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Working Paper

WORKING PAPER NO. 7.C: PROPOSED 2025 BUDGET

(Paper presented by the Secretariat)

Paper summary

1. This paper presents the proposed 2025 budget in accordance with regulations 7–9 of SPC's Financial Regulations.

Key points

2. The revised 2024 budget includes a surplus of EUR 0.42 million compared to a EUR 1.29 million deficit in the original budget due to higher investment income and management fees.

3. The proposed 2025 budget includes a deficit of EUR 1.00 million, to be funded by a drawdown from reserves. This will support continued investment in corporate services to enhance their capacity to assist divisions in delivering project and programme implementation. The 2025 budget includes a 1.5% salary increase to adjust for inflation, along with a 2% performance-based increase, consistent with previous years.

4. It should be noted that the 2025 budget includes a snapshot of known resources as of 2024 and will be revised in 2025. Usage of reserves, if confirmed, may be offset by the write-off of provisions in either 2024 or 2025.

5. In accordance with Regulation 33 of SPC's Financial Regulations, 'The Director-General has the authority to transfer funds from within SPC's reserve sources to meet the organisation's operating costs.'

6. Table 1 outlines the proposed 2025 budget, showing total income of EUR 130.45 million (var EUR (-0.19) million or -0.1% vs 2024R) and expenditure of EUR 131.45 million (var EUR 1.23 million or 1% vs 2024R), resulting in a deficit of EUR 1.00 million, to be covered by reserves. Notably, from 2025 onwards, Facilities full cost recovery (FCR) will be excluded from the core budget, except for specialised spaces such as laboratories. Table 3 offers an alternative presentation of the 2025 budget, focusing on core budgets and categorising income, recoveries and respective expenditures.

7. Capital expenditure for 2025 is projected to rise to EUR 10.02 million, primarily due to the construction of a new building at the Nabua campus in Suva, as set out in Table 2.

8. The projected budgets presented in the Green Book for 2026 and 2027 are provisional, as precise estimates for income and expenditure are not yet available.

Recommendations

9. CRGA is requested to:

   i. approve the proposed 2025 budget, inclusive of a market increase of 1.5%; and

   ii. encourage all development partners to adopt multi-year restricted programme funding and 15% management fees.

Background and analysis

10. The proposed 2025 budget is presented in the standard Green Book format, detailing total income and expenditure and providing a summary of expenditure by division.

11. The Green Book includes several annexes with supporting information, including assessed contributions, host country grants and an early projection of income through to 2027.

12. The proposed 2025 budget assumes no restrictions on SPC activities and uses a conservative approach to exchange rates. The crisis in New Caledonia, which began on 13 May 2024, is assumed to improve and is reflected in the budget.

13. The 2025 budget includes a 1.5% salary increase to adjust for inflation, along with a 2% performance-based increase, consistent with previous years.

14. The Secretariat continues to implement flagship and transversal projects, which involve multiple divisions. These are presented under the leading division's budget and also in the foreword focusing on SPC's four flagship areas: Climate Change, Food Systems, Ocean and Gender Equality. This highlights the contributions of various divisions involved in these programmes and projects.

Overview of the proposed 2025 budget

15. Table 1 provides a summary of the proposed 2025 budget, comparing it to the 2024 revised budget.

Table 1: *Summary of 2024 revised and 2025 proposed budgets*

EUR million	Original 2024		Revised 2024		Proposed 2025		Var. 24R / 24O	Var %	Var. 25P / 24R	Var %
Core income	**16.63**	**13%**	**16.17**	**12%**	**16.81**	**13%**	**(0.46)**	**(3%)**	**0.65**	**4%**
Programme & Projects	108.34	87%	111.46	85%	111.67	86%	3.12	3%	0.21	0%
Restricted income	**108.34**	**87%**	**111.46**	**85%**	**111.67**	**86%**	**3.12**	**3%**	**0.21**	**0%**
Other Income	0.20	0%	3.01	2%	1.96	2%	2.81	1403%	(1.05)	(35%)
Total income	**125.17**	100%	**130.64**	100%	**130.45**	100%	**5.47**	4%	**(0.19)**	(0.1%)
Admin - DG Office	8.66	7%	9.66	7%	10.28	8%	1.00	12%	0.62	6%
Admin - OMD	8.09	6%	8.10	6%	7.73	6%	0.01	0%	(0.36)	(4%)
Admin Core exp. (OMD & DG)	**16.75**	**13%**	**17.76**	**14%**	**18.02**	**14%**	**1.01**	**6%**	**0.26**	**1%**
Less Management Fees	(10.95)	(9%)	(11.68)	(9%)	(11.78)	(9%)	(0.73)	7%	(0.10)	1%
Net admin expenditure	**5.80**	**5%**	**6.08**	**5%**	**6.24**	**5%**	**0.28**	**5%**	**0.16**	**3%**
Programme core & total restricted expenditure	**119.36**	**94%**	**123.64**	**95%**	**122.26**	**93%**	**4.28**	**4%**	**(1.39)**	**(1%)**
Net facilities costs (incl. FCR)	1.29	1%	0.50	0%	2.95	2%	(0.79)	(61%)	2.45	492%
Net ICT FCR	0.00		0.00		0.00		0.00	0%	0.00	0%
Total expenditure	**126.45**	100%	**130.22**	100%	**131.45**	100%	**3.77**	3%	**1.23**	1%
Net result of the year	**(1.28)**		**0.42**		**(1.00)**		**1.69**	(133%)	**(1.42)**	(341%)

Income projection

16. Total income consists of unrestricted (core) funding, including assessed, host country and voluntary contributions, and other income such as income generated through the SPC treasury function, and restricted programme and project grants. These are based on expected implementation levels, in line with SPC's accounting standards (IPSAS).

