



Report to the GAVI Alliance Board

16-17 November 2011

Subject:	2012 Business Plan Budget
Report of:	Barry Greene, MD, Finance and Operations
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Agenda item:	15
Category:	For Decision
Strategic goal:	Alliance operations

Section A: Overview

1. Purpose of the report

- 1.1 This paper presents the Budget for implementation of the GAVI Business Plan in 2012.
- 1.2 A two-year Business Plan budget was approved by the Board in November 2010, with the second year (2012) approved in principle at the same amount as for 2011, pending the development of a detailed budget for 2012.
- 1.3 The Business Plan has now been updated for activities to be undertaken in 2012, in consultation with Partners. The high level changes proposed in the 2012 Business Plan were presented to the Programme and Policy Committee (PPC) in September 2011 and are outlined in the GAVI Business Plan 2012 paper (document 03a). The Audit and Finance Committee considered this budget in its meetings on 28 October and 3 November, in the light of input from the PPC.

2. Recommendations

- 2.1 The Audit and Finance Committee recommends to the Board that it approves the 2012 Business Plan Budget in the amount of US\$ 160.5 million and the constituent capital expenditure budget of US\$ 4.3 million.

3. Executive summary

- 3.1 Following the success in mobilising resources for immunisation, GAVI is embarking on a step-change in programme activity in response to country demand. Annual programmatic expenditure is expected to be more than double the 2010 level by 2012, growing from US\$ 0.6 billion in 2010 to US\$

1.4 billion in 2012 before reaching an annual average of US\$ 1.5 billion in the years through 2020. This comes at a time of increased stakeholder focus on 'return on investment' and donor budgetary constraints.

- 3.2 Against that background, the GAVI Secretariat and Partners have updated the Business Plan for 2012. The Plan implements the Board-approved GAVI Alliance Strategy for 2011-2015. The budget for implementing the Plan in 2012 is outlined herein. The Business Plan Budget includes both Programme Implementation activities, and overhead and support activities ('Mission Support'). While increasing in absolute terms, the rate of Business Plan Budget increase is far less than the growth in programme expenditure. The Business Plan Budget equated to 17% of total expenditure in 2010; with the budget proposed for 2012, the corresponding percentage declines to 10%.
- 3.3 The budget is focused on enabling additional activity central to vaccine delivery, including a more customised country-by-country approach, quality and timeliness of data and monitoring, and shaping vaccine markets.

4. Context

- 4.1 The 2012 Business Plan and associated budget respond to a scaling-up of activity to meet the demonstrated increase in country demand for which GAVI now has the resources to respond. This will bring about a step change in the scale of programme activity, with programme expenditure reaching more than double the 2010 level by 2012.
- 4.2 The Business Plan takes account of an evolving environment in which stakeholders place increasing emphasis on accountability, results and value for money in the use the resources provided, including through the management of the associated risks.
- 4.3 Against that background, increased activity in 2012 is concentrated on the following priority areas:
- (a) Launching and delivering more vaccines and ensuring delivery capacity in country, requiring a more customised approach to individual country circumstances;
 - (b) Strengthening data quality and timeliness so that we can confidently measure and track results;
 - (c) Strengthening market intelligence and shaping vaccine markets; and
 - (d) Enhancing fiduciary control
- 4.4 The newly appointed CEO joined GAVI while the process to update the Business Plan and Budget for 2012 was already in progress and hence had limited input to that process. Accordingly, the CEO will adjust the distribution of the Secretariat budget in the course of 2012 in order to best support the priority areas, in light of ongoing review and evolving needs.

5. Next steps

5.1 Implementation of 2012 business plan activities.

6. Conclusions

N/A

Section B: Implications

7. Impact on countries

7.1 The budget will enable the Secretariat and Alliance partners to implement the strategic goals and objectives endorsed by the Board towards meeting country demand for GAVI supported vaccines.

8. Impact on GAVI Stakeholders

8.1 As per 7.1

9. Impact on the Business Plan / Budget / Programme Financing

9.1 The 2012 Business Plan Budget proposed herein would replace the budget that was provisionally approved for 2012 in November 2010.

