Executive Director’s report on the Financial Status of UN-Habitat

A. Introduction

1. This paper outlines UN-Habitat’s financial position as at 30 September 2018 and explains the challenges faced by the Foundation General Purpose and the measures taken to date to address these challenges.

Figure 1

2. Figure 1 above provides the funding overview for 2018 for all major UN-Habitat Funds. Alongside annualized figures drawn from the approved programme budget it shows the revenues/contributions received, and the expenditure incurred, during the first six months of 2018. Please note that more detailed information can be found in the annexes to this document.

B. Performance of Core Funds

3. UN-Habitat considers the Foundation General Purpose, Regular Budget and the Programme Support as constituent elements of its “core budget”.

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In accordance with UN-Habitat Financial Rule 302.2, Foundation General Purpose funds are allocated against budget priorities agreed by the UN-Habitat Governing Council.

Traditionally, the main source of Foundation General Purpose revenue was non-earmarked contributions from Member States. However, from 2013, UN-Habitat implemented cost-recovery in line with GA and GC resolutions to ensure that core funds do not subsidise project activities and thereby mitigate the impact of reduced voluntary contributions. It must be noted that for the current year no recoveries have been recorded as at 30 September 2018 as the methodology was being refined.

The Governing Council approved budget for 2018 was US $13 million (equivalent to 50% of the approved budget for the biennium 2018-2019). Total revenue received as at 30 September 2018 amounted to US $1.5 million comprising voluntary contributions of US $1.2 million and other revenue of US $0.3 million while expenditures for the same period total US $4.5 million (of which 96.7% has been utilized to fund posts). This has resulted in a net operational deficit of $3.0 million and the complete depletion of the remaining statutory operational reserve (which stood at $2.3 million as at 31 December 2017) leaving the fund with a net deficit of US $0.7 million.

Figure 2 above shows a constant and long-term decline in revenue which has not been matched by reductions in expenditure. To date, the annual operating deficits have been borne by the account’s unrestricted cumulative surplus and, more recently, by the US $2.6 million Governing Council approved reserve (which as per Governing Council resolution 26/3 was set at 10 per cent of the US $26.1 million approved budget for the biennium 2018–2019).²

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² UN-Habitat Financial Rule 304.2 states that the reserve must “ensure the financial liquidity of the Foundation’s General Fund to compensate for uneven cash flows and to meet such other requirements of prudent management of the General Fund. The level of the reserve and its composition shall be determined from time to time by the Governing Council upon the recommendation of the Executive Director.” (ST/SGB/2015/4)
8. It must be further noted in this regard that in 2017, UN-Habitat management approved a US$3 million loan from the Programme Support account to Foundation General Purpose. To arrest depletion in the net asset value, UN-Habitat is undertaking austerity measures. Nevertheless, there is a risk that it may not be possible to repay the loan from the Programme Support account in which case the net asset value on the Programme Support account will need to be reduced accordingly.\(^3\)

9. Assuming the current financial trend continues, the 2018 Foundation General Purpose operational deficit (current period revenue less expenditure) is projected to total approximately US$2.1 million. Until revenue and expenditure is balanced, deficits against this account will need to be financed from the fund balance on the Programme Support account.

**Regular Budget**

10. Approved by the General Assembly, the regular budget core appropriation is provided to UN-Habitat under Section 15 (Human settlements). In 2018 this amounted to US $9.7 million in the form of an authorization to expend against specific items within a set envelop. Approximately, 89.3% of the US $9.4 million expenditure recorded by 30 September 2018 relates to staff costs.

UN-Habitat also receives regular budget programme funding via Section 23 (Regular programme of technical cooperation) and specific projects against Section 35 (Development Account).

11. Assuming current expenditure trends, the total regular budget appropriation for 2018-2019 is expected to be fully expended.

**Programme Support**

12. Programme Support resources are generated through the charge levied as a percentage of direct earmarked expenditures. This charge is intended to recover the incremental indirect costs associated with supporting earmarked activities. These funds are acquired to ensure that the additional cost of supporting activities financed from earmarked contributions is not borne by funds intended for the General Assembly/Governing Council approved programme of work.

13. The 2018 Programme Support budget approved by the Executive Director totalled US $13.2 million. Revenue as at 30 September 2018 amounted to US $7.0 million against expenditure for the same period of US $7.0 million (of which 68.2% has been utilised to fund posts).

