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## United Nations Children's Fund

Executive Board

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### United Nations Children's Fund

#### UNICEF integrated budget for 2014-2017

#### Report of the Advisory Committee on Administrative and Budgetary Questions

##### I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Executive Director of the United Nations Children's Fund (UNICEF) on the proposed integrated budget for 2014-2017 ([E/ICEF/2013/AB/L.4](#)). During its consideration of the report, the Advisory Committee met with the Deputy Executive Director and other representatives, who provided additional information and clarifications.

##### II. Format and presentation

2. The Advisory Committee recalls that in 2010 the Executive Boards of UNICEF, UNDP and UNFPA approved the proposals that were presented in a joint report of the three organizations entitled, "Road map to an integrated budget: cost classification and results-based budgeting". The report was the culmination of a review of existing cost definitions and classification of activities and associated costs, as well as results-based budgeting models and methodologies of selected United Nations organizations and bilateral donors, in order to identify best practices. In accordance with decision 2011/6 of the UNICEF Executive Board, the integrated budget for 2014-2017 has been prepared following the results-based approach; it is presented in the harmonized format agreed upon by the Executive Boards of UNICEF, UNDP and UNFPA. In his report, the Executive Director indicates that the

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\* [E/ICEF/2013/19](#).



results-based approach strengthens the linkage between results and resource requirements. In keeping with the harmonized format, the budget information has been presented using the following three tables:

- (a) Integrated resource plan (table 1);
- (b) Integrated results and resources framework (table 2);
- (c) Application of revised cost recovery methodology (table 4).

3. The Executive Director's report indicates that the strategic context for the Integrated Budget is provided by the Strategic Plan for the period 2014-2017. The plan contains a single results framework for UNICEF comprising seven programme outcomes and three organizational effectiveness and efficiency results. The seven outcomes, namely, health; HIV; water, sanitation and hygiene; nutrition; education; child protection; and social inclusion, are results to which UNICEF contributes in collaboration with national, civil society and other partners. The three organizational effectiveness and efficiency results, namely: higher quality programmes through results based management; improved management of financial and human resources; and coordination of the United Nations Development System; are described in detail in the integrated results and resources framework of the integrated budget (see paragraphs 46-83) and broken down by functional cluster and resource allocation.

4. At the time of its consideration of UNICEF institutional budget for 2012-2013, the Committee welcomed the progress made by UNICEF in the improvement of its budget presentation and implementation of results-based budgeting and encouraged further efforts in this regard, in collaboration with UNDP and UNFPA. The Committee appreciated the utilization of tables and other budget presentation tools and expressed the opinion that future budget reports provide more information in the narrative sections ([E/ICEF/2011/AB/L.3](#), para. 10). **In this connection, the Advisory Committee welcomes the efforts made and progress achieved by UNICEF in the budget harmonization exercise, including the improved alignment between resources and the strategic plan, and the provision of information on expenditures for 2010-2013 for comparison purposes. Furthermore, while recognizing that UNICEF has incorporated the results-based budgeting approach in its integrated budget as approved by its Executive Board, the Advisory Committee, nonetheless, requests that information on major items of expenditure under post and non-post resources be provided to the Committee as supplementary information to future budget proposals in order to facilitate the Committee's consideration and better analysis of the institutional budget.**

### III. Integrated resource plan

5. According to the integrated resource plan summarized in table 1, the total projected resources from the categories of: regular resources, other resources and trust funds for 2014-2017, which include opening balances of \$3,083.7 million, amount to \$26,700.7 million, reflecting an increase of \$6,936.5 million, or 35.1 per cent, compared with the total planned resources of \$19,764.2 million for 2010-2013. For 2014-2017, total regular resources are projected at \$6,198.5 million, reflecting an increase of \$901.4 million, or 17 per cent, compared with \$5,297.1 million for

2010-2013. Other resources are projected at \$12,447.7 million, reflecting an increase of \$2,316.7 million, or 22.9 per cent, compared with \$10,131 million in 2010-2013, and total trust funds are projected at \$8,054.5 million, reflecting an increase of \$3,718.4 million, or 85.8 per cent, compared with the total of \$4,336.1 million for 2010-2013.

