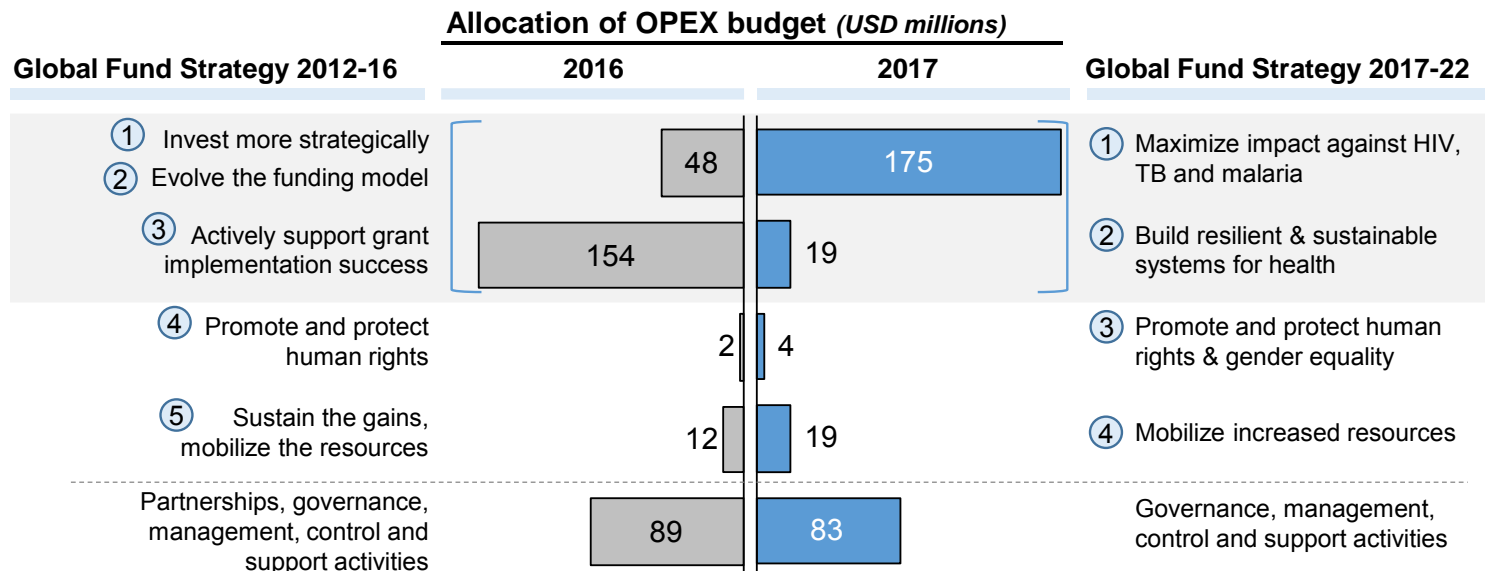
- F2 2016 reforecasts

- **2017 Budget**

The Global Fund OPEX budget reflects four core objectives

- 1 Align with the **needs of the 2017-22 Strategy**
- 2 Achieve **value for money** by maintaining **discipline** seen over the 2013-16 period
- 3 Ensure available resources are **invested in the major priorities** required to implement the new Strategy
- 4 Adhere to the **overall resource framework** set-up for the 5th Replenishment

