

40th Board Meeting
2019 Operating Expenses Budget
For Board Decision

GF/B40/02 Part B
Geneva
14-15 November 2018

Agenda

I

F2 OPEX 2018

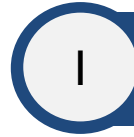
2019 OPEX Budgeting Framework

II

III

2019 OPEX budget

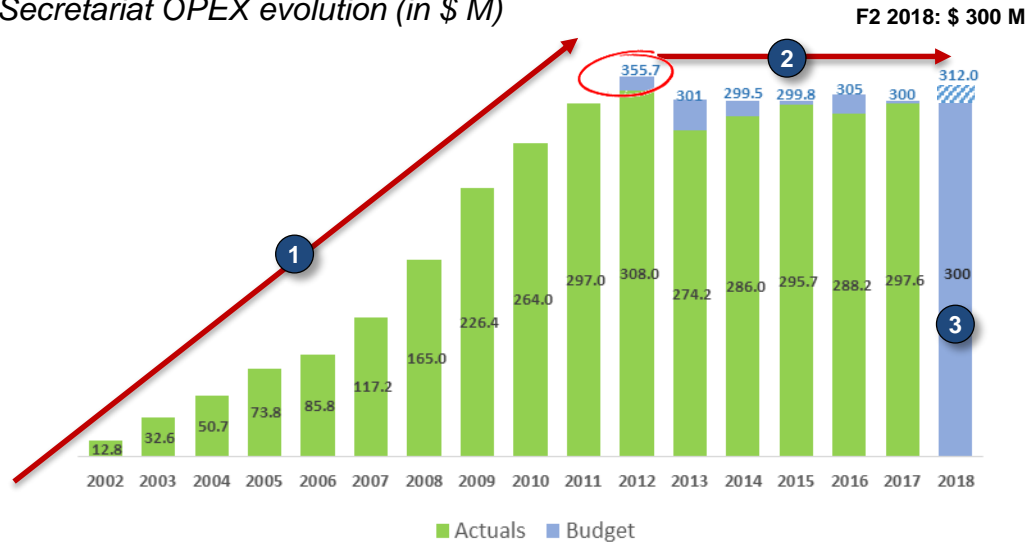
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F2 OPEX 2018

Perspective on the evolution of the Secretariat OPEX budget; Stabilization since 2013, after a period of rapid growth

Secretariat OPEX evolution (in \$ M)



KEY MESSAGES

- 2002-2012 characterized by **rapidly growing OPEX**, culminating with 2012 budget of **\$ 356 M**
- Stabilization** of actual annual OPEX spend, **since 2013**, despite significant OPEX investments including move to Global Health Campus
- 2018 budget anchored in the strict financial discipline seen since 2013 with an F2 forecast of \$ 300 M**

F2 OPEX reforecast: executive summary

	F2 Forecast			Budget			Variance		
	Secretariat	OIG	Total	Secretariat	OIG	Total	Secretariat	OIG	Total
Staff	136.3	9.5	145.8	141.0	11.1	152.1	-3%	-14%	-4%
Non Staff	131.4	5.1	136.5	136.2	4.5	140.8	-4%	13%	-3%
Non Recurring	13.0	-	13.0	6.8	-	6.8	89%	0%	89%
Total Excl. Health Campus	280.6	14.6	295.2	284.1	15.6	299.7	-1%	0%	-1%
Global Health Campus	4.7	-	4.7	11.7	0.3	12.0	-60%	-100%	-61%
Total including Health Campus	285.4	14.6	299.9	295.8	15.9	311.7	-4%	-8%	-4%