10. Risk implications and mitigations

10.1 The budget provides for significant strengthening of Secretariat capacity to better manage programme-related risks. The need for such strengthening has been recognised by the Board.

11. Legal or governance implications

11.1 This paper supports the key governance function of budget approval.

12. Consultation

12.1 In arriving at the budget proposed herein:

- (a) The GAVI Secretariat organised workshops for each strategic goal with the institutions funded through the business plan to coordinate the changes in the 2012 business plan;
- (b) The high level changes proposed in the 2012 Business Plan were presented to the PPC in September 2011. The PPC provided further input and guidance during a meeting on 2 November;
- (c) Partner budgets were provided to the Secretariat by each Alliance partner for which Business Plan activities are funded by GAVI, and finalised in consultation with the Secretariat;
- (d) The Secretariat budget was developed under the oversight and guidance of the Managing Director responsible for each department, and was further refined and modified based on review by the Executive Team and as directed by the CEO and Deputy CEO; and
- (e) The Audit and Finance Committee reviewed the financial implications of the budget during its meetings on 28 October and 3 November, and the PPC also considered the budget at its meeting on 2 November. The AFC review was informed by input from the PPC, and the PPC Chair attended both these AFC meetings. At the latter meeting, the AFC decided to recommend this budget for approval.

13. Gender implications / issues

13.1 N/A

14. Implications for the Secretariat

14.1 The Budget will enable the Secretariat (and Partners) to implement the Business Plan in 2012, through Programme Implementation and Mission Support activities.

Note In tables throughout this paper that include rounded numbers, the constituent numbers may not sum to the total because of rounding.

Section C: The 2012 Budget

15. Background

15.1 Following Board approval in June 2010 of the GAVI Alliance Strategy for 2011-2015, the Secretariat in conjunction with Alliance partners developed an integrated Business Plan for 2011-2012 which was approved by the Board in November 2010. At that time, a budget for implementation of the Business

Plan in 2011 was approved in the amount of US\$ 126 million, and a similar budget amount was approved in principle for 2012, pending development during 2011 of a detailed budget request for 2012. The budget component for the Secretariat was held flat at the 2010 budget level.

- 15.2 The Business Plan has now been updated for 2012 and budget estimates for its implementation in 2012 have been developed. The steps followed by Alliance partners and the Secretariat to update the Business Plan and the resultant changes to activities to be undertaken in 2012 are described in the paper "GAVI Business Plan 2012". The budgetary needs to implement the 2012 activities are described herein.
- 15.3 Significant factors that underlie the increase in the 2012 budget are:
- (a) The appreciation of the Swiss franc – the currency in which much of GAVI's Secretariat costs are incurred – adds about 13% to the 2011 Secretariat budget amount when expressed in US dollars. To reduce the impact of exchange rate fluctuations in the course of 2012, the major part of Secretariat Swiss franc expenditures have been hedged and this is reflected in the budget amounts. This has also impacted Partners' costs, to varying degrees. Overall, Swiss franc appreciation adds about 7% to the 2011 budget amount (Secretariat and Partners).
 - (b) The need to strengthen capacity in response to increased activity, as mentioned at 4.3.
 - (c) The bi-annual Partners' Forum that will take place in 2012 (and was last held in 2010).

