FC 128/7

July 2009

E

منظمة الأغذية والزراعة للأمم المتحدة

联合国粮食及农业组织

Food and Agriculture Organization of the United Nations

Organisation des Nations Unies pour l'alimentation et l'agriculture

Продовольственная и сельскохозяйственная организация Объединенных Наций

Organización de las Naciones Unidas para la Agricultura y la Alimentación

FINANCE COMMITTEE

Hundred and Twenty-eighth Session
Rome, 27 – 31 July 2009
Elements of the Root and Branch Review

Queries on the substantive content of this document may be addressed to:

Mr David Benfield

Vice-Chairperson, Reform Support Group

Tel. +3906 5705 4508

W0000

EXECUTIVE SUMMARY

- The Root and Branch Review (RBR) Stage 2 report is a welcome contribution to FAO Reform. As noted in the substantive Management Response issued on 20 May 2009, Management is committed to fully implementing agreed recommendations.
- Planning for implementation of RBR recommendations has been integrated with other Immediate Plan of Action (IPA) activities in the existing IPA projects.
- Subsequent to receipt of the Stage 2 report, meetings have been held with Ernst and Young (E&Y) to clarify some of the RBR recommendations and review the potential costs and savings, and significant adjustments to the costs and savings were made.
- As a result, the net cash savings position changed from USD 37.4 million in 5 years as stated in the RBR Stage 2 report to USD 7.8 million over 7 years. Moreover, it should be emphasized that these cash savings are in addition to the effectiveness improvements that will stem from the implementation of the RBR recommendations. In a number of ways, implementation of the RBR recommendations will provide major operational and service benefits to FAO, helping it to better deliver on its mandate. FAO estimates that the overall split on savings between Regular Programme (RP) and Extra Budgetary Resources (EB) is approximately 63% RP and 37% EB.
- These updates were reported to the Joint Meeting of the Conference Committee on the Follow-up to the Independent External Evaluation of FAO (CoC-IEE) Working Groups I, II, and III on 5 June 2009.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review the update on the RBR.
- The Finance Committee is invited to note that implementation of RBR recommendations will be progressed within the Immediate Plan of Action (IPA) funding, sequencing and reporting framework.

Background

1. Document FC 126/6 – *Elements of the Root and Branch Review* presented initial Management comments on the costs and savings estimates contained in the Root and Branch Review (RBR) Stage 2 report, and indicated that Management would hold further discussions with Ernst and Young (E&Y) to clarify recommendations, and to produce an agreed updated summary of costs and savings. This was reported to the 136th Session of Council in documents CL 136/17 and CL 136/21.

Refining and Actioning RBR recommendations

2. The substantive Management Response was discussed at the meeting on 20 May 2009 of Working Group III of the Conference Committee on the Follow-up to the Independent External Evaluation (CoC-IEE) (http://www.fao.org/uploads/media/RBR%20Management%20Response_1.pdf refers). Management has stated that the RBR Report is a welcome contribution to FAO Reform and has agreed to implement the vast majority of the RBR recommendations. These fall into the major areas of:

a) redesigned Planning and Budgeting Model;
b) definition and implementation of a new role for the Human Resource (HR) function;
c) partnership with other UN agencies for procurement, especially other Rome-based Agencies, subject to agreement also by the other agencies;
d) numerous process improvements in procurement additional to the above;
e) creation of a CIO Division and improved IT governance arrangements;
f) design and implementation of Management Information Systems;
g) upgrading Oracle for staff management and IT infrastructure in Decentralized Offices;
h) improvements in the registry process;
i) consolidation of external and internal printing and distribution;
j) changing the funding model for translation services.

3. The RBR Stage 1 recommendation to establish a regulatory unit will be actioned in the Programme of Work and Budget 2010-11. The Stage 1 recommendation to re-define the role of ODG with regard to administrative activities is being progressed in 2009 through a separate follow-on review by E&Y, which commenced in early July 2009.

4. There are three RBR Stage 2 recommendations which Management considers should not be implemented, or not implemented in full, and E&Y has concurred that further study is required in each case. These are increased outsourcing of translation, travel process improvements, and reductions in numbers of multi-function office printers. These will be progressed by internal reviews which have been included in the work plans of respective units.

5. The RBR recommendations have been reviewed in detail and aligned with applicable IPA projects, and responsibility for implementing each agreed recommendation assigned to the appropriate Project leader. Management considers that this approach of integrating the RBR implementation effort into the IPA structure provides the best mechanism for effective implementation because the RBR recommendations are linked to, and best delivered alongside, existing IPA activities.

6. This implentation approach was reported to and discussed by the Joint Meeting of CoC-IEE Working Groups I, II, and III on 5 June 2009 (http://www.fao.org/uploads/media/FINAL%20CoC-IEE%20report%205%20June.pdf refers). Management will continue to report progress on the new IPA structure, including RBR actions, to

the CoC-IEE Working Groups. In addition, Management will continue to report on financial aspects of the IPA, including RBR actions, to the Finance Committee.

RBR Costs and savings refinements

7. Following the CoC-IEE Working Group III meeting on 20 May 2009, a series of meetings was held with E&Y to clarify some of the recommendations and review estimates of costs and savings.