Secretariat 2018 OPEX budgeting strategy

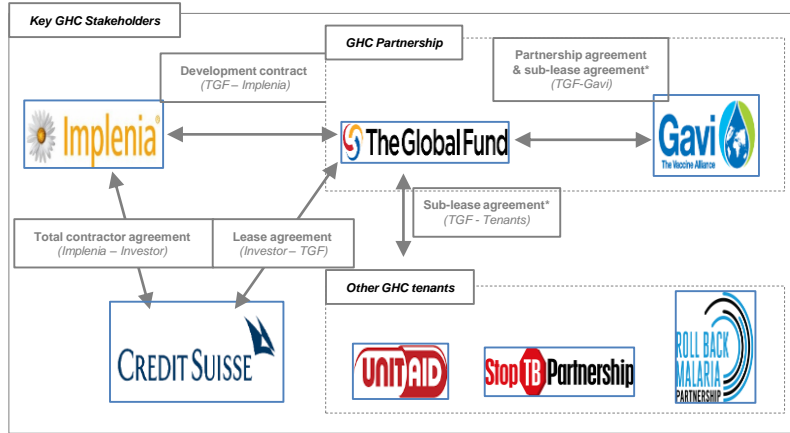
- **2 overarching constraints on 2018 OPEX budget:** lack of flexibility in opex cost base and AFC/Board request to absorb one off cost within the 2017-2019 \$ 900 M envelope while mitigating potential adverse impact on 2019 funding of priorities (replenishment...)
- **Deliberate strategy to maximize savings in 2018** without impacting implementation in order to allow an ambitious budget for 2019. Extreme mobilization across Secretariat:
 - **To achieve cost efficiencies on running costs:** strict control on staff costs (cancellation of salary increase, review by HR head of all recruiting/extension requests), travel (enforcement of divisional planning /early booking / MEC review of exception reports and requests over budget), savings related to GHC
 - **To minimize exposure to GHC one off risks:** strong project management around a 'core team' focusing on timely delivery of the building while conducting parallel negotiations with each subtenant and BIBC owner to mitigate financial risks

F2 year end landing expected to be within \$ 300 M including GHC one off

- **GHC project:** reforecasted one off of \$ 4.7 M or \$ 7.3M expected savings vs. \$ 12 M budgeted one off due to non materialization of main financial risks. All organizations have now moved to the GHC according to agreed plan. Verification of construction costs still ongoing as Implenias's invoices are being gradually submitted
- **Cost efficiencies and value for money:** \$ 4.5 M additional savings expected on Secretariat OPEX across recurring cost base including staff costs

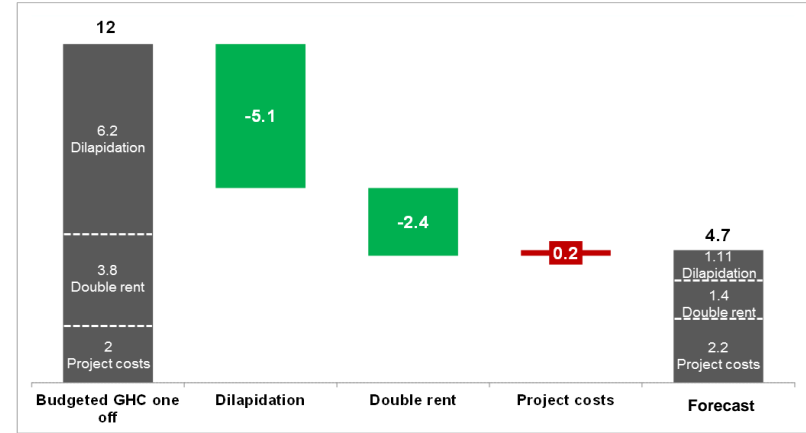
GHC one off: robust risk management process enabled effective risk mitigation and non materialization of contingencies

GHC PROJECT SET UP



- Bringing the project to life initially required the GF to take a **leading role with Implenla & Credit Suisse**, therefore bearing **all initial project investments and related risks**. Budgeted GHC one off impact of \$12 M reflective of risk exposure for Global Fund
- 50+ Global Fund staff involved in project management and risk mitigation on top of their day to day job
- In September 2017, **Gavi & the GF** have agreed to be **full Partners** in the GHC project, with equal responsibilities vis-à-vis each other and generally **sharing the benefits, costs and risks** of the overall project
- **Other GHC partners** are **sub-tenants**, bound by a sub-lease agreement signed in Q1 2018

GHC ONE OFF REFORECAST



Main components of GHC one off:

- **Double rent:** Global Fund exposed twice because of 1. potential cost impact of any delays in GF staff move to GHC 2. as main GHC tenant regarding vacancy risk of other partner's organizations in the absence then of sublease agreements and precise move planning
- **Dilapidation:** Uncertainty on timely completion of move and dilapidation works in strict compliance discussions with BIBC lease contractual obligations
- **GHC Professional Fees:** support to project management, & move preparation and need analyses for GHC