16. A step-change in activity

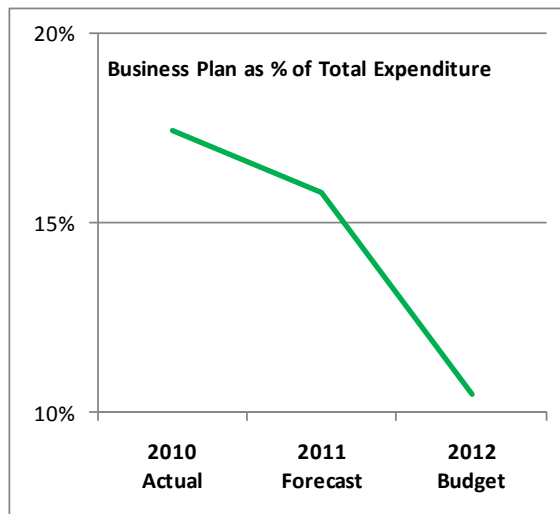
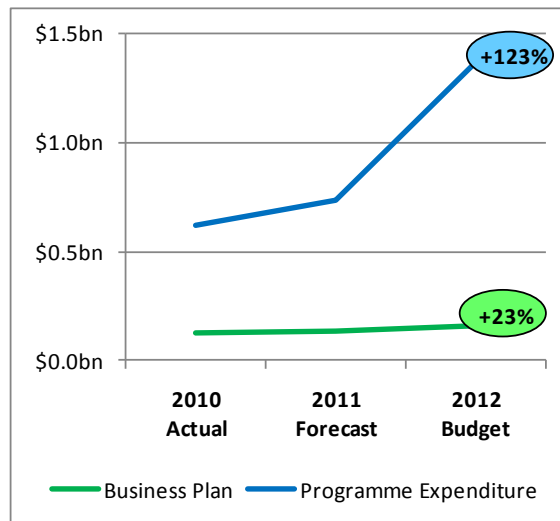
- 16.1 Programmatic activity is expected to grow from a level of US\$ 0.6 billion in 2010 to an average of US\$ 1.5 billion per year in 2012 to 2016. This reflects the Alliance's ability to meet growth in country demand following the London Pledging Conference, and the increased demand already demonstrated by new funding proposals approved in October 2011.
- 16.2 The major step-change will already occur in 2012, when programme expenditure is expected to have grown to US\$ 1.4 billion – more than twice the 2010 level.
- 16.3 As the Director of Internal Audit recommended to the Board at its meeting in July 2011, Secretariat capacity needs to be strengthened to better manage the risks associated with cash-based programmes. The Board acknowledged this need. Programme-related risks are also inherent in vaccine programmes.
- 16.4 It will be important that Business Plan activities support the growth in programmatic activity at an appropriate level that balances efficiency and risk. The budget proposed for 2012 shows 23% growth on the 2010 actual costs,

while programme expenditure will more than double in the same two years (see Figure1).

- 16.5 Although increasing in absolute amounts, Business Plan costs represent a declining percentage of total expenditure, reducing from 17% in 2010 to 10% in 2012; despite the increase due to exchange rates (see Figure1).

Figure 1: Growth in expenditures from 2010 to 2012

US\$ million	2010	2011	2012	Increase on 2010
	Actual	Forecast	Budget	
Business Plan	130	138	160	+23%
Programme Expenditure	616	734	1,372	+123%
Total Expenditure	746	871	1,532	
<i>Business Plan as % of Total</i>	17%	16%	10%	



Comparison with 2011 Budget

16.6 The Business Plan budget (covering both the Secretariat and Partners) of US\$ 160.5 million proposed for 2012 reflects a US\$ 34.6 million (27%) increase on the 2011 budget (see Figure 2). This includes a provision for 36 additional staff (of which 35 in the Secretariat) to strengthen programme implementation activities¹, and for other costs.

Figure 2: Budget 2012 compared with Budget 2011

US\$ million	2011 Budget			2012 Budget			Change from 2011 to 2012		
	GAVI Secr.	Partners	Total	GAVI Secr.	Partners	Total	GAVI Secr.	Partners	Total
Programme Implementation	28.9	71.3	100.2	43.7	81.7	125.4	14.9	10.4	25.2
Mission Support	27.2		27.2	33.2		33.2	6.0		6.0
Management adjustment	-1.5		-1.5	-0.5		-0.5	1.0		1.0
<i>Sub-Total</i>	54.6			76.4		158.1	21.8		32.2
Partners' Forum				2.4		2.4	2.4		2.4
Total (\$m)	54.6	71.3	125.9	78.8	81.7	160.5	24.2	10.4	34.6
							44%	15%	27%

