Operational Instruction Ref. OI.FG.2018.01
Budgeting and Internal Investment Management

Authority:

This Operational Instruction (OI) is promulgated by the Chief Financial Officer, Finance Group under Operational Directive Ref. OD.FG.2018.01 – Finance and Asset Management.

Purpose:

The purpose of this OI is to provide instructions regarding UNOPS budgeting and internal investment management rules. The specific processes describing in detail how to manage UNOPS budgets and internal investments shall be included in the Processes and Quality Management System (PQMS).

Effective Date:

This OI shall become effective immediately .

Promulgation Date:

15 Mar 2018

[signature redacted]

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1. Introduction

1.1 This OI covers all UNOPS budgets, including but not limited to budgets set up for administering partner funds following entry into a partner agreement, and budgets set up for administering UNOPS own funds.

1.2 As outlined in OD.FG.2018.01: Finance and Asset Management, all UNOPS budgets are to be managed on basis of full cost recovery, and linked to clear objectives.

1.3 Budgets should be issued for organizational structure(s) responsible for achieving the objectives, and budget revisions can be made to support operations and corporate priorities.

1.4 The purpose of this OI is to provide instructions on budgeting and internal investment management. The components in this OI shall be further defined, when relevant, through process maps and mandatory procedures, in the Process and Quality Management System (PQMS).

1.5 Where matters arise that do not fall under one of these elements, the Chief Financial Officer (CFO), shall provide written ad-hoc guidance, as required. The CFO may develop and update appropriate processes and mandatory procedures in the PQMS where general additional guidance is required, and may update this OI, accordingly. Ad-hoc guidance shall be logged for regular evaluation in order to ensure that the processes and mandatory procedures in the PQMS are up to date and continue to serve the purpose of the organization.

1.6 Exceptions to this OI and processes and procedures as detailed in the PQMS shall be approved by the CFO. Such exceptions shall be logged for regular evaluation to ensure that information in this OI as well as the processes and mandatory procedures in the PQMS continue to be fit for purpose.

2. Definitions of UNOPS budgets and their intended use

2.1 UNOPS issues budgets based on the funding source and the recovery mechanism. Budgets are always issued for business units responsible for achieving the objectives, with the principle of full cost recovery.

Management expense budgets

2.2 Management expense budgets are funded through the management fee recovered from client projects. Management expense budgets are issued using designated donor code 9001 and fund activities related to policy setting, strategy, oversight, representation, excellence, business development, and justified and reasonable personnel welfare. Budget balances and committed funds cannot be carried over to the next budget period. Budget performance in terms of management expense budgets is measured comparing budget and expense, and Business Units exceeding their management expense budget allotment must provide justification, and the over expenditure approved by the Executive Director.

Direct cost of shared services budget

2.3 *Centrally Managed Direct Cost (CMDC)* are recovered from all UNOPS projects, including but not limited to, client projects and administrative projects. CMDC budgets are issued using designated donor code 9002 and fund global shared services to UNOPS organization and client projects. The CFO is accountable for budget performance, which is measured comparing budget, expense and recovery. UNOPS CMDC recovery is expected to break even on an annual basis, and carry-over of any cost recovery balances between budget years is subject to review and approval by the CFO. Budget balances and committed funds may not be carried over to the next budget period.

2.4 *Locally Managed Direct Cost (LMDC) budgets* are funded through client projects, and the authority to incur expenditure on LMDC budgets is linked to actual budget agreed with partners and is legally documented in signed engagement agreements. LMDC budgets are issued using designated donor code 9004 and fund activities providing local shared services to locally implemented client projects or to local administrative projects (e.g. financial, ICT and HR management services). Cost are attributed and recovered as per agreement with the partner. The managers of regional entities are accountable for budget performance, which is measured comparing expense and recovery. Authorized spending limit is used during the budget period to limit ability to incur expense beyond LMDC budgets supported by legally documented engagements. LMDC recovery is expected to break-even during budget period, and the carry-over of any cost recovery balances between budget periods is subject to review and approval by the CFO. Budget balances and committed funds may not be carried over to the next budget period.