Timely building delivery and Global Fund staff move, binding agreement with subtenants and favorable settlement with BIBC owner have allowed to mitigate most of the financial risks

- Post move survey to be performed to assess satisfaction and potential need for adjustment

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2019 OPEX Budgeting Framework

II

Context: Global Fund differentiated sources of funding

The Global Fund manages three funding pots:

- **Grants:** *funds allocated to implementers to support health programs for the fight against the three diseases*
- **Catalytic investments:** *critical activities not able to be funded through grant allocations due to their cross-cutting, innovative or off-allocation cycle nature*
- **Operational expenses (OPEX):** *costs of the Secretariat and contractors in the administration and management support to grants and catalytic initiatives*

Activities funded through OPEX are the basis that underpin Grant and Catalytic investments supporting the activities that ensure that these funds are used optimally to achieve impact on the ground

The three pots are covered by separate oversight processes:

- Grants: approved for three years by GAC & the Board
- Catalytic investments: investments recommended by SC for Board approval for three year period; may be operationalised through grants or procurement
- OPEX budget: recommended by the AFC for Board approval on an annual basis

2019 Budgeting approach integrating Global Fund business cycle

2019 Budgeting Framework:

Principle:

Constantly seeking value for money and optimization of available resources

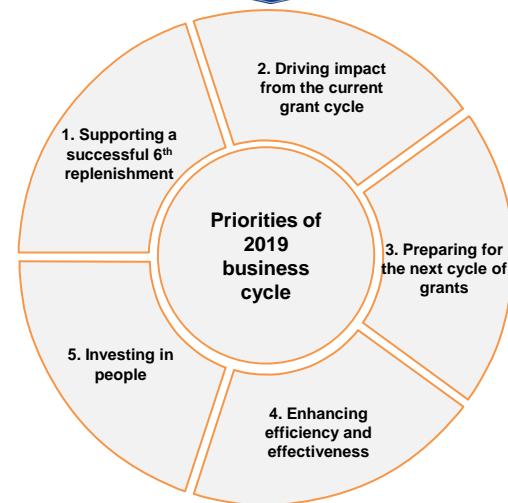
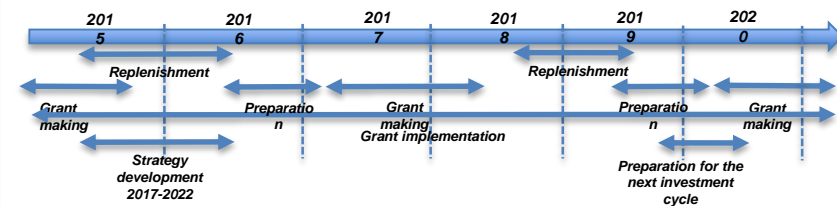
Trends

1. **Close the 2017-2019 OPEX allocation cycle and remain within the \$ 900 M envelope** while fully absorbing the GHC one off and maintain high standards of quality, efficiency and effectiveness
2. **Prepare the transition to the new allocation cycle** with a forward looking view and deliver on key priority areas
3. **Continue to invest in human resources in line with the People Strategy** to maintain a talented, high performing and motivated workforce