Staffing - number of positions

Programme Implementation	85.5	124	210	122.6	125	247	37.1	0.4	38
Mission Support	66		66	64		64	(1.6)		(1.6)
Total (staff positions)	151.5	124	276	187.0	125	312	35.5	0.4	+36

Note: Partner staff numbers refer to WHO, UNICEF Programme Division and AVI TAC

16.7 Approximately one quarter of the increase over the 2011 budget is due to the impact of exchange rates² (as mentioned in 15.3(a)). Upon adjusting the 2011 budget level for this, the 'real' increase in 2012 is 18% for Business Plan activities plus 2% for the bi-annual Partners' Forum (see Figure 3).

¹ The budget reflects a zero net change in the number of staff positions for Mission Support activities at the Secretariat (reflecting some offsetting increases and decreases at team level).

² The impact of exchange rate movements impacting the Secretariat budget for 2011 has been estimated at US\$ 7.3 million. Partners have not precisely identified an amount for this factor. As Partners have less exposure to Swiss franc costs than the Secretariat, an addition of US\$ 1 million is made to allow the impact on Partners' costs for the purpose of this computation.

Figure 3: Impact of exchange rates

<u>Secretariat & Partners</u>	US\$ million		<u>After exchange rate adjustment</u>
2011 Budget	125.9	100%	
Exchange rate impact	8.3	7%	
2011 level, adjusted for exchange rates	134.2	107%	100%
Activity increases	23.9	19%	18%
2012 Budget, before Partners' Forum	158.1	126%	118%
Partners' Forum	2.4	2%	2%
2012 Budget	160.5	127%	120%

17. Strengthening priority areas

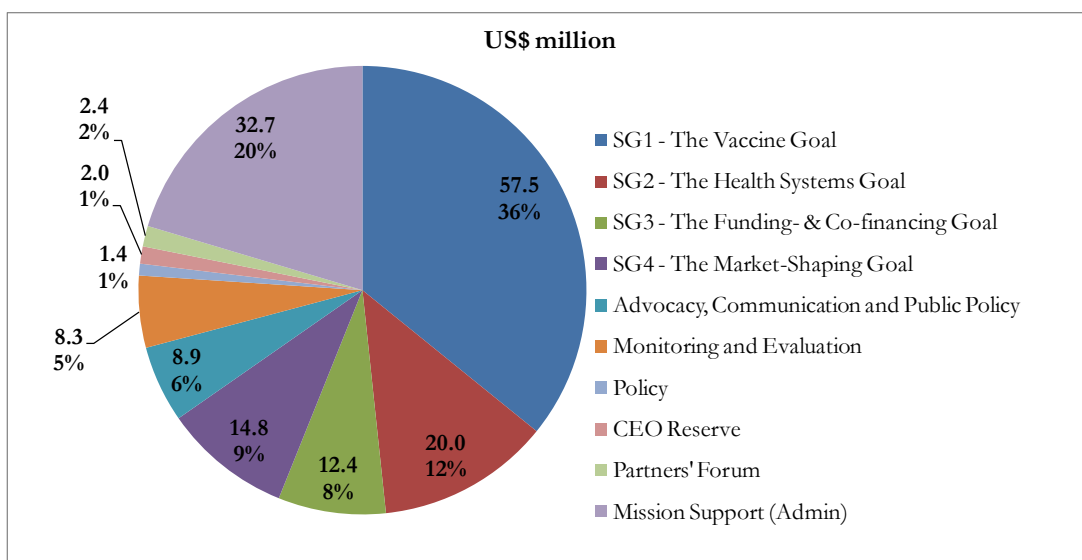
17.1 Figures 4 & 5 illustrate the distribution of the 2012 budget, of which 78% is directed to programme implementation activities.

17.2 The budget includes US\$ 2 million (1%) for a “CEO Reserve” to provide an envelope that may be allocated by the CEO to further strengthen capacity and skills focused on programme implementation activities. This envelope would enable the CEO to determine what additional effort should be directed to specific activities, in the light of ongoing review and as circumstances evolve in the course of 2012. Given that the CEO has been in office for less than three months prior to compilation of these budget estimates, such capacity is of particular importance.