6. Income from regular resources, mostly contributions, is estimated at \$5,633 million for 2014-2015, reflecting an increase of \$868.1 million, or 18.2 per cent, compared with \$4,764.9 million for 2010-2013. Income from other resources is estimated at \$10,648 million, reflecting an increase of \$2,257 million, or 26.9 per cent, compared with \$8,391 million for 2010-2013. Trust fund receipts are projected at \$7,432 million, reflecting an increase of \$3,398.9 million, or 84.3 per cent, compared with 2010-2013. As regards the use of resources, the total resources projected for 2014-2017, including trust funds, is \$24,959.3 million, of which \$22,236.6 million will be used for programmes and \$2,094.5 million for the institutional budget.

7. In paragraphs 13-18 of his report, the Executive Director discusses the actual financial performance, supported by graphs and tables in appendix B of the report. The graphs show a steady increase in income and expenditure of \$3,942 million and \$3,866 million respectively in 2012. According to appendix C, the total available resources for 2012-2013 is estimated to be \$10,044 million compared with \$8,859 million planned, while the projected total use of resources for 2012-2013 is estimated to be \$7,583 million, compared with planned use of resources of \$7,029 million. He adds that the variance reflects an increase of \$554 million in programme activities funded by other resources, commensurate with the estimated increases in total other resources contribution income. Total estimated use of resources for the institutional budget is in line with the resource plan.

#### *Introduction of a four-year budget cycle*

8. During its consideration of the Executive Director's proposals, the Advisory Committee was informed, upon enquiry, that a key factor underlying the Executive Board's request for an integrated budget was its wish to consider a funding proposal that encompassed all the cost categories and results of the organization within a single, integrated framework; this is in contrast to the previous practice of submitting an institutional budget proposal that did not have clear linkages to the results presented in the strategic plan and did not provide information on resource allocations for the proposed results. The Committee was further informed that the proposed four-year integrated budget was an integral part of the strategic plan and addressed the Executive Board's request to align the UNICEF integrated budget with the medium-term strategic plan (MTSP), including resource plan, results frameworks and the linking of resources to results. In decision 2012/20, the Executive Board decided that "the resource projections and the integrated budget for all cost categories will cover a four-year period, coinciding with the duration of the MTSP, and that the integrated budget will be reviewed together with the midterm review of the MTSP".

9. In response to the Advisory Committee's concerns with regard to the transition from a biennial budget cycle to a four-year budget cycle, the Deputy Executive Director explained that the four-year budget cycle would not reduce or limit the existing level of consultation with Member States on the budget process. The

Committee was informed that, after approval of the four-year budget, information on the progress towards the achievement of results articulated in the strategic plan would be presented to the Executive Board at its annual session through the annual report of the Executive Director and would be supplemented by summary financial reports. In addition, the Committee was informed that, in compliance with IPSAS, UNICEF would include a statement of comparison of budget and actual amounts in its annual financial statements. Furthermore, the Committee was informed that, together with the midterm review of its four-year strategic plan, UNICEF would review the institutional budget to determine whether any amendment to increase or decrease it was required. In accordance with financial regulation 9.10, any such amendment would be submitted to the Advisory Committee for review before being presented to the UNICEF Executive Board.

10. Upon enquiry as to the feasibility of expenditure planning for a four-year period in a constantly changing operational environment, the Advisory Committee was informed that the resource estimates included in the budget were determined by the results to be achieved according to the strategic plan. In estimating staff costs for 2014-2017, for example, the Committee was informed that UNICEF had used the United Nations currency exchange and post adjustment rates as of 1 May 2013, a vacancy factor of 8 per cent for international professional posts, a vacancy factor of 6 per cent for local posts, a 2 per cent annual within-grade salary increment for international professional posts, as well as a 1 per cent annual within-grade salary increment for local-level posts. The Committee was further informed that, while it was not possible to estimate staff costs in over 140 country offices with full accuracy, the centralized management of the institutional budget allowed for overestimations in some offices to be offset by underestimations in others.

