
Financing of administrative and management costs

Report by the Secretariat

1. An external review, commissioned by the Programme, Budget and Administration Committee of the Executive Board, was prepared in May 2013, providing detailed analysis of WHO's administrative and management costs, and making recommendations for improvements to budgeting, cost containment and financing.¹ These proposals were further developed, and proposed next steps were outlined to the Executive Board at its 134th session.² This report sets out the recommended way forward for improvements to budgeting, cost containment and financing in the light of guidance received from the Board.³

DEFINITION OF ADMINISTRATION AND MANAGEMENT

2. As recommended in the external review, the starting point for effective budgeting and financing of administrative and management costs is to have a clear definition of what constitutes such costs in WHO.

3. It is suggested that, in future, administrative and management costs should be grouped as set out below.

Infrastructure and administrative support

4. This covers the following:

- **Infrastructure costs:** upkeep of premises, running costs (heating, lighting and other basic services) and maintenance costs. Adequate provision for capital investment also needs to be included.
- **Administrative support costs:** required to run WHO's programmes, including services at country, regional and headquarters levels in support of programme implementation. Such services include: financial, information technology, human resources, security, procurement and transportation.

¹ See documents EBPBAC18/3 and EB133/2.

² See document EB134/11.

³ See the summary records of the Executive Board at its 134th session, sixth meeting (document EB134/2014/REC/2).

5. The majority of these costs are currently included in Category 6 of the Programme budget 2014–2015 (Corporate services/enabling functions). However, some financial and other administrative costs directly attributable to voluntary funded projects and charged to those contributions come under categories 1 to 5.

6. Infrastructure and administrative support costs for the biennium 2014–2015 are estimated to be US\$ 580 million.

Stewardship and governance

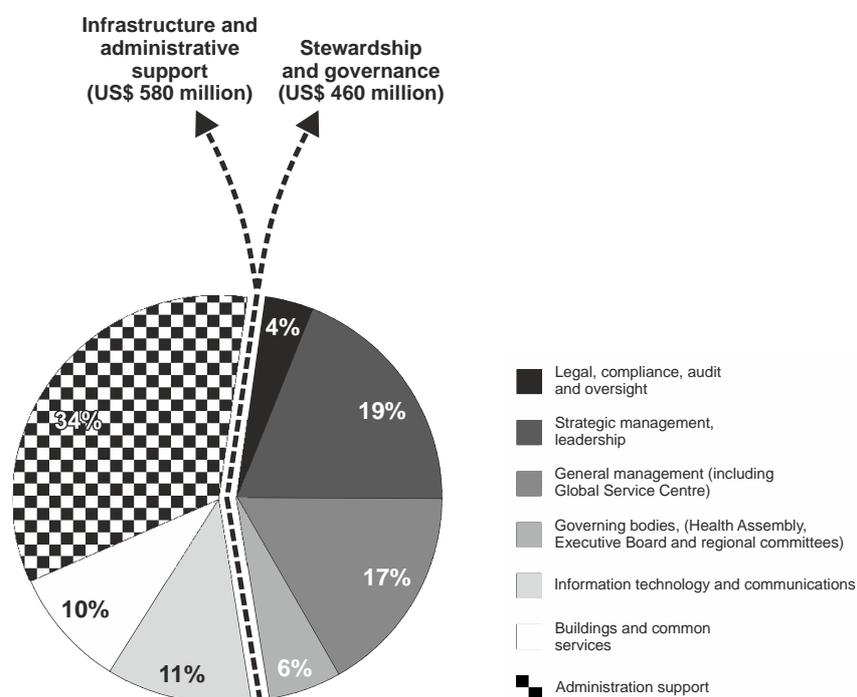
7. This covers the following:

- **Strategic management:** staff and activity costs supporting the Organization’s leadership role at all three levels and including the Director-General, the Deputy Director-General, regional directors, assistant directors-general and heads of WHO country offices, as well as the associated activity costs.
- **General management:** Organization-wide planning, financial and procurement services and human resources management. These services are based primarily at headquarters, for example, preparation of Organization-wide financial statements and setting global human resources policies, and at the Global Service Centre.
- **Governing bodies:** organization of sessions of regional committees, the Executive Board and its Programme, Budget and Administration Committee, and the World Health Assembly, as well as of other intergovernmental meetings (for example, open-ended working groups), covering language and other support requirements (both staff and activities). These services are based at headquarters and in regional offices.
- **Legal, oversight and compliance:** these services are based at headquarters and in regional offices.