Figure 4: Distribution of budget by Strategic Goal

US\$ thousands	Budget 2011		Budget 2012		Increase
By Strategic Goal:					
SG1 - Vaccine Goal	46,019	37%	57,525	36%	11,505
SG2 - Health Systems Goal	15,201	12%	20,035	12%	4,835
SG3 - Funding-/Co-financing Goal	10,382	8%	12,429	8%	2,047
SG4 - Market-shaping Goal	3,010	2%	4,608	3%	1,598
SG4 - Procurement Fees	12,245	10%	10,200	6%	-2,045
Advocacy, Communication & Public Policy	9,075	7%	8,906	6%	-170
Monitoring and Evaluation	4,254	3%	8,340	5%	4,086
Policy			1,363	1%	1,363
CEO Reserve			2,000	1%	2,000
Programme Implementation	100,186	80%	125,405	78%	25,219
Mission Support	27,156	22%	33,188	21%	6,032
Partners' Forum			2,389	1%	2,389
Management adjustment	-1,450	-1%	-500	0%	950
TOTAL	125,892	100%	160,481	100%	34,590

Figure 5: Business Plan 2012 by Strategic Goal & Cross Cutting Activities



18. Budget distribution by implementer

18.1 Figure 6 illustrates the distribution of the 2012 budget by implementing agency. The Secretariat budget is further outlined in section 20.

Figure 6: Distribution of budget by Implementer

US\$ thousands	Budget 2011		Budget 2012		Increase
By Institution:					
Secretariat	54,586	43%	78,808	49%	24,221
Partners:					
WHO	44,076	35%	50,319	31%	6,243
UNICEF	18,406	15%	16,606	10%	-1,800
PATH AVI TAC	7,772	6%	7,855	5%	82
PATH AVI TAC - extension*			1,604	1%	1,604
ADIPs - PATH & JHU - extension*			4,508	3%	4,508
PAHO	245	0%			-245
Catholic Relief Services	806	1%	783	0.5%	-23
Total	125,892	100%	160,481	100%	34,590

*Extension of time to complete activities included in budgets prior to 2011

18.2 Significant changes in the 2012 budget for partners, compared to 2011, are:

- (a) WHO: Of the US\$ 6.2 million increase, US\$ 2.4 million is linked to staff cost increases, including the impact of exchange rates. The rest of the increase relates mainly to additional activity (with the support of external consultants) related to vaccine introductions (US\$ 1.2 million), support for

the new Health Systems Funding Platform (US\$ 1 million) and new activities related to market shaping (US\$ 1 million). Further details are provided in the Business Plan paper.

- (b) UNICEF: The net reduction of US\$ 1.8 million arises from an overestimation by GAVI in the 2011 budget for procurement fees to UNICEF Supply Division (based on when those fees would arise). UNICEF Programme Division will maintain a flat budget in 2012 as they intend to scale-up their own resourcing to support immunisation activities.
- (c) Extensions of the time to complete activities that were included in approved budgets for years prior to 2011, and which will now be completed in 2011 and 2012.

19. Secretariat Budget

19.1 Figure 7 summarises the key factors that impact the evolution of the Secretariat budget.

Figure 7: Evolution of Secretariat budget

<u>Secretariat</u>	US\$ thousands		<u>After exchange rate adjustment</u>	
2011 Budget	54,587	100%		
Exchange rate impact	7,256	13%		
2011 level, adjusted for exchange rates	61,843	113%	100%	
Activity increases	14,576	27%	24%	
2012 Budget, before Partners' Forum	76,419	140%	124%	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Before Partners' Forum </div>
Partners' Forum	2,389	4%	4%	
2012 Budget	78,808	144%	127%	