**11. Recognizing inherent uncertainties associated with the resource projections and costing assumptions over a four-year period, the Advisory Committee considers that the midterm review to be conducted in 2015 will be an important opportunity to assess the integrated budget formulation and its implementation, as well as to consider budget estimates for the remainder of the budget period. The Committee, therefore, looks forward to the midterm review of the integrated budget for 2014-2017.**

#### **IV. Institutional budget for 2014-2017**

12. The Advisory Committee notes that, according to the new cost classification, the budget for development effectiveness, United Nations development coordination activities, management activities and special purpose activities is now referred to as the institutional budget. It is based on the results-based budgeting approach and is presented in the new cost classification format, as indicated in paragraph 2 above.

13. The institutional budget for 2014-2017 amounts to \$2,094.5 million, which represents an increase of \$97 million, or 4.8 per cent, compared with the approved institutional budget of \$1,997.5 for 2010-2013. The institutional budget comprises \$1,155.1 million in regular resources, \$116.4 million in other resources and \$823.1 million in cost recovery from other sources. According to the integrated resource plan, the institutional budget for 2014-2017 represents 11.9 per cent of total resources, which is a reduction in the percentage of the total resources, compared to the institutional budget for 2010-2013, which represented 14.1 per cent

of total resources. In table 3 of the Executive Director's report, the net increase of \$97 million in resource requirements between the budget periods 2010-2013 and 2014-2017 has been analysed, by cost category and functional cluster, based on the extent to which the increases or decreases in resource requirements arise because of (a) strategic shifts proposed by management, (b) the revised cost recovery methodology, specifically cost attribution, and (c) cost factors, including inflation.

14. The Advisory Committee welcomes the utilization of charts and tables in the presentation of budgetary information. The Committee is of the view that such tools facilitate a more meaningful analysis of historical trends and future projections, as well as the detailed financial data presented in the budget. The Committee requests that future budget proposals include more detailed information, to facilitate the comparison of actual and projected expenditure.

#### *Proposed staffing changes*

15. In paragraph 92 of his report, the Executive Director indicates that a total of 2,792 posts are proposed for the institutional budget for 2014-2017, representing a decrease of 127 posts when compared to 2,919 posts in 2010-2013. He adds that the decrease comprises net decreases of 7 senior international professional posts (above the P5 level), 24 other international professional posts, 10 national officer posts and 86 general service posts. He explains that the net decrease of 7 senior international professional posts follows from the establishment of 5 new posts, the abolishment of 2 existing posts, the outward transfer of 13 posts from development effectiveness to global and regional programme, and the inward transfer of 3 posts from the Private Fundraising and Partnerships budget to management and development effectiveness categories in the institutional budget. Two of the five new posts are proposed in the functional cluster for corporate external relations and partnerships, communications and resource mobilization, to strengthen strategic engagement with public-sector donors, while the other three are proposed to strengthen the leadership and management structure in the country offices in Lebanon, Syrian Arab Republic and Turkey. **The Advisory Committee takes note of the proposed staffing changes and trusts that care has been taken to ensure that the reduction in posts will not adversely affect programme delivery at country office level.**

#### *Cost Recovery*

16. In paragraph 94 of his report, the Executive Director indicates that the integrated budget for 2014-2017 has been prepared using the revised cost recovery methodology and cost recovery rates approved in Executive Board decision 2013/5. According to the Executive Director, the methodology and rate changes would result in improved proportional use of regular resources and other resources to fund management activities and related costs. Summary details on how the methodology has been applied are provided in table 4 (application of the revised cost recovery methodology) of his report, which shows that 35 per cent of the institutional budget subject to cost recovery will be funded from regular resources. The table also shows a projected effective cost recovery rate of 7.6 per cent for 2014-2017; this represents an increase when compared to the actual rate of 6.6 per cent for 2010-2013, albeit lower than the harmonized rate of 8 per cent. The Executive Director further explains that the application of the revised cost recovery methodology and cost recovery rates will lead to a larger proportion of regular resources being available for programme activities, with the proportion of management and special purpose

costs funded by regular resources projected at 44.8 per cent for 2014-2017, compared to 72.8 per cent for 2010-2013.