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\(^3\) The Financial Statements and report of the Board of Auditors, A/73/S Add.9, reflect this borrowing in note 4 under segment reporting.
14. Figure 3 above shows that UN-Habitat has a significant fund balance against this account. Expenditure in 2017, however, exceeded revenue and expenditure in 2018 is projected to do so again as the organisation has outstanding commitments of more than US $2.5 million including those relating to office rent and other services.

15. As stated in paragraph 8 above, it must be noted that in 2017, US $3 million was loaned to the Foundation General Purpose from Programme Support. Based on current performance on the foundation general purpose fund, this loan is unlikely to be repaid and the net asset value reflected in Figure 3 above would need to be reduced by this amount.

16. It must be further noted that the average overhead rate levied against projects financed from earmarked contributions, as per the UN-Habitat financial statements for 2017, remained low by UN standards (averaging approximately 5.6% in 2017). This percentage will need to be reviewed if UN-Habitat is to ensure adequate support to its programme of activities.

17. Even before bearing projected 2018 overspending against Foundation General Purpose of approximately US $2.1 million, the Programme Support account was estimated to incur an operational deficit (current period revenue less expenditure) of at least $1.8 million. In this regard, a total operational deficit of US $3.9 million is currently forecast.

**Summary**

18. The projected total 2018 operational deficit against core funds is US $3.9 million: US $2.1 million against the Foundation General Purpose and US $1.8 million against the Programme Support account. While in principle Programme Support should be used to finance the indirect support provided to the activities that generate these revenues, it is understood that within the current context, the fund balance against this account must be used to offset the operational deficits until on-going fundraising efforts and/or austerity measures successfully balance revenue and expenditure.
Implications for programme delivery

19. The shortage of core funding is increasingly hampering the implementation of the current strategic plan and is impeding UN-Habitat’s ability to fully take up its focal point role in supporting Member States with monitoring the implementation of the New Urban Agenda and the urban dimensions of the Sustainable Development Goals. The main areas of negative impact are as follows:

- The organizational structure that mirrors the seven sub-programmes of the strategic plan has several key vacancies. For instance, only three out of seven sub-programme coordinator positions have been filled. The other four positions are covered by unit leaders acting as sub-programme coordinators or alternatively one coordinator covering two sub-programmes.
- This has mainly affected the areas of urban legislation and governance, urban economy, housing and risk reduction and rehabilitation. It has hampered the development of normative tools and knowledge in these areas, including the urban legislation database and the municipal finance capacity development programme, which are key expected accomplishments that remain largely underdeveloped.
- UN-Habitat has had to scale down the development of its global indicators programme and reduce the frequency and depth of its World Cities Reports. This reduction in research and development capacity is undermining UN-Habitat’s ability to work with Member States, other UN agencies and other partners to collect and analyze data and distill knowledge to support the implementation of global agenda items.
- At the regional level, UN-Habitat has had to significantly reduce its knowledge management role and focus nearly entirely on portfolio development and implementation. This has negatively affected collaboration with Regional Economic Commissions and engagement with the reform of the UN Development System.

20. The shortage of core funding has also significantly affected the ability of the organization to support advocacy, communications, quality assurance and risk management related to the implementation of the work programme.

Austerity measures put in place by the Executive Director

21. To address the financial challenges described above, the Executive Director has implemented a sweeping range of austerity measures against Foundation General Purpose and Programme Support funds. She has: (i) imposed a recruitment freeze that encompasses on-going and new recruitments; (ii) frozen reclassifications to higher grades; (iii) instructed that no new contracts or extension of temporary appointments and of consultants/international contractors be issued; (iv) suspended the granting or extension of Special Post allowances; (v) curtailed paid overtime across all funds; (vi) restricted official travel to essential travel only with no more than one staff member attending any important event or meeting; (vii) stated that all such travel regardless of funding should be on a voluntary basis on economy class even for journeys exceeding nine hours.
Measures to strengthen UN-Habitat

22. In parallel with the austerity measures intended to bring expenditure in line with revenue, major steps have been made to strengthen UN-Habitat. In this context, the findings and recommendations of the Open-Ended Working Group on strengthening UN-Habitat have been presented to the President of the General Assembly by the Chair of the UN-Habitat’s Committee of Permanent Representatives (CPR) in line with United Nations General Assembly Resolution A/RES/72/226. They will be discussed by the General Assembly at its seventy-third session later this year.