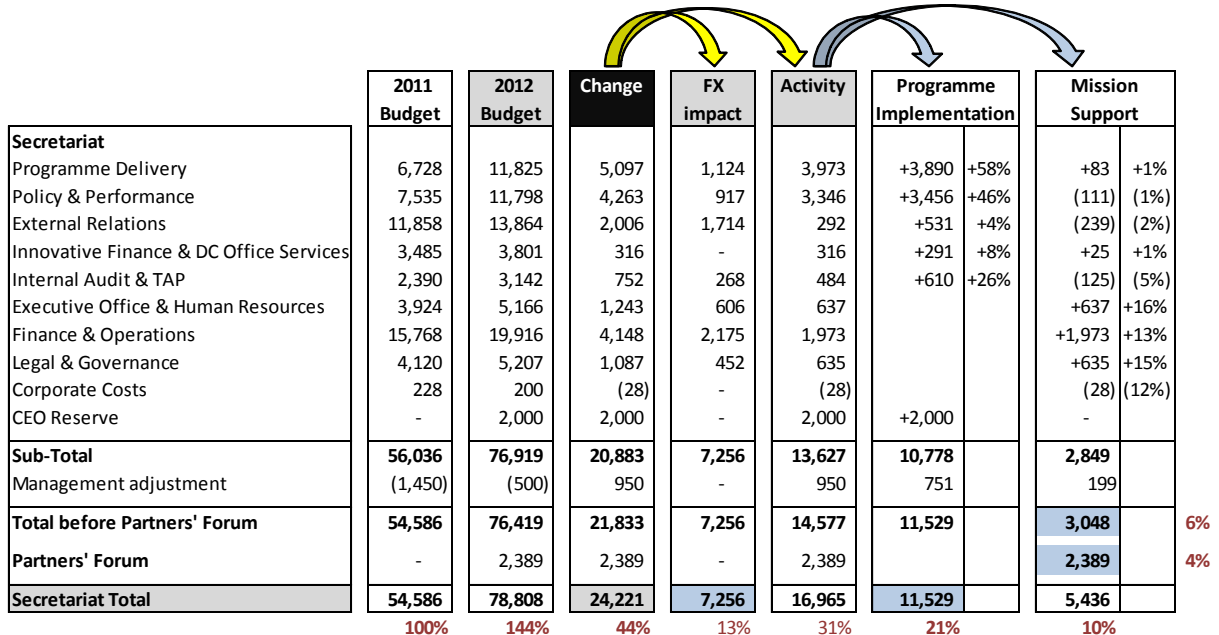
19.2 While the 2012 budget shows an overall increase of 44% compared to 2011, 13% of this results from the US dollar cost of expenditures incurred in Swiss francs being greater in 2012 than the cost included in the 2011 budget. This is due to the strong appreciation in the value of the Swiss franc relative to the US dollar over the past year, and impacts costs incurred in Switzerland when expressed in US dollar equivalent amounts. Such costs are mainly for staff salaries and benefits, office rental, utilities and supplies, outsourced services and travel.

19.3 When the 2011 budget amount is adjusted for the exchange rate factor, the 'real' increase in the 2012 budget is 27%. Of that, 4 percentage points represent the cost of the bi-annual Partners' Forum, due to be held in 2012.

19.4 After allowing for the exchange rate impact, cost increases for activities other than the Partners' Forum represent a 24% increase.

- 19.5 Whole-year impact: It is assumed that additional staff joining GAVI in 2012 would join throughout the year; hence the 2012 budget includes their costs for part of the year only. The whole-year cost of these staff in 2013 would be US\$ 1.6 million more than their cost in 2012. Similarly, the whole-year charge in 2013 for depreciation of the 2012 capital expenditure would be US\$ 0.9 million more than the depreciation amount included in the 2012 budget (see Annex 1). In 2013 these items would add US\$ 2.5 million to the 2012 budget level.
- 19.6 Following approval of the 2012 budget, the CEO will finalise the allocation of resources to Secretariat departments. Figure 8 below reflects the distribution, based on the bottom-up budgets developed at department level and reviewed by collectively the Executive Team and by the CEO and Deputy CEO .
- 19.7 However as mentioned in paragraph 4.4, the newly appointed CEO joined GAVI while the 2012 budget process was already in progress and had limited input to that process. Accordingly, the CEO has made it clear that he may adjust the distribution of the Secretariat budget in order to most appropriately support priority areas, in light of ongoing review
- 19.8 As illustrated in Figure 8, after taking account of the exchange rate impact, of the US\$ 17 million increase in expenditure on activities, US\$ 11.5 million is directed to Programme Implementation, US\$ 3.0 million to Mission Support, while US\$ 2.4 million would enable the Partners' Forum.