2.5 *Regionally Managed Direct Cost (RMDC) budgets* are otherwise similar to LMDC budgets, but services are performed at a regional level, and costs are attributed to all client projects within the region. RMDC budgets are issued using donor code 9003. The regional director is accountable for budget performance. RMDC recovery is expected to break-even during budget period, and the carry-over of any cost recovery balances between budget periods is subject to review and approval by the CFO. Budget balances and committed funds may not be carried over to the next budget period.

Cost recovery budgets

2.6. *Cost recovery budgets* can be funded through UNOPS administrative projects or by parties external to UNOPS. Cost recovery budgets that are fully or partially funded by parties external to UNOPS and must be substantiated by legally documented and signed agreement. Cost recovery budgets are issued using donor code 9004 (LMDC – cost recovery) or 9008 (Pooled admin resources) for budgets to be recovered from internal clients, and using donor code 9006 (cost recovery – reserve) or donor code 9007 (cost recovery – deferred revenue) for cost recovery projects to be recovered from parties external to UNOPS. Budget performance is measured comparing budget, expense and recovery, and is expected to break-even during budget period. The carry-over of any cost recovery balances between budget periods is subject to review and approval by the CFO. Budget balances and committed funds may not be carried over to the next budget period.

Special administrative budgets

2.7. *Special administrative budgets* can be set up as approved by the CFO, and they can be funded by special financial accounts such as provisions included in UNOPS balance sheet, interest earned from working capital that cannot be attributed to client projects. Special administrative budgets must be issued using donor codes that are clearly distinguished from other designated donor codes, with donor code 9999 always being used for projects implemented against provisions and donor code 9009 always being used for projects funded through interest earned from working capital. Special administrative budgets are issued and reviewed for a budget period. Nature of budget performance management and budget carry-over are decided on a case by case basis by the CFO.

Investment budgets

2.8. *Investment budgets* are a specific category of management expense budgets that are also funded through management fee recovered from client projects. Investment budgets are issued using donor code 9005 and fund activities related to UNOPS internal investments. Investment budgets may be issued at any time and for any period. Budget performance is measured comparing budget and expense, and budget balances may be carried over as approved by the CFO based the evaluation of the investment performance based on criteria set forth in UNOPS internal investment principles.

Engagement and project budgets

2.9 *Engagement and project budgets* are issued based on signed engagement agreements. Engagement and project budgets are issued using the donor code assigned to the partner(s) funding activities set forth in the engagement agreement. Engagement and project budgets are issued for the period and to budget accounts stipulated in the engagement agreement. Budget performance is measured by UNOPS and the client jointly based on the engagement agreement.

3. Establishment and approval of UNOPS biennial management budget (UNOPS Budget Estimates)

3.1 The UNOPS' proposed biennial management budget, together with the ACABQ (Advisory Committee on Administrative and Budgetary Questions) report thereon, shall be considered for approval by the Executive Board in September before the first year of the budget period commences. The budget period refers to two consecutive calendar years, the first of which shall be an even numbered year. The biennial management budget covers UNOPS activities funded from the UNOPS Account.

3.2 For each budget period, the UNOPS biennial management budget shall be established within the parameters established by the Executive Director; the CFO shall develop the budget proposals in consultation with the heads of UNOPS business units; and the Executive Director shall approve the final management budget to be submitted to the Executive Board.

3.3 The proposed management budget shall comprise:

a. An executive summary, providing an overview and the strategy adopted;

b. The work plan of the organization, covering estimates of resources to be administered by UNOPS and the proposed use of such resources;

c. Relevant tables, figures and explanatory statements on budget estimates, revenue targets and posts. For purposes of comparison, figures for the approved management budget of the preceding budget period shall be included beside the estimates for the proposed management budget;

d. The proposed decision by the Executive Board; and

e. Such other details as the Executive Board or ACABQ may prescribe.

