



156th SESSION OF THE EXECUTIVE COMMITTEE

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Provisional Agenda Item 5.4

CE156/22
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PROGRAMMING OF THE REVENUE SURPLUS

Background

1. In 2014, the Director of the Pan American Sanitary Bureau (PASB) authorized the repayment of the US\$ 10 million¹ loan made to the Revolving Fund for Vaccine Procurement. In accordance with Financial Regulation 4.4, an initial portion of these funds (\$4,136,469) was used to replenish the Working Capital Fund to its authorized level of \$20 million. The balance (\$5,863,531) represents a budgetary (\$773,494) and revenue (\$5,090,037) surpluses under the International Public Sector Accounting Standards (IPSAS).
2. Financial Regulation 4.4 stipulates that any budgetary surplus shall be available for subsequent use in accordance with resolutions adopted by PAHO's Pan American Sanitary Conference or Directing Council. Financial Regulation 4.6 stipulates that any revenue surplus shall be available for subsequent use to cover the unfunded portion of the Strategic Plan, as determined by the Director and with the concurrence of the Subcommittee on Program, Budget, and Administration (SPBA).
3. The total amount available for programming in 2015 from the revenue surplus is \$5,090,037. The budgetary surplus is addressed under a separate agenda item.

Proposal

4. As has been the case with past surpluses (e.g., the 2006-2007 biennium and the one-time IPSAS surplus), the revenue surplus offers a unique opportunity for the Organization to invest in longer-term, higher-cost strategic and administrative initiatives that are otherwise difficult to fund within the constraints of typical biennial budgetary exercises.
5. Following the decision of the SPBA in 2014 regarding the revenue surplus, PASB analyzed significant corporate risk areas against the available remaining unallocated

¹ Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

surpluses with a view to identifying an appropriate allocation of the surpluses among the highest-priority risk areas. This analysis was informed by the strategies developed for the major risk areas in the enabling functions (IT strategy, Human Resources strategy, and reassessment of the real estate projects in the Master Capital Investment Plan), the experience of PAHO's Ebola response, and the recommendations of the working group established by the Director on the Revolving and Strategic Funds. Based on an assessment of the identified risks and the available funds, the prioritization outlined in the Annex was elaborated. In the case of each of the items included in the Annex, the amount allocated does not fully mitigate all identified risks. Each of the identified areas will continue to require funding from recurring sources in the future. However, the amounts allocated are calculated to provide the capability to respond to the highest-priority expected requirements in each area. The following areas are proposed for investment of the unallocated revenue surplus:

Master Capital Investment Fund (MCIF): Building Maintenance—\$2,000,000

6. The Update on the Master Capital Investment Fund and Reassessment of Real Estate Projects in the Master Capital Investment Plan (Document CE156/24), presented under Agenda Item 5.6, details the repair and maintenance liabilities of the Organization's real estate, established through a detailed condition assessment of the PAHO-owned buildings throughout the Region. A detailed strategy and implementation plan to address these repair liabilities is set forth. It is proposed that \$2 million be allocated to the Real Estate Maintenance and Improvement Subfund to ensure timely funding to carry out the most urgent repairs identified in Annex H (Document CE156/24).

7. During 2015, these liabilities are expected to include:

- a) various security-justified investments in country offices that PAHO does not own: \$260,000;
- b) various security, safety, and otherwise urgent repairs in PAHO-owned country offices: \$2,000,000;
- c) roof, façade, and external door repairs to the PAHO Headquarters building: \$250,000.

Master Capital Investment Fund: Vehicle Purchases—\$1,000,000

8. The recapitalized Vehicle Replacement Subfund will be used to support centralized planned procurement of official vehicles to leverage bulk procurement opportunities and to reduce the administrative burden of country offices. PAHO has 116 official vehicles (not including vehicles purchased with voluntary contributions for specific projects), of which:

- a) 63 will be five years old or more and planned for replacement in 2016;

- b) 25 are planned for replacement in 2017;
- c) 13 are planned for replacement in 2018;
- d) 11 are planned for replacement in 2019;
- e) 4 are not planned for replacement.

9. If all 63 vehicles identified for replacement were replaced in 2016, the likely replacement cost is estimated at \$1.9 million. The proposed \$1 million recapitalization of the Vehicle Replacement Subfund will augment the existing balance of \$378,520 to provide a fund balance of \$1,378,520. PASB will use the remainder of 2015 to manage the funding gap through leverage of bulk procurement, vehicle and vehicle specification standardization, rescheduling low-mileage vehicles to later in the replacement cycle, and strategic reviews of replacement needs. In future biennia, the Vehicle Replacement Subfund is expected to be self-sustaining through a combination of remittance of future sale proceeds and internal charges for vehicle use.