Figure 8: Secretariat budget – illustrative distribution by department



	2011 Budget	2012 Budget	Change	FX impact	Activity	Programme Implementation		Mission Support	
Secretariat									
Programme Delivery	6,728	11,825	5,097	1,124	3,973	+3,890	+58%	+83	+1%
Policy & Performance	7,535	11,798	4,263	917	3,346	+3,456	+46%	(111)	(1%)
External Relations	11,858	13,864	2,006	1,714	292	+531	+4%	(239)	(2%)
Innovative Finance & DC Office Services	3,485	3,801	316	-	316	+291	+8%	+25	+1%
Internal Audit & TAP	2,390	3,142	752	268	484	+610	+26%	(125)	(5%)
Executive Office & Human Resources	3,924	5,166	1,243	606	637			+637	+16%
Finance & Operations	15,768	19,916	4,148	2,175	1,973			+1,973	+13%
Legal & Governance	4,120	5,207	1,087	452	635			+635	+15%
Corporate Costs	228	200	(28)	-	(28)			(28)	(12%)
CEO Reserve	-	2,000	2,000	-	2,000	+2,000		-	
Sub-Total	56,036	76,919	20,883	7,256	13,627	10,778		2,849	
Management adjustment	(1,450)	(500)	950	-	950	751		199	
Total before Partners' Forum	54,586	76,419	21,833	7,256	14,577	11,529		3,048	6%
Partners' Forum	-	2,389	2,389	-	2,389			2,389	4%
Secretariat Total	54,586	78,808	24,221	7,256	16,965	11,529		5,436	
	100%	144%	44%	13%	31%	21%		10%	

19.9 The changes in Programme Implementation activities planned for 2012 are described in the 2012 Business Plan paper.

19.10 For Mission Support activities, the increase of US\$ 3.0 million is for:

- (a) Strengthening of outsourced support for information technology services and business continuity and telecommunications costs (approximately US\$ 1.3 million)
- (b) The 2012 depreciation charge of US\$ 0.5 million for the 2012 capital expenditure (see Annex 1), which includes overdue upgrading of the ERP system (deferred in previous years), further development of the country portal e-platform and enterprise data warehouse, introduction of knowledge management capacity, renewal of IT equipment and office space fitting-out for additional staff (US\$ 0.5 million).
- (c) Increased costs of Board and committee meetings and conference calls, and support to the Board chair and to developing country and CSO Board members (approximately US\$ 0.6 million).
- (d) Strengthening of investment management capacity in light of the proposed portfolio enhancements (approximately US\$ 0.2 million).
- (e) The remaining US\$ 0.4 million includes additional recruitment and training costs, 360-degree performance reviews, staffing costs, gender policy implementation, etc.

19.11 Capital expenditure: Included within the budget for Finance and Operations is the depreciation charge on capitalised expenditure. The additions to capital expenditure in 2012 would amount to US\$ 4.3 million (see Annex 1). The annual depreciation on this amounts to US\$ 1.4 million (approximately 1/3 of this charge, or US\$0.5 million, would arise in 2012, based on timing of expenditure).

19.12 Figure 9 illustrates the build-up of the Secretariat budget, starting with the 2011 budget level and showing the additions to arrive at the 2012 level of US\$ 78.8 million. Figure 10 provides the details.