3.4 Revenue estimates must take into account all expected management fees from projects, any other revenue already earned or likely to be earned, and relevant statistical trends for acquisition of new projects or means of earning other revenue during the budget period to which any resulting revenue would be applied.

3.5 The proposed management budget shall contain provision for the refund to relevant employees, as may be the case, of income taxes levied on them in respect of earnings derived from employment with UNOPS.

4. Approval and management of UNOPS budget allotments

4.1 Management expense budgets

a. The heads of UNOPS business units shall submit their management expense budget proposals to the CFO in such detail and at such times as shall be stipulated from time to time by the Executive Director.

b. The CFO will review the management expense budget proposals against the biennial budget estimates approved by the Executive Board.

c. Allotments consistent with the approved management budget shall be issued to each business unit for the accounts under its control, together with a personnel table indicating the number and level of approved positions, both staff and individual contractors. The verifying officer for each business unit shall be responsible for ensuring that costs do not exceed the authorized spending limit.

d. The CFO shall assess actual revenue against projected revenue on a regular basis during the financial period to determine whether adjustments to the estimates are necessary and whether any such adjustments would create a net deficit in the approved management budget.

e. The CFO shall ensure that all UNOPS business units undergo a regular budget review exercise.

f. In case that the issued budget allotments or the actual expense lead to decrease in UNOPS net revenue target compared to the one approved by the Executive Board, UNOPS will request for post facto approval by the Executive Board in connection of presenting its annual statement to the Executive Board.

4.2 Direct cost of shared services budgets (CMDC, LMDC, RMDC)

a. The heads of UNOPS business units shall submit their CMDC, LMDC, and RMDC budget proposals to the CFO in such detail and at such times as shall be stipulated from time to time by the CFO.

b. Allotments consistent with the approved CMDC, LMDC, and RMDC budgets shall be issued to each business unit for the accounts under its control, and the allotments should be supported by projected CMDC, LMDC, and RMDC revenue.

c. The verifying officer for each business unit shall be responsible for ensuring that the costs to do not exceed the cost recovery from the related cost drivers.

4.3 Cost recovery budgets

a. The heads of UNOPS business units shall submit their cost recovery budget proposals to the CFO in such detail and at such times as shall be stipulated from time to time by the CFO.

b. Allotments consistent with the approved cost recovery budgets shall be issued to each business unit for the accounts under its control, and the allotments should be supported by documented cost recovery revenue projections.

c. The verifying officer for each business unit shall be responsible for ensuring that the costs to do not exceed the cost recovery.

4.4 Special administrative budgets

a. The heads of UNOPS business units shall submit their special administrative budget proposals to the CFO in such detail and at such times as shall be stipulated from time to time by the Executive Director.

b. Allotments consistent with the approved special administrative budgets shall be issued to each business unit for the accounts under its control, and the allotments should be supported by relevant documentation, such as approved provision for write-off and related work plan and budget, justification for UNOPS to fund structures with other costs than direct and indirect project cost, or similar.

c. The verifying officer for each business unit shall be responsible for ensuring that the costs to do not exceed the budget.

5. Approval and management of UNOPS internal investment funding

5.1 UNOPS internal investment taxonomy

a. For each budget period, CFO announces to the heads of UNOPS business units a taxonomy based on which internal investment will be allocated. The taxonomy may be updated from time to time to align with the business needs.

b. The investment taxonomy shall include the description of each investment category as well as the related criteria for evaluation and performance management.

5.2 The approval process shall be announced by the CFO, and shall be linked to UNOPS investment taxonomy, the size of the investment budget requested, and the scope of the organizational impact.

6. Approval and management of UNOPS engagement and project budgets

6.1 Engagement and project budgets shall be managed in accordance with the terms of the engagement agreement.

6.2 Unless otherwise stipulated in the project agreement, the costs in any given financial period may exceed an approved project budget, provided that the total amount made available by the funding source in accordance with the project agreement is not exceeded.