23. A change reform process is also under way to transform UN-Habitat into a more effective organization, capable of meeting the expectations of Member States. Recent actions include work on the vision, mission, core values, 2020-2025 strategic plan and resource mobilization strategy of the organization, policies and procedures for greater decentralization and harmonization of recruitment, and training of senior management and change agents to help institutionalize the reforms.

24. As UN-Habitat engages in strategic dialogues with Member States on creating a stronger relevant, transparent, accountable, trusted, efficient and service-oriented organization that can meet their expectations as a focal point for supporting implementation of the New Urban Agenda and urban dimensions of the sustainable development agenda 2030, it is hoped that this will attract a higher level of core resources.

Next steps

25. The above austerity measures focus on generating savings primarily on non-staff expenditure, and on restricting growth in staff expenditure. It is unlikely, however, that these measures alone will adequately address the financial situation because current staff costs represent the main use core budget resources (94.8% in the case of Foundation General Purpose). Ideally, we will secure additional Foundation General Purpose contributions from Member States but in the event these contributions are not urgently forthcoming, additional savings measures must focus on reducing staff costs. Measures are being developed in this regard but as they are put into effect they will unavoidably further impact the normative work of the organization.

26. In this context, UN-Habitat shall strive to facilitate the mobility of staff funded from Foundation General Purpose to more assured sources of funding, where possible, to minimize the loss of valuable expertise. Affected staff will be matched against actual and upcoming vacancies both in the field and Headquarters and UN-Habitat will constitute an internal review panel, and design procedures, to ensure that this is operationalized in a transparent and objective manner. These measures will define the scope of the placement exercise, ensure procedural transparency and where applicable ensure that staff are routinely informed regarding the availability of positions to which they shall then be given the opportunity to apply. The development and execution of these activities shall entail close collaboration between UN-Habitat, UNON and OHRM and routine consultations with the Nairobi Staff Union.
27. It is understood that significant reductions in core budget expenditure on staffing must be accompanied by the reform of UN-Habitat’s programme and operational structure (its “business model”). Since the largest share of core budget staff are allocated to corporate management functions, it follows that UN-Habitat will, in parallel to these cost-saving measures, need to design a more streamlined approach to the oversight and support of its operations; an approach that includes decentralization of certain processes and procedures, and makes better use of common services providers while focusing core funding towards policy, quality control, oversight and reporting. Work in this area is already underway. UN-Habitat will also review and rethink its use of UNOPS in the context of staff contracts.

C. Performance of Earmarked funds

Foundation Special Purpose

28. Contributions from Member States and other donors to Foundation Special Purpose are earmarked for the implementation of specific activities in the programme of work that are consistent with the mandate of UN-Habitat. These generally cover global, thematic and multi-country projects.

29. The Governing Council approved budget for 2018 was US $65.7 million (equivalent to 50% of the approved budget for the biennium 2018-2019). As at 30 September 2018, total Foundation Special Purpose revenue was US $26.3 million while the expenditure incurred was US $27.2 million. As reflected in Annex A, the fund balance (carry forward project balances) at the end of the reporting period amounted to US $92.3 million including a reserve of US $4.0 million.

Technical Cooperation

30. Technical cooperation contributions are earmarked voluntary resources from Member States and other donors for the implementation of specific, technical regional and country-level activities consistent with the UN-Habitat mandate and work programme.

31. The 2018 projected budget for the Technical Cooperation is US $148.2 million (which is again equivalent to 50% of the estimated budget for the biennium 2018-2019). As at 30 September 2018 the total revenue received in 2018 was US $96.2 million while the expenditure incurred was US $69.5 million. As reflected in Annex A, the fund balance at the end of the reporting period amounted to US $257.5 million (carry forward project balances) including a reserve of $11.4 million.

D. Conclusion

32. A summary of the revenue, expenses, fund balances and reserves is provided in Annex A while the comparison of actuals and budget is shown in Annex B. Details of non-earmarked contributions are given in Annex C; while Annexes D and E provide details of the earmarked contributions from central and local governments, and other donors, respectively. Annex F provides the summary of the top ten donors for the years 2012 to 2017.
33. The Foundation General Purpose account has a depleted fund balance. To address the financial crisis of UN-Habitat’s core funding, the Executive Director has implemented the austerity measures and is embarking on various reform initiatives. However, there is an urgent need for Member States to increase their contributions to the Foundation General Purpose if UN-Habitat is to reverse the current financial trend and implement the 2018-2019 work programme as approved by the Governing Council and ensure that the organization is able to carry out its focal point role in supporting implementation of the New Urban Agenda and urban dimensions of the sustainable development agenda.