**17. The Advisory Committee welcomes the positive trend by which an increasing percentage of the institutional budget is being funded from cost recovery, freeing more resources for allocation to programme activities. The Committee encourages UNICEF, UNDP and UNFPA to continue their efforts to towards harmonization as well as further improvements in the cost recovery methodology.**

## V. Specific comments and observations

### *Implementation of the VISION enterprise resource planning system*

18. The Advisory Committee recalls that UNICEF rolled out its new enterprise resource planning system, VISION, in 2012. Upon enquiry, the Committee was informed that prior to the rollout of VISION, UNICEF had a field-based system (ProMS) that was separate from the system used as headquarters (FLS), with data exchange procedures between the two systems being performed daily. VISION had been designed to address the shortcomings of these systems, with the following key expectations: alignment of business and system processes between headquarters and field offices; establishment of a unified set of real-time management data; achievement of IPSAS compliance in all offices worldwide; simplification of programme planning, with fewer levels of results; a rolling workplan aligned with government planning cycles; a solid foundation for offices processing transactions on behalf of other offices, including emergency response and business continuity; better grant management, with online access to grant information; an integrated warehousing system to monitor inventory; better supply chain monitoring; and a platform for centralized payroll processing for international and local staff. The Committee was informed that the expectations had largely been met and most offices had adapted well, although challenges remained, especially in the smaller offices. The Committee was informed that in order to surmount these challenges, plans were underway for training and further simplification of business processes, including for travel.

**19. The Advisory Committee commends UNICEF for the successful implementation of a fully integrated global resource management system with enhanced performance management capabilities. The Committee urges UNICEF to harness the performance management tools offered by the system in order to achieve a more efficient resource monitoring and reporting. The Advisory Committee trusts UNICEF will document its experience in this regard and share it with other organizations.**

### *Employee benefit liabilities*

20. In paragraph 34 of his report, the Executive Director indicates that, as at 31 December 2012, the actuarial valuation of UNICEF employee benefits liabilities, comprising liabilities from after-service health insurance and end-of-service entitlements, was \$1.1 billion and that the accumulated reserves to fund these liabilities amounted to \$445 million as at that date. In order to cover the unfunded liabilities, the Executive Director indicates that UNICEF has developed a long-term funding strategy, which entails the accumulation of funds drawn from payroll

charges against the budgetary authorities and funding sources with which staff members are associated. Upon enquiry as to whether the value of UNICEF property holdings could be used as a possible funding source for terminal employee benefits instead of tying up valuable cash resources, the Advisory Committee was informed that, while such a proposal could be considered, property holding were of limited liquidity, since they could not easily be converted into cash. **The Advisory Committee encourages UNICEF to continue to explore cost-effective funding mechanisms for its employee benefit liabilities.**

*Holdings of information and communication technology equipment and vehicles*

21. During its consideration of the Executive Director's report, the Advisory Committee was informed, upon enquiry, that according to the UNICEF policy on information and communication technology equipment, computers and laptops were assigned to staff primarily according to their functional requirements. The Committee was also informed that the policy, which is updated annually, provided guidance on information and communication technology equipment and software standards as well as recommended equipment replacement schedules.

22. As for holdings of vehicles, the Advisory Committee was informed that UNICEF did not have a recommended vehicle-to-staff ratio and that regional directors, country representatives or designated officers-in-charge were the only staff to whom a vehicle could be assigned individually for official purposes. In its country offices, the Committee was informed that UNICEF purchased vehicles primarily to support programme activities and that the number of vehicles was dependent on the nature of the country programme. It was explained that the established practice was for the ownership of vehicles purchased to be transferred to a programme-implementing partner. Only under exceptional circumstances, where the implementing partner did not have the capacity to safeguard and maintain the vehicle, would its ownership be retained by UNICEF.

23. **The Advisory Committee requests that UNICEF provide the latest information with respect to the information and communication technology equipment and vehicle allocations as supplementary information to future budget submissions.**

## **VI. Recommendation**

24. **The Advisory Committee recommends the approval of the institutional budget for 2014-2017 of \$2,094.5 million, comprising \$1,155.1 million funding from regular resources, \$823.1 million from cost recovery from other resources and \$116.4 million from other resources.**