8. Stewardship and governance costs currently comprise an estimated US\$ 460 million for the biennium 2014–2015 and are budgeted in Category 6 of the Programme budget.

9. A detailed breakdown of stewardship, governance, infrastructure and administrative support costs is provided below (Figure 1).

Figure 1. Cost breakdown, 2014–2015



BUDGETING OF ADMINISTRATIVE AND MANAGEMENT COSTS

10. The majority of administrative and management costs have been budgeted as a separate category within the Programme budget 2014–2015. The external review highlighted shortcomings in this approach.

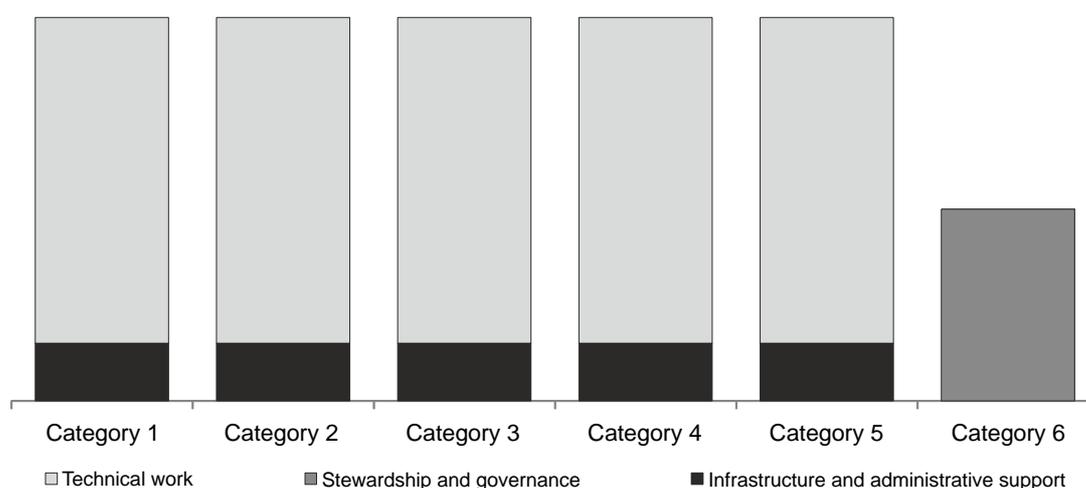
- Establishing a clear link between the achievement of expected results and the associated costs is difficult because budgeting for Category 6 is separate.
- Where administrative and management costs (related to programme management and project implementation, for instance) are included in categories 1 to 5 rather than Category 6, the full cost of administration and management is not clear. This reduces transparency and could hinder the setting of efficiency and cost reduction targets.
- Not all costs within Category 6 are visible because the segment financed by the post occupancy charge¹ is recorded under salary costs across all six categories.

11. In future, starting with preparation of the Programme budget 2016–2017, it is proposed that the following approach is adopted.

¹ The post occupancy charge is a fixed percentage that is added to salary costs and is used to finance some administrative support and infrastructure costs.

- Stewardship and governance costs will be presented as a separate grouping, to demonstrate clearly that they are critical to the functioning of the Organization and are fulfilling constitutional requirements, irrespective of the technical work of the Organization. They represent indirect costs because they cannot easily be attributed to programmes. Transparent descriptions of services will be provided and costs will be clearly established.
- Infrastructure and administrative support will be budgeted under each of the five technical categories but, in the interests of transparency and setting efficiency targets, their total cost will also be identified separately within the budget presentation. Some infrastructure and administrative support costs will be allocated to support stewardship and governance functions (Figure 2).