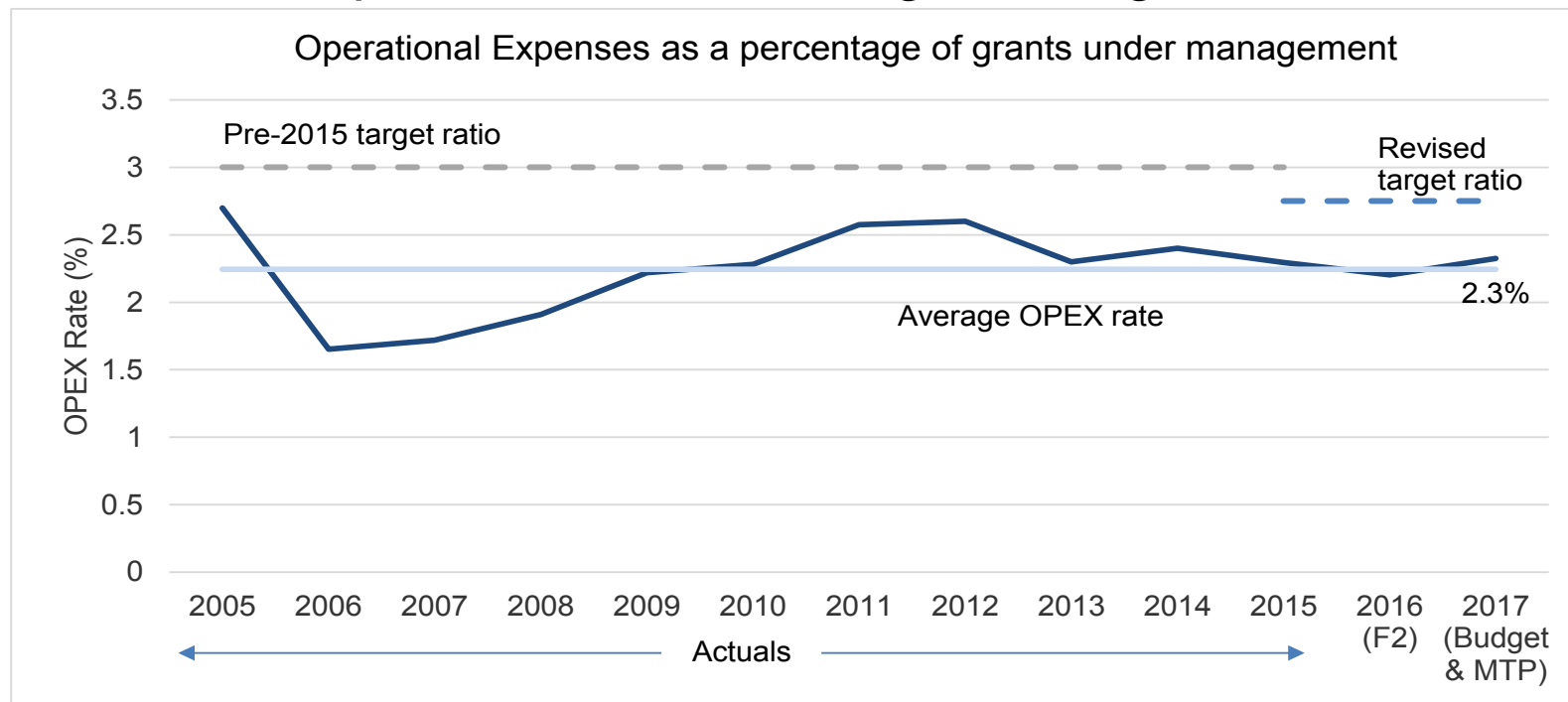
1 2017 OPEX budget aligns with the needs of the 2017-22 Strategy



- The new Strategy sets a path to continue to support countries as they implement programs aimed at ending the three epidemics, while increasing focus on gender, human rights, and the building of resilient & sustainable systems for health
- The graph reflects reclassification of activities incl. partnership activities integrated across the four new strategic objectives; increased investments in health financing and market shaping shifting from more grant related strategic objectives (1 & 2) to Strategic Objective 4 Mobilize increased resources

2

OPEX 2017 achieves value for money and maintains discipline, with OPEX expense ratio below target ceiling



Note: Grants under management forecasted in the MTP are lower than current levels, therefore the OPEX rate of 2.3% may be slightly inflated