Epidemic Emergency Fund: Special Reserve for Infectious Disease Response—\$1,000,000

10. To fund PASB's activities in the Ebola outbreak response during 2014, the Epidemic Emergency Fund advanced \$725,000 to cover expenses associated with PAHO contributions of staff and consultants to the Ebola response in Africa and to Ebola preparedness in the Americas. The Fund also advanced \$34,000 to Member States to support procurement of supplies needed to prepare for the Ebola response. PAHO worked with Member States to survey epidemic outbreak response capabilities and identified a number of areas of need for capacity building in order to effectively respond to any actual outbreak in the Region. In order to ensure that PAHO has the resources to rapidly assist Member States that need temporary financing for outbreak response, PASB deems it prudent to allocate \$1 million in additional reserves to the Epidemic Emergency Fund. These funds will be made available to Member States as advances toward procurement of supplies in support of their efforts to respond to future emergent infectious disease outbreaks, including current preparations in the event of an Ebola virus disease emergency.

Revolving Fund for Strategic Health Supplies Capitalization—\$1,000,000

11. Increasing capitalization will further support procurement of critical health supplies by Strategic Fund members. The Fund now includes medicines for noncommunicable diseases, which can be very expensive, increasing the need for capitalization of the Fund to support country utilization. Countries using the Fund include priority countries that need access to an increased credit line to reach their national health goals.

12. Utilization of the Strategic Fund increased significantly over the last three years, from \$27.7 million in 2012 to \$60.1 million in 2014. However, the balance in the Fund to finance new purchases stood at only \$7.5 million at the end of 2014 (12.5% of annual

utilization). This level of capitalization supports only a small portion of the needs of Member States. In 2014, there were 44 Fund advances to support purchases with a total value of \$5.5 million, or an average value of \$125,000. By comparison, in the Revolving Fund for Vaccine Procurement, there were 1,144 purchases totaling \$234 million in 2014, or an average value of \$204,545.

13. The remaining unallocated balance of the revenue surplus, totaling \$90,037, will be held in reserve for proposals to support other strategic or administrative initiatives.

Conclusion

14. On 18 March 2015, the SPBA considered the disposition of the revenue surplus of \$5,090,037 in accordance with Financial Regulation 4.6. The SPBA did not issue its concurrence but requested additional clarification and specific budget allocations for the proposed programming of the revenue surplus for the Executive Committee's consideration.

Action by the Executive Committee

15. Given that the Executive Committee retains authority over matters delegated to the SPBA, the Committee should consider the proposed programming in 2015 of the revenue surplus and provide its concurrence, as appropriate, to the PASB Director.

Annex

Annex

Funding Requirements and Proposed Sources of Funds

Fund	Funding Status	Funding Requirements	Proposed Source(s) of Funding	Funding Proposed
Master Capital Investment Fund (MCIF) – Information Technology (IT) Subfund	MCIF is primarily funded through the appropriation of budgetary surpluses. The available balance in the IT Subfund as of 31 December 2014 was US\$ 306,849. ¹	PASB’s Report on the IT Strategy (Document CE156/26) indicates that the Bureau requires significant additional investment in IT infrastructure and support.	IPSAS surplus	\$2,000,000
Human Resources Strategy reserve	This is a new funding recommendation.	PASB’s Report on the Development of the Human Resources Strategy (Document CE156/31) indicates that one-time funding will be required to achieve the recommended transformation.	Unallocated IPSAS surplus (\$281,684) and unallocated budgetary surplus (\$773,494)	\$1,055,178
MCIF – Real Estate Maintenance and Improvement Subfund	The balance of this existing MCIF Subfund as of 31 December 2014 was \$1,804,810.	The Report on the Master Capital Investment Fund (Document CE156/24) sets forth the results of a Region-wide assessment of PAHO-owned real estate, identifying approximately \$2 million of needed major repairs to country office buildings per biennium for the coming decade.	Revenue surplus	\$2,000,000
MCIF – Vehicle Replacement Subfund	The balance of this existing MCIF Subfund as of 31 December 2014 was \$378,520.	The Vehicle Replacement Subfund lacks sufficient resources to launch a Region-wide, self-financing vehicle replacement program needed for country office operations.	Revenue surplus	\$1,000,000

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Funding Requirements and Proposed Sources of Funds (cont.)

Fund	Funding Status	Funding Requirements	Proposed Source(s) of Funding	Funding Proposed
Epidemic Emergency Fund - special reserve for infectious disease response	The balance of this existing fund is \$464,550.	Additional funds are required to ensure that PASB can advance funds so that Member States can procure needed supplies to respond to Ebola and other emergent outbreaks.	Revenue surplus	\$1,000,000
Revolving Fund for Strategic Public Health Supplies - capitalization	The capitalization balance stood at \$7.6 million as of 31 December 2014, less outstanding advances of \$1.6 million, for an available cash balance of \$6.0 million.	The trend toward increasing utilization of the Strategic Fund by Member States requires strengthening of the capitalization level.	Revenue surplus	\$1,000,000
TOTAL proposed for allocation				\$8,055,178
AVAILABLE SOURCES				
		Unappropriated IPSAS surplus	\$2,281,684	
		Unappropriated budgetary surplus	\$773,494	
		Revenue surplus	\$5,090,037	
TOTAL AVAILABLE SOURCES				\$8,145,215
REMAINING UNALLOCATED AMOUNT				\$90,037

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