Figure 2. Budgeting structure for administrative and management costs



FINANCING OF ADMINISTRATIVE AND MANAGEMENT COSTS

12. Administrative and management costs are currently financed from several sources, most notably the programme support cost mechanism and the post occupancy charge. The fact that there are numerous sources of financing creates the following difficulties for the effective and transparent management of the Organization:

- the sustainability of the stewardship and governance functions is dependent in part on voluntary contributions, and such functions may therefore be cut if funding is not forthcoming;
- perceived cross-subsidization: services funded by assessed contributions are supporting activities funded by voluntary contributions;
- perceived lack of transparency: it is difficult to identify clearly the total administrative and management costs incurred in supporting programmes;
- no mechanism for establishing cost–efficiency targets;
- lack of sustainable financing for real estate and other capital investment needs.

13. Following consultations with Member States and other contributors on the financing of administrative and management costs, agreement is emerging on three principles:

- administrative and management costs must be adequately and appropriately financed in order to ensure the effective and sustainable functioning of the Organization;
- costs must be transparent and realistic: the proposed definition of administrative and management costs and the improvements in budgeting will increase transparency;
- the concept of full recovery of costs, including those for administration and management, is acceptable, provided that: (i) it is well explained and reported, and (ii) administration and management budgets are accompanied by clear and measurable efficiency targets.

THE WAY FORWARD AND RECOMMENDATIONS

Preparation of the proposed Programme budget 2016–2017

14. The identification and costing of administrative and management functions using the categories of “infrastructure and administrative support” and “stewardship and governance” as set out above is being included in the process of preparing the proposed Programme budget 2016–2017.

Cost containment

15. During the biennium 2012–2013 the Organization made progress in reducing its administrative and management costs, notably by reducing the number of staff at headquarters, with some functions being relocated to the Global Service Centre and then outsourced to external contractors. Total expenditure under strategic objective 13 (“to develop and sustain WHO as a flexible, learning organization, enabling it to carry out its mandate more efficiently and effectively”) amounted to US\$ 481 million for the biennium 2012–2013, compared with US\$ 540 million for the biennium 2010–2011 (a saving of US\$ 59 million).

16. The future financing of administrative and management costs can be considered in both short- and long-term perspectives. It is proposed that for the biennium 2016–2017 the stewardship and governance costs will be financed from assessed contributions, while infrastructure and administrative support costs will be financed through cost-recovery mechanisms. Stewardship and governance functions represent the backbone of the Organization’s management, governance and legal structure, as determined by WHO’s Constitution. Costs are fixed and indirect, and cannot be readily attributed to programmes.

17. It is proposed that infrastructure and administrative support costs will be financed as follows:

- through direct charges to programmes, regardless of the source of funding (voluntary or assessed contributions). The budgeting of contributors’ proposals will be improved to ensure that all such direct costs are included;
- indirect costs will continue to be financed from the programme support costs mechanism and the post occupancy charge, which will be implemented with greater transparency:

- the Organization will prepare separate programme support cost and post occupancy charge budgets for the biennium 2016–2017, in which it will outline the services that are expected to be financed from each; this will include provision for transfers to the Real Estate Fund, to ensure the adequacy of long-term capital financing;
- consideration will be given to applying different programme support cost rates, reflecting the level of complexity of the work and the earmarking of funds. Funds that are not earmarked could be exempt from programme support costs.

18. The longer-term strategy for budgeting and financing of administrative and management costs needs to be incorporated into an overall financial strategy for the Organization, covering the following components:

- budgeting (including strategic resource allocation)
- costing (and promoting efficiency)
- mobilizing and tracking resources
- managing resources

19. Initiatives on these four components are under way as part of WHO reform, but it is proposed to bring them together in a report on an overall financial strategy to be presented to the Executive Board at its 136th session, in January 2015. The longer-term reform of the financing of administrative and management costs should therefore be seen as closely linked to WHO's overall financing reforms.

ACTION BY THE HEALTH ASSEMBLY

20. The Health Assembly is invited to note the report and provide guidance on the recommended approaches for defining, budgeting and financing administrative and management costs.

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