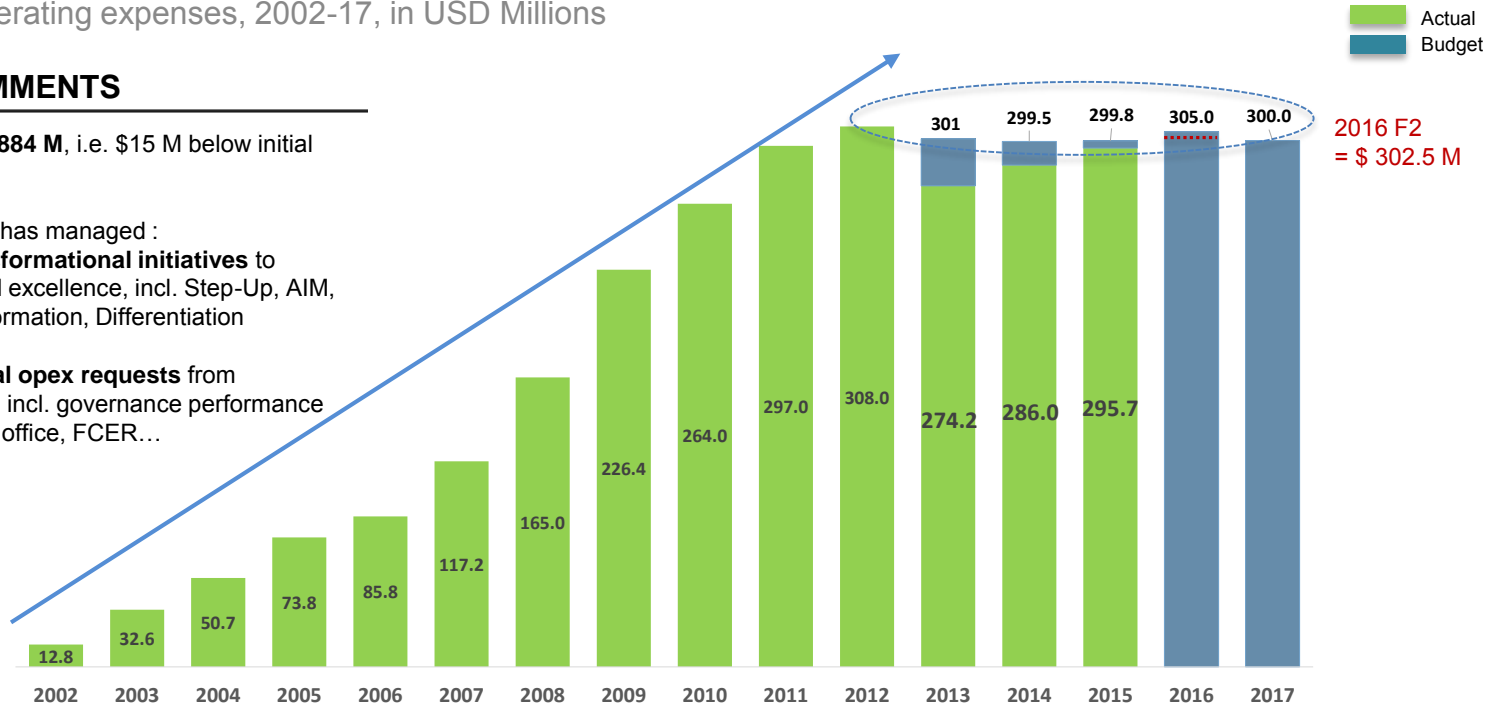
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Despite stringent monitoring of Secretariat expenses, TGF has been able to fund transformational initiatives

Operating expenses, 2002-17, in USD Millions

COMMENTS

- F2 OPEX 2014-2016: **\$ 884 M**, i.e. \$15 M below initial envelope
- In that same period TGF has managed :
 - to launch **key transformational initiatives** to improve operational excellence, incl. Step-Up, AIM, Wambo, HR transformation, Differentiation
 - to absorb **additional opex requests** from governance bodies, incl. governance performance assessment, ethics office, FCER...