Figure 9: Secretariat Budget – from 2011 to 2012

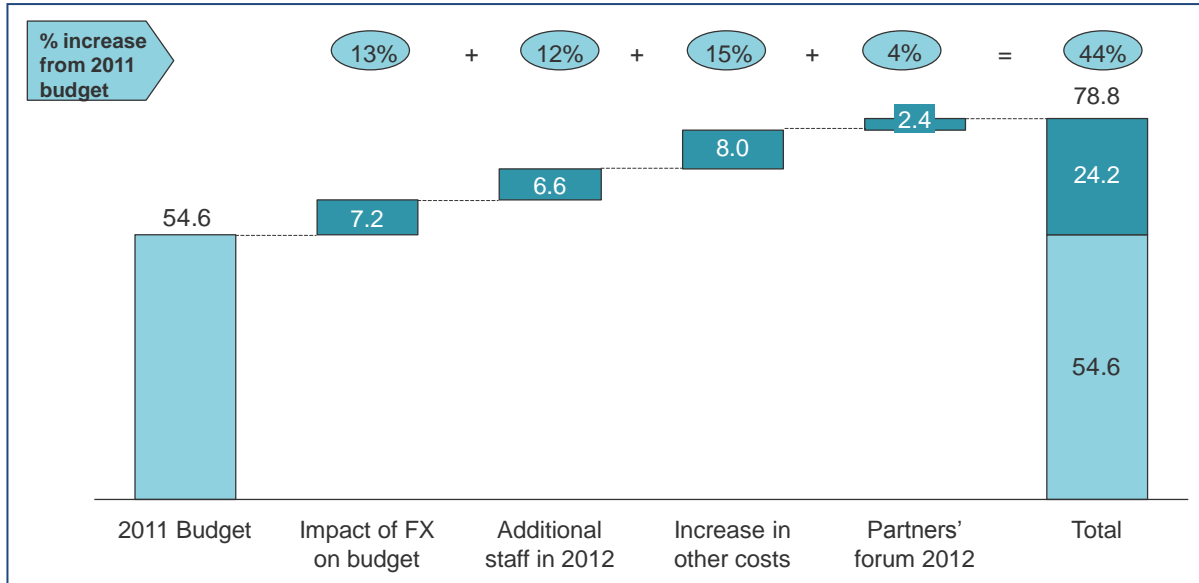


Figure 10: Secretariat budget by expense type

US\$ thousands	Budget 2011		Budget 2012		Increase
Secretariat					
Salaries	25,998	48%	37,980	48%	11,982
Other Costs:					
Training & Recruitment	925	2%	1,313	2%	388
Outsourced Services	12,572	23%	15,534	20%	2,962
Facility & Office Costs	9,129	17%	11,388	14%	2,259
Travel & Representation	3,674	7%	4,550	6%	876
Events & Meetings	2,448	4%	3,602	5%	1,154
Media Production, Supplies & Other	1,290	2%	552	1%	-739
CEO Reserve			2,000	3%	2,000
Total Other Costs	30,038	55%	38,939	49%	8,902
Management adjustment	-1,450	-3%	-500	-1%	950
Total Other Costs & M'gt. Adjustment	28,588	52%	38,439	49%	9,851
Partners' Forum			2,389	3%	2,389
TOTAL	54,586	100%	78,808	100%	24,221

Annex 1: Capital expenditure budget 2012

Capital Expenditure in 2012	US\$'000
Knowledge Management	795
Contact Relationship Management	627
Sharepoint - content access acceleration	168
Online Country Portal	1,100
Further development; functionality for proposal screening, TAP, etc.	
Enterprise Data Warehouse	341
Further development; AVI forecasting tool	
Business Systems (ERP)	810
Axapta upgrade to 2012 version	
Integrated purchase-to-pay system	
Travel management system	
IT Infrastructure	860
Server Area Network - upgrade	526
Data centre equipment & licences	334
Leasehold improvements	370
To provide for additional workstations, including re-partitioning, etc.	
Total Capital Expenditure in 2012	4,276
<u>Depreciation charge:</u>	
Annual depreciation @ 33%	1,425
Depreciation charge in 2012 (4 months)	475