Trade offs

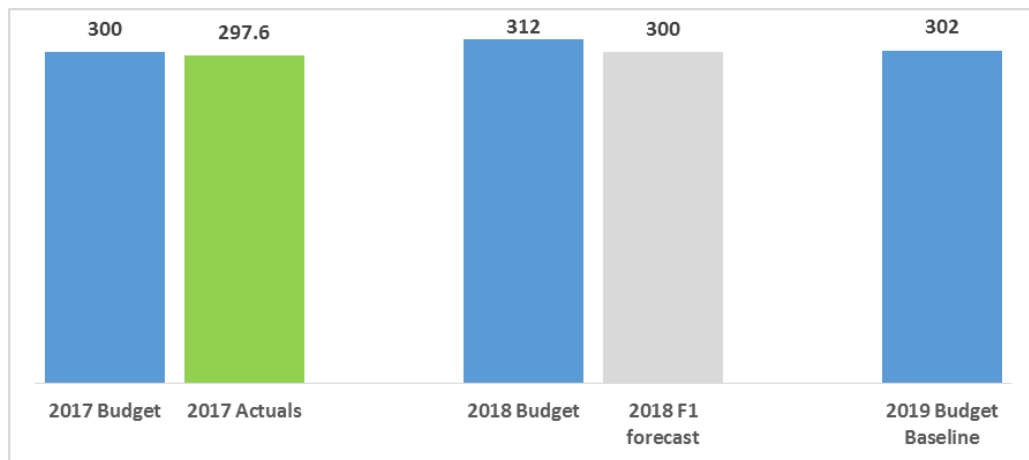
1. **Maintain strong controls over recurrent staffing**
2. **Increase workforce agility** and attract high potential individuals
3. **Resist demands to extend operations into implementation and technical areas**, where Global Fund staff make up for weak technical support, or a lack of effective partner engagement
4. **Maintain the Secretariat's mandate** as an International Financing Institution

2019 Priority areas



Remaining fiscal space for priorities in the 2017-2019 \$ 900 M OPEX envelope

- \$ 900 M OPEX envelope approved by Board for the 2017-2019 period
- For savings materialized in 2017 and 2018 through budget execution, opportunity to reinvest cumulative unused funds in the last OPEX implementation year of the 2017-2019 funding cycle
- F2 2018 reforecast including GHC one-off amounts to \$ 300 M leaving \$ 302.4 M available in 2019



\$ 597.6 M projected to be spent over the 2017-2018 out of the 900 M envelope period

\$ 302.4 M thus notionally available for 2019 OPEX budget to be allocated between recurring costs and investment above recurring

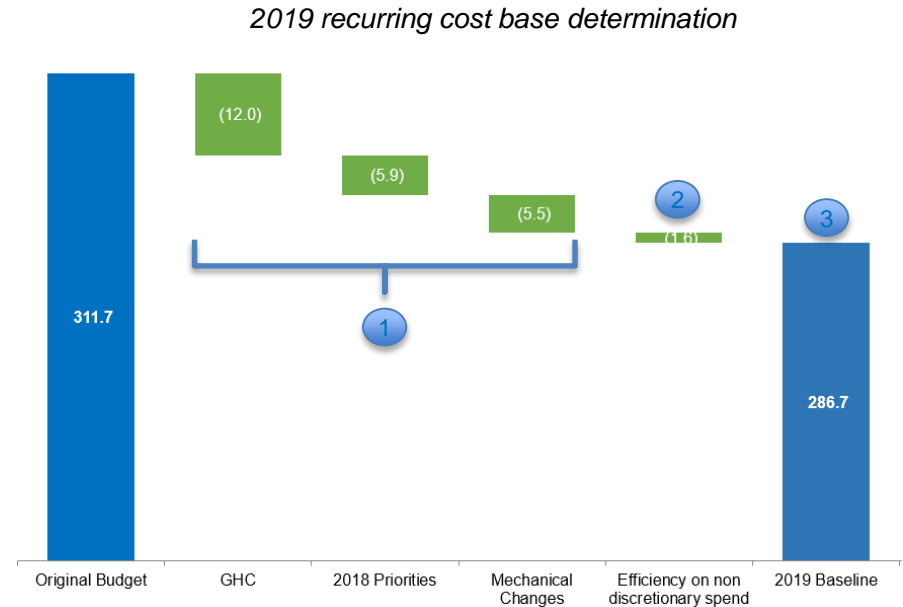
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III 2019 OPEX budget

2019 Budget Framework: budgeting approach for recurring cost base

- 2018 opex Budget used as baseline and adjusted as follows
 - excluding 2018 one offs (GHC, temp allocation of resources...) and priorities
 - adding back mechanical changes (updated depreciation level and staff costs level, changes in running costs related to GHC...)
- Continuous efficiency effort: 25% cut on discretionary travel and professional fees across the board except for divisions involved in the replenishment surge or country facing teams
- \$ 286.7 M before reallocation to 2019 investment over recurring.