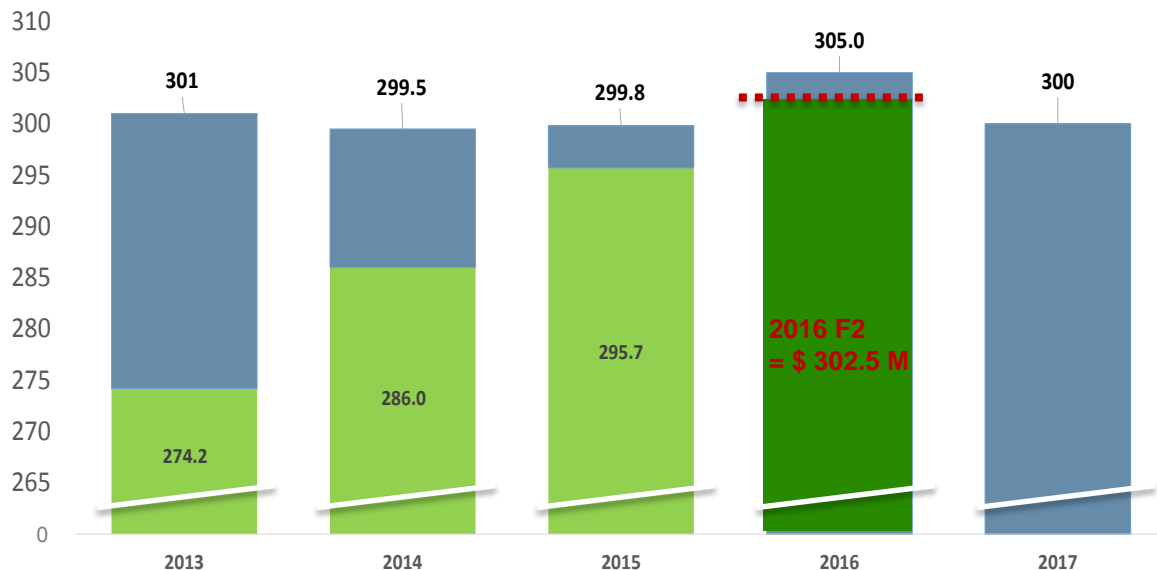


2

Stabilization of OPEX after a decade of rapid growth; tight monitoring of actuals, maintained below budget

Operating expenses, 2013-17, in USD Millions

Actual
Forecast
Budget



MANAGEMENT LEVERS

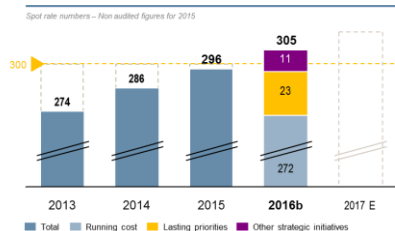
- Comprehensive **re-engineering of financial processes & systems** (cf. Finance Step-up Initiative)
- Enhanced **accountability for budget control**, embedded in routine processes
- **Budget & actuals monitoring** integrated into **monthly reforecasting**, enabling **efficiencies identification & reinvestments** in transformational projects
- **Cultural shift** increasing structure, discipline & focus on value for money
- **Zero Based Budget** conducted in 2016

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1
2

The new budgeting process framework for 2017-19 ensures value for money and alignment with strategy

Overall objective



- **Overall budget allocated for OPEX has been USD 900 m.** for period 2014-16
- **Unsustainable cost basis due to budgeting approach** (incremental) where past long lasting priorities have been added to a recurring cost base
- **New ambition** to maintain the \$900M operating cost allocation for next period whilst delivering on strategic objectives

1. Zero Based Budgeting (January –June 2016)

- Challenge of recurring cost base: \$38M of savings identified vs 2016 Budget
- Recurring baseline defined for each division covering **2017-2019** period
- **“Reset” of cost structure to be performed every 3 year** to follow allocation cycle

2. Strategy Implementation Plan (April-June 2016)

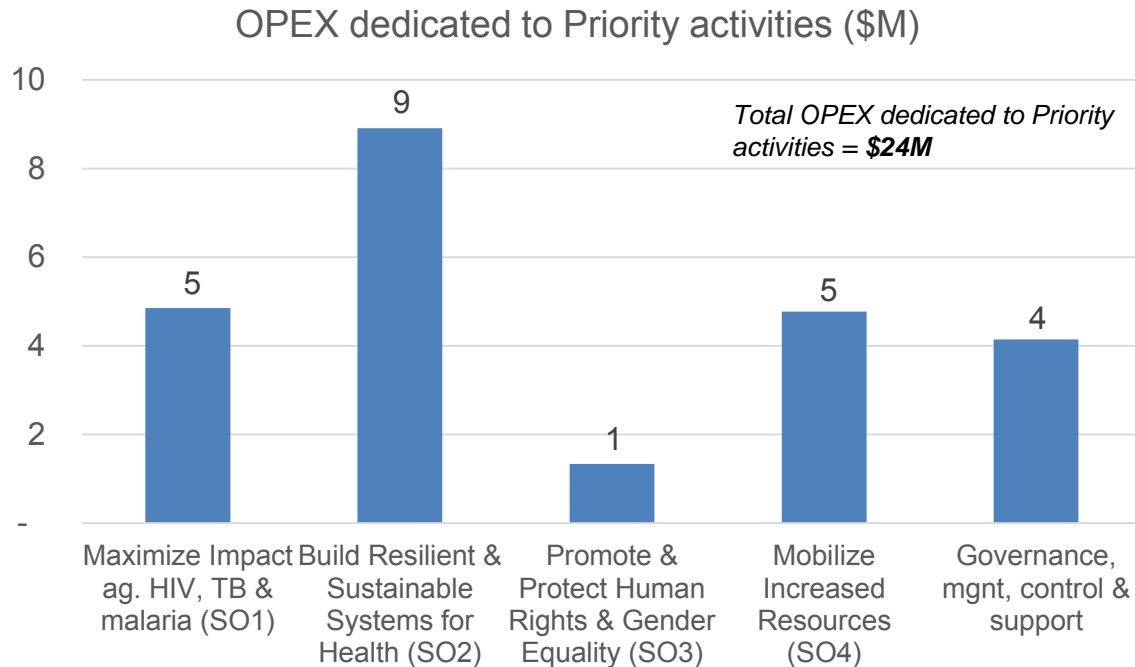
- **Available OPEX funding for priorities by year** determined through ZBB
- **Collection & challenge** of “Bottom Up” requests for 2017-2019
- Initial **prioritization** approved by MEC