17. Overall, the income projection for 2025 shows a slight decrease to EUR 130.45 million, down by EUR 0.19 million (-0.1%) from the revised 2024 budget of EUR 130.64 million, mainly due to the reduction in other income (interest earned from investments and net exchange gains) offsetting the increase in core income. The reduction in other income is primarily attributed to the projected decline in interest rates and the reduced reinvestment of surplus funds due to the increased spending requirements anticipated for 2025. The 2024 revised budget had risen by EUR 5.47 million or 4% compared to the original 2024 budget, mainly due to the increase in other income.

18. Core income (unrestricted funding) is projected to increase by EUR 0.65 million or 4% to EUR 16.81 million in 2025. This variance is mainly explained by the new payment schedule agreed with Australia for their voluntary contribution, noting that the total amount committed for the full agreement period 2024 – 2026 remains unchanged.

19. Restricted programme funding is projected to rise slightly by EUR 0.21 million (+0.2%) to EUR 111.67 million, compared to EUR 111.46 million in the revised 2024 budget. The increase reflects higher anticipated implementation levels in 2025 and the full-year impact of newly signed programmes.

20. These restricted projects exclude Green Climate Fund (GCF) and Adaptation Fund (AF) projects that have been signed already, where SPC is an Accredited Entity (AE) and not an Implementing Entity (IE) from the 2024 revised budget and onwards, that are managed by the Climate Finance Unit (CFU) of approximately EUR 32 million over the next four to five years.

21. Other income, which primarily consists of interest income from surplus fund investments and currency conversion effects, is projected to decrease from EUR 3.01 million in the 2024 revised budget to EUR 1.96 million in 2025 due to anticipated lower interest rates and reduced liquidity.

22. The Secretariat highlights the existence of multi-year pipeline projects. Projects in SPC's confirmed pipeline amount to EUR 71.86 million, with an additional EUR 126.97 million at the concept stage. Only the projects which are expected to be signed by the end of 2024 (total EUR 14.09 million) have been included in the 2025 budget.

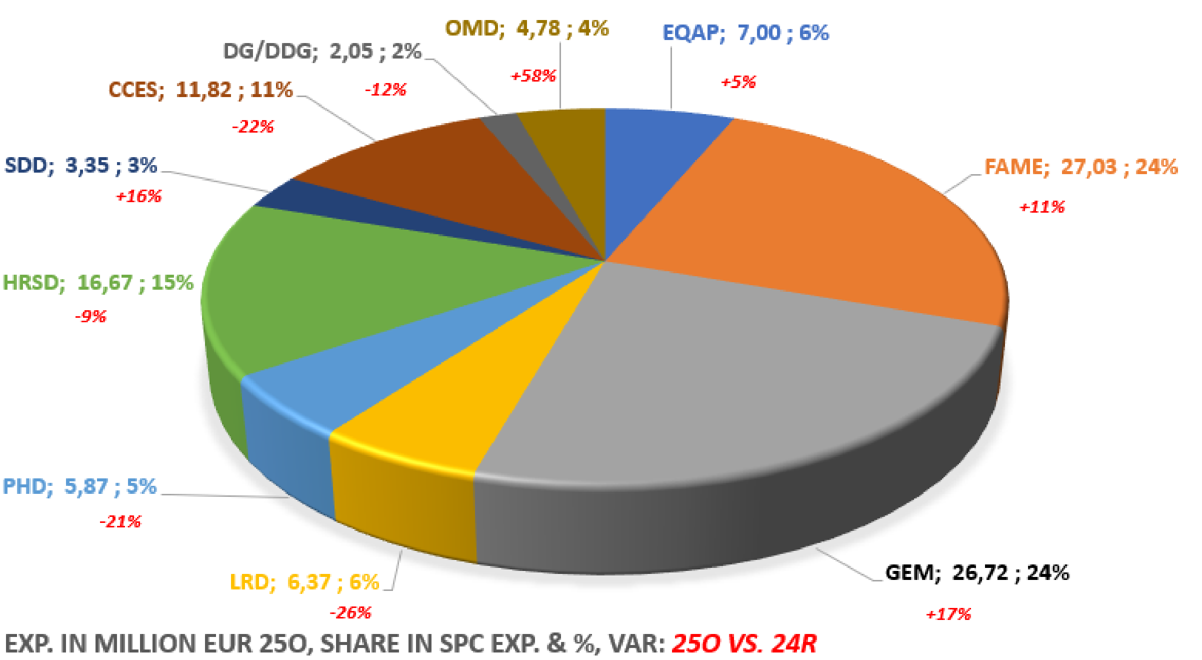
23. SPC's financial outlook remains generally positive, but the Secretariat will closely monitor the situation for potential global and regional shocks over the coming year, including managing foreign currency risk and the changing risk profile of the organisation given new non-traditional donors such as GCF and AF that require an appropriate level of provisions for potential ineligibles.