7. Approval and management of UNOPS personnel table

7.1 Changes to UNOPS personnel table for fully or partially management expense funded staff and international individual contractor (IICA) positions are subject to review by the CFO and the approval by the Executive Director. Review and approval of such changes takes place during the budget review, and includes approval of share of positions' cost charged to management expense budget.

7.2 Business units may during the year, before the next scheduled budget review, seek the Executive Director's approval for changes to the approved personnel table, including changes to the share of cost charged to management expense budget. Such approvals shall be documented by the business unit and presented during the next budget review.

7.3 Personnel tables for management expense funded local individual contractor (LICA) positions, interns, and retainers, as well as all positions funded by budgets other than management expense are subject to approvals in line with the policies and processes for Human Resources Management.

8. System set-up of UNOPS budgets

8.1 Budget centre management

a. Authority to request changes to organizational structures and related budget centres is outlined in EOI.ED.2018.01: Organizational Structure. Budgets are set up against the approved budget centre structure that is reviewed regularly.

b. While the Executive Office is responsible for the overall organizational structure, the CFO is responsible for the management of the system set-up of the approved budget centre structure.

8.2 Administrative project set-up and management

a. System set-up, amendment and closure of administrative projects is managed by the Finance Group. Business units may request changes to administrative projects under its management during the budget review. At other times changes may be requested under exceptional circumstances.

b. System set-up of administrative projects should be consistent, support business needs and financial reporting requirements. The Finance Group provides guidance on a need basis to support design of administrative project structure related to budget centers.

c. Administrative projects may include work packages funded by different fund codes, with the exceptions of investment budget funded projects, LMDC budget funded projects, and special administrative budget funded projects.

d. The budgets should be set up using the prevailing budget account categories.

8.3 Engagement and project set-up and management

i. Engagement and project set-up is managed in accordance with the OI on Engagement Financial Management and Reporting to be promulgated.

9. Budget revisions

9.1 UNOPS biennial management budget (UNOPS budget estimates)

a. The Executive Director shall decide whether or not a supplementary management budget proposal should be submitted to the Executive Board during the budget period.

b. Supplementary proposals to amend the management budget may be submitted if inflation estimates, currency fluctuations, or other cost factors are likely to have a significant effect on approved appropriations;

9.2 Budget allotments for management expense, CMDC, LMDC, RMDC, cost recovery budgets and special administrative budgets

a. Heads of business units may request revisions to budget allotment based on a detailed justification for the required change(s). CFO will review the requests and present to the Executive Director for final decision.

b. Budget revisions between budget accounts within the approved budget allotment are subject to review and an approval by the CFO, when the budget revision is requested to move funds between approved personnel and non-personnel budget accounts.

9.3 Internal investment budgets

a. Revisions to approved internal investment budgets are subject to a progress review by the CFO

9.4 Engagement and project budgets

a. Unless otherwise agreed, the approval of the funding source shall be required for the original project budget and all subsequent budget revisions, except those which do not change total budgeted amounts. Whenever a project budget ceases to reflect actual circumstances or the most recent estimates in any significant respect, it shall be revised accordingly.

10. Budget controls and controlling

10.1. The CFO is responsible for ensuring that the authorized spending limits remain within the approved appropriations of the UNOPS biennial management budget, and that the budget allotments are not exceeded by the Business Units.

10.2. Authorization by the ~~Deputy Executive Director~~ Chief Financial Officer/Director of Administration, [REV. 05.05.2020] to expend biennial management budget appropriations may take the form of: (i) An authorized spending limit or other authorization to commit funds for a specific period and/or a specific purpose; and/or (ii) An authorization for the employment of personnel.

10.3. Heads of Business Units are responsible for ensuring that the allotments for budgets under their control are not exceeded. Further, heads of business units are responsible for ensuring that any costs, including costs moved between budgets through GLJE, attributed to the budgets under their control meet the criteria set for activities that can be funded by the various budgets and fund codes.