2017 Budgeting process (July-September)

- **2017 detailed Budget envelop** shared with each division covering recurring and priorities **to ensure compliance with budget ceiling**
- **Work plan filled by each division** highlighting risks / opportunities
- **Final arbitrage by MEC for 2017 Budget** (include/exclude/postpone)
- **Dynamic management of savings** through reforecasts to optimize OPEX Budget

3

Available resources are invested in Priority activities required to implement the new Strategy



COMMENTS

- Priority activities represent new work, or work requiring additional focus to deliver the new strategy.
- Priority activities complement the Secretariat's recurrent activities
- Priority activities included in 2017 Initial Budget after Panel recommendation correspond to \$24M in OPEX

2017 OPEX Budget

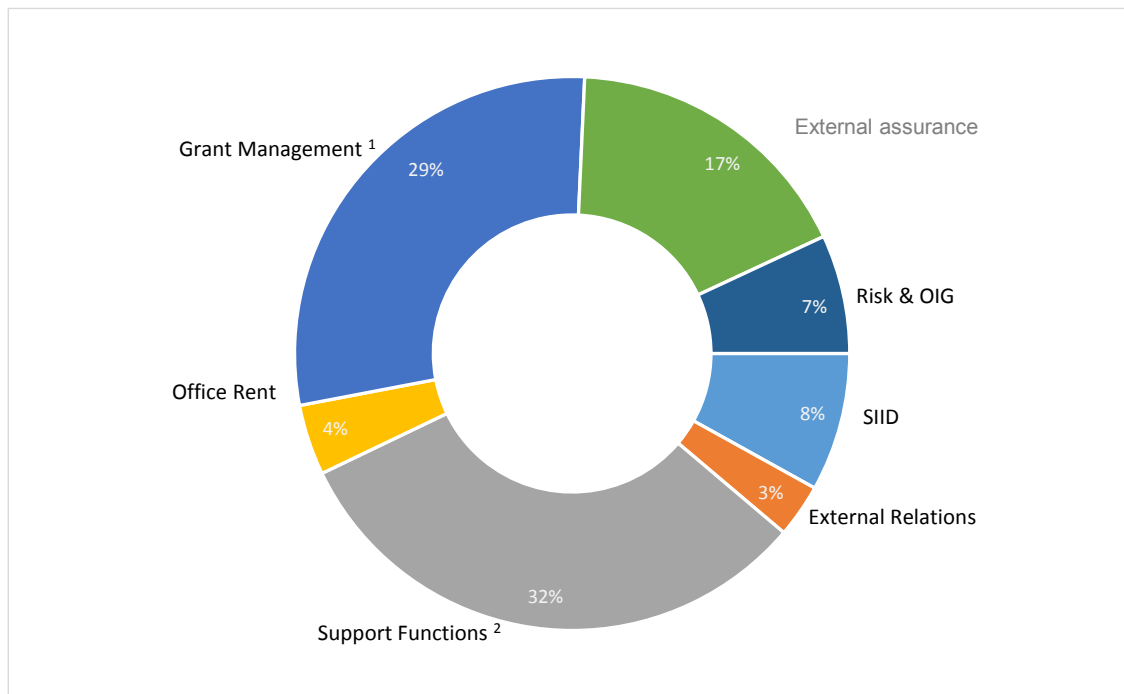
In thousands of USD, at budget rates

	F2 2016 @ 2017 Budget Rate	2017 Budget	Variances	
	kUSD	kUSD	2017 Budget vs F2 2016	
			kUSD	%
LFA costs	54,984	52,000	(2,984)	(5%)
CCM Costs	9,370	8,900	(470)	(5%)
Costs Secretariat & OIG	232,128	233,836	1,708	1%
Staff	140,031	150,464	10,433	7%
Professional fees	37,861	33,362	(4,499)	(12%)
Travel	19,158	16,628	(2,531)	(13%)
Meetings	3,049	3,256	207	7%
Communications	1,811	1,719	(92)	(5%)
Office Infrastructure	24,825	27,080	2,255	9%
Board Constituency	983	1,100	117	12%
Depreciation	5,720	6,653	933	16%
External Co-Funding (-) = <i>Favorable</i> *	(1,310)	(6,426)	(5,116)	391%
Total Opex before non-recurring	296,482	294,736	(1,746)	(1%)
Non-recurring non-staff costs	(1,649)	0	1,649	(100%)
Non-recurring staff costs	3,326	5,261	1,935	58%
Non-recurring costs	1,678	5,261	3,583	214%
Total operating costs @ budget rate	298,159	299,997	1,837	0.6%