8. As noted in the Management Response, several of the Stage 1 E&Y recommended initiatives were not further analyzed in Stage 2, and the associated costs and benefits were not included in the report. However, many of these initiatives remain viable and essential for the successful outcome of FAO reform. Examples include upgrading the Oracle system for staff management and IT infrastructure to decentralized offers (one time investment costs of USD 2.8 million) and design and development of the Management Information System (one time investment costs of USD 4.8 million).

9. In addition, some important costs had not been considered in the RBR stage 2 costs summary – for example, staff re-redeployment costs of USD 3.78 million.

10. As a result of these meetings with E&Y, an agreed updated summary of the costs and savings estimates arising from the RBR report was produced. This was evaluated over a seven year timeframe, as agreed by the Finance Committee at its 126th Session. The net cash savings position changed from USD 37.4 million over 5 years as stated in the RBR Stage 2 report, to USD 7.8 million over 7 years.

11. It is noted that the RBR recommendations provide numerous opportunities for FAO to achieve Effectiveness Gains. Indeed, as indicated by E&Y, cash savings represent only one aspect of the RBR impact. In a number of ways, implementation of the RBR recommendations will provide major operational and service benefits to FAO, helping it to better deliver on its mandate.

12. A table of similar format to the summary table on page 10 of the RBR Stage 2 Report appears at Annex 1. The revised table and the estimated costs of implementing the new Planning and Budget model have been reviewed by E&Y who have indicated their concurrance with the figures.

13. Each line item was assessed by FAO in conjunction with E&Y to determine the ratio of Regular Programme (RP) and Extra Budgetary Resources (EB). FAO estimates that the overall split on savings between RP and EB is approximately 63% RP and 37% EB.

Annex 1 – Revised costs and savings 2009-2015

	Stage 2 Costs/Savings 2009 - 2015											
	One off Investment				Recurrent cost				Recurrent Savings			
Workstreams	**2009**	**2010-11 (biennial)**	**2012-13 (biennial)**	**Total**	**2009**	**2010-11 (biennial)**	**2012-13 (biennial)**	**2014-15 (biennial) FC 126/6**	**2009**	**2010-11 (biennial)**	**2012-13 (biennial)**	**2014-15 (biennial) FC 126/6**
Overall Initiatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Finance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Budgeting	**0**	**1,500**	**0**	**1,500**	**0**	**0**	**0**	**0**		**0**	**0**	**0**
Information Technology	**400**	**7,875**	**25**	**8,300**	**0**	**350**	**600**	**600**	**0**	**1,335**	**1,500**	**1,500**
Human Resources	**0**	**270**	**810**	**1,080**	**374**	**2,268**	**2,268**	**2,268**	**0**	**567**	**2,268**	**2,268**
Procurement	**180**	**1,950**	**0**	**2,130**	**550**	**2,730**	**3,130**	**3,130**	**0**	**4,360**	**6,750**	**9,640**
Administrative Services	**360**	**3,390**	**0**	**3,750**	**0**	**160**	**160**	**160**	**95**	**1,980**	**5,280**	**5,780**
Grand Total	**940**	**14,985**	**835**	**16,760**	**924**	**5,508**	**6,158**	**6,158**	**95**	**8,242**	**15,798**	**19,188**

Year 2009	Gross Saving 2009	95
	Net Saving 2009	-1,769
Biennium 2010/11	Gross Saving 2010/11	8,242
	Net Saving 2010/11	-12,251
Biennium 2012/13	Gross Saving 2012/13	15,798
	Net Saving 2012/13	8,805
Biennium 2014/15	Gross Saving 2014/15	19,188
	Net Saving 2014/15	13,030
Period 2009 2015	Gross Saving 2009/15	43,323
	Total of one-off investments	16,760
	Total of recurrent costs	18,748
	Net Saving 2009/15	7,815

Annex 1 – Revised costs and savings 2009-2015 (Continued)

Highlights of Major Cost Elements

Budgeting: One time Investments – designing the new planning and budgeting model will have major investment costs in 2012-13 (circa USD 8.5 million) because the work required for this pre-requires that the International Public Sector Accounting Standards (IPSAS) and other major projects currently in progress (including the implementation of Results-Based Management, replacement of the Field Accounting System (FAS) and development of an integrated globally accessible corporate information) be completed, and such completion is not due until 2012. Thus, although Capital Expenditure Facility cost of USD 1.5 million will occur in PWB 2010-11, the balance of costs will fall outside the period covered by the IPA.

Information Technology: One time Investments – 2009, 2010/11 for design of the MIS (USD 4.8 million) and upgrade Oracle for staff management and IT infrastructure DOs (USD 2.8 million).

Human Resources: One time Investments – 2010/11, 2012/13 (USD 1.08 million) – New role for HR division, injection of professional positions offset by re-deployment of GS staff.

Procurement: One time Investments – 2009, 2010/11 (USD 1.4 million), empowerment of regional and local officers in managing local procurement.

Administrative Services: One time Investments – 2009, 2010/11 (USD 3.6 million), define plan for registry management and the shift to electronic.