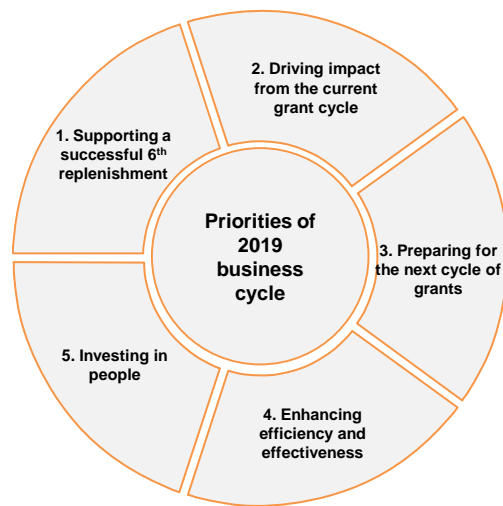
OPEX investments above recurrent running costs

The major part of the organisation's OPEX investments (\$ 286.7 M) cover the Secretariat's recurrent activities, which represent the underlying core business of the organization.

A further (\$ 15.7 M) – compared to \$ 8 M in 2018 budget - is invested in areas work in need of development, or work to enhance performance above the costs of recurrent operations, and have been allocated across the priorities as follows:

1. Supporting a successful 6th replenishment: an additional \$ 2.5 M will be invested in the replenishment effort above the recurrent budget, to cover human resources, meeting and logistics costs, additional travel and the communications campaign.

5. Invest in people: the additional allocation of \$ 3.5 M will be used to push forward changes to workforce planning and performance management, as well as support talent development.



4. Enhancing efficiency and effectiveness: the majority of the above recurrent investments in efficiency and effectiveness (USD 4.9m) will be allocated to further develop core IT business systems; with the remaining USD 2m invested in upgrading capabilities and organisational structures, including for Sourcing and Supply Chain.

2. Driving Impact from the current grant cycle: above recurrent funds of USD 1.4m will be allocated to further embed COE and STC activities in grant management operations, to support updated impact analysis, planning for human rights programming and strengthening of financial management systems.

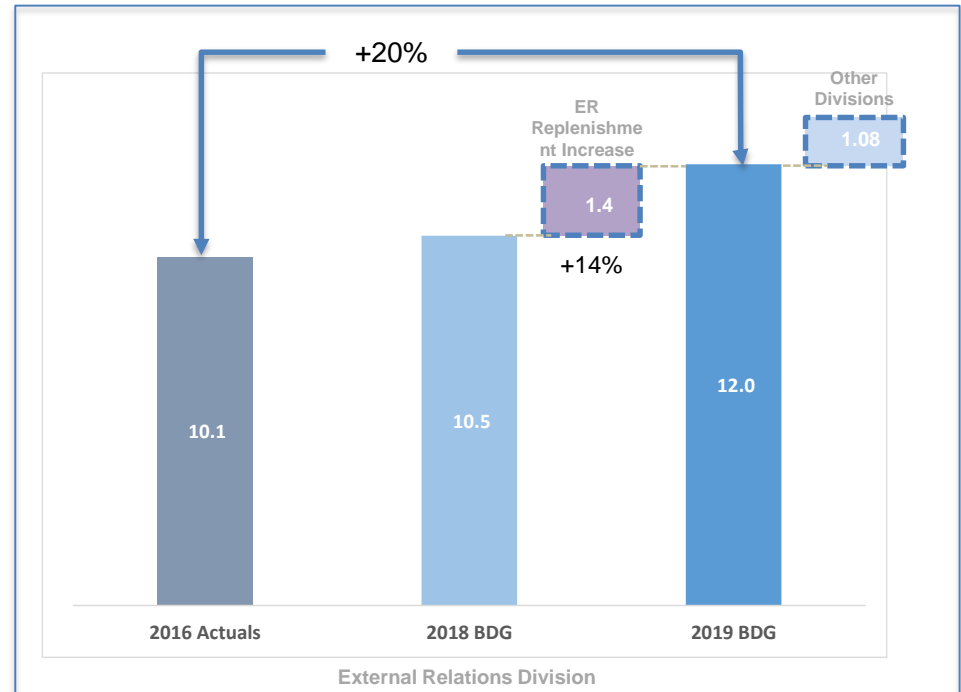
3. Preparing for the next cycle of grants These activities will benefit from additional investments of USD 1.4m in 2019 to cover modelling expertise and consultation.