* External co-funding budgeted at \$6.4M in 2017 OPEX (i.e. corresponds to a reduction of the OPEX cost base)

Breakdown of 2017 Budget by Core Global Fund Activity

Share of 2017 Budget by function
Total 100% = USD 300 million



¹ Grant Management includes all Grant Management division except LFAs fees

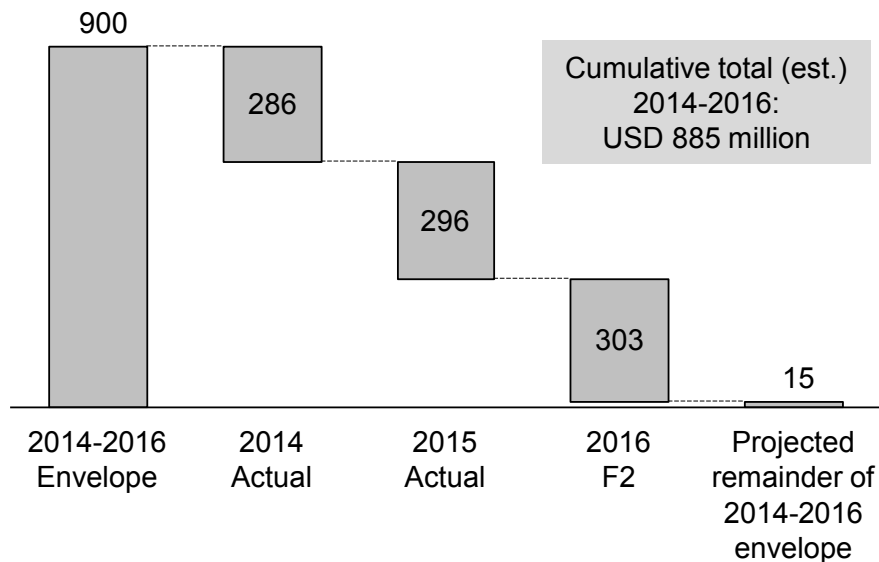
² Support Functions include: Communications, Legal, Finance, IT, Governance, HR, Sourcing, Administration, ED's office and non-recurring costs

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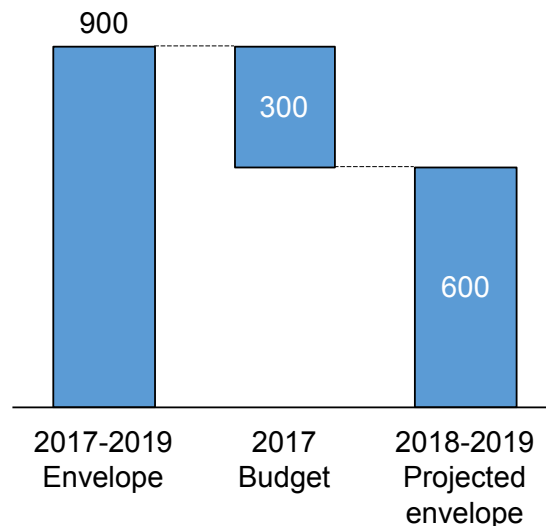
Based on planned 2017 OPEX spending, an OPEX budget envelope of \$600M is projected to be available for 2018-19

USD millions

OPEX budget envelope 2014-2016



OPEX budget envelope 2017-2019



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Decision Point GF/B36/DP08 Corporate Work Plan and Budget Narrative 2017 and the 2017 Operating Expenses Budget

- 1. Based on the recommendation of the Audit and Finance Committee, the Board approves the following:**
 - a) Corporate Work Plan and Budget Narrative 2017, as set forth in GF/B36/05B; and**
 - b) 2017 Operating Expenses Budget in the amount of USD 300.0 million, as set forth in GF/B36/05A, which includes USD 17.1 million for the Office of the Inspector General's 2017 operating expenses.**