Significant increase in resource mobilization effort in a replenishment year

A strong business case

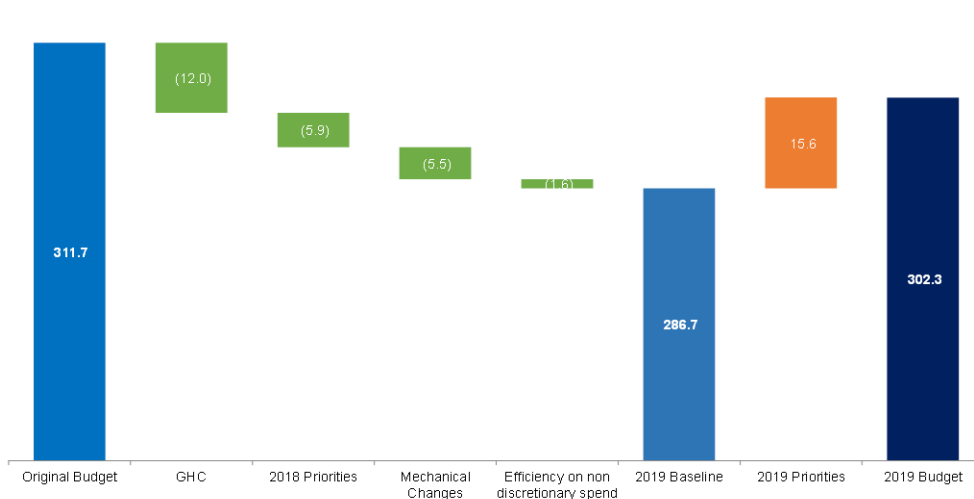
- **Successful 6th Replenishment** tagged as overarching priority for the Secretariat in 2019.
- Increased level of resourcing for External relations used as driver for 2019 budgeting trade off across Secretariat
- **As per External Relations action plan presented to July 2018 AFC** on Secretariat resource mobilization effort for 6th replenishment : **increase of \$1.4 M or +13% in OPEX budget for External relations division between 2018 and 2019**
- **Compared to 2016 - previous replenishment year** - increase of 20% in OPEX funding
- **Close to \$ 1.1 M additional funding added to other divisions** to deliver on replenishment related activities (OED, SIID, Coms, Finance)

2016-2019 External relations resourcing



Proposed 2019 OPEX budget of \$ 302 M allowing to address emerging topics while remaining within the \$ 900 M envelope

2019 Budgeting approach



2019 Budget by nature*

	2018 Budget	2019 Budget	Variances 2019 vs 2018 Budget	
	kUSD	kUSD	kUSD	%
LFA costs	48,300	48,300	0	0%
CCM Costs	9,500	9,500	0	0%
Costs Secretariat and OIG	230,464	231,535	1,071	0%
Staff	152,092	154,474	2,382	2%
Professional fees	23,035	24,429	1,394	6%
Travel	16,662	16,820	158	1%
Meetings	3,048	3,122	74	2%
Communications	1,368	1,352	(17)	(1%)
Office Infrastructure	24,785	23,222	(1,563)	(6%)
Board Constituency	1,100	1,100	0	0%
Depreciation	9,593	7,418	(2,175)	(23%)
External Co-Funding	(1,219)	(402)	818	(67%)
Total Opex before non-recurring	288,264	289,335	1,071	0%
Non-recurring costs	11,418	12,966	1,547	14%
Total operating costs Before Health Campus	299,683	302,301	2,619	0.9%
Health Campus - One-off costs	12,021	0	(12,021)	(100%)
Total operating costs	311,704	302,301	(9,402)	(3%)

- Key priority in 2019: a successful 6th Replenishment
- 2019 emerging topics: additional flexibility to address ambition and level of potential changes on supply chain and IT with incoming Head of Sourcing and Supply Chain and CIO
- With a budget \$ 302 M, the Secretariat remains within the \$ 900 M allocated OPEX envelope over 3 years

*2018 budget retreated to allow like for like comparison with 2019 budget with IT project related funding kept centrally in non recurring costs