Green Book structure

Expenditure and management fees projection

24. Chapters 1–8 of the Green Book cover the budgets of SPC's technical divisions. Programmatic core and total restricted expenditures: Programmatic divisions are the technical divisions that implement programmes and projects, as shown in Graph 2, and include some programmes and projects implemented by the Director-General and Deputy Directors-General (DG-DDG) Office and Operations and Management Directorate (OMD).

Graph 1: 2025 programme expenditure by programmatic division (Total: EUR 111.67 million)



EQAP: Educational Quality and Assessment Programme // FAME: Fisheries, Aquaculture and Marine Ecosystems // GEM: Geoscience, Energy and Maritime // LRD: Land Resources Division // PHD: Public Health Division // HRSD: Human Rights and Social Development // SDD: Statistics for Development Division // CCES: Climate Change and Environmental Sustainability //DG-DDGs' Office: Director-General and Deputy Directors-Generals' Office // OMD: Operations and Management Directorate

25. The total programme or restricted expenditure is projected to increase slightly to EUR 111.67 million, representing 85% of the total expenditure budget, an increase of EUR 0.21 million or 0.20% compared to the revised 2024 budget. FAME, with a budget of EUR 27.03 million, is the largest programmatic division, accounting for 24.2% of total expenditure, followed closely by GEM at EUR 26.72 million, representing 23.9%.

26. The core budget for programmatic divisions is set to decrease to EUR 10.56 million in 2025 (EUR 11.38 million less Facilities full cost recovery (FCR) of EUR 0.82 million), primarily due to one-off activity costs incurred in the 2024 revised budget, such as the Heads of Fisheries meeting and the Festival of Pacific Arts and Culture.

27. Chapter 9 – The Director-General and two Deputy Directors-General, responsible for providing strategic direction, oversee areas such as Internal Audit; the regional offices; Partnerships, Integration and Resource Mobilisation (PIRMO); Strategy, Performance and Learning (SPL); Corporate Communications; Legal; Procurement and Grants; and Travel. The budget for this office is projected to increase to EUR 10.28 million in 2025, representing an increase of EUR 0.62 million or 6%, and accounting for 7.8% of the total expenditure budget. This follows an increase of EUR 1.0 million in the revised 2024 budget. Continued investment is being made in building internal capacity to support key focus area (KFA) 7, Transforming institutional effectiveness, as well as the Corporate Communications, Legal, Procurement and Grants teams. This investment is driven by the anticipated growth in legal, procurement and grants management activities in projects and programmes for 2025 and beyond, with some of these costs to be recovered through FCR mechanisms. These activities are included in project costs as secondary costs, underscoring the importance of KFA 7 in enhancing communication and implementing change management across all stakeholders.

28. Chapter 10 – OMD is responsible for delivering operational support and creating an enabling environment across key corporate functions, including administration, finance, programme management support, human resources, library services, publishing, and translation and interpretation. OMD's expenditure is projected to increase slightly to EUR 8.45 million, reflecting a EUR 0.38 million rise, excluding FCR of EUR 0.74 million. With increased activities expected in 2025, additional investments will be made in support services and finance to facilitate the upgrade of the financial system (Navision), finance capacity pooling activities and the allocation of resources for knowledge management.

29. Management fee recovery is projected to increase to EUR 11.78 million in 2025, reflecting an increase by EUR 0.10 million or 1% compared to the revised 2024 budget of EUR 11.68 million. Management fee recoveries are expected to represent an average of 10.6% of total restricted programmes and projects in 2025, compared to 10.5% in 2024, against a target of 15%. In 2025 management fees are anticipated to cover approximately 91% of overhead and resource mobilisation costs.

30. Chapter 11 – ICT, Facilities, Housing unit and Canteen: These areas cover self-funded operations and FCR activities that are entirely self-sustaining. From 2025 onwards, Facilities FCR will be excluded from core budgets, except for specialised areas such as laboratories. The facilities costs for these specialised areas will be reflected in the core budgets of the

relevant divisions. Facilities FCR is excluded from the full cost recovery methodology as facilities costs are considered overhead or management costs, which are to be covered by management fees. Consequently, facilities recovery is expected to decrease, with the net facilities cost projected to rise to EUR 2.97 million in 2025 compared to EUR 0.5 million in the revised 2024 budget. The Secretariat plans to continue investing in the upkeep and maintenance of facilities, with these expenditures budgeted under either capital expenditure or Facilities, depending on whether they are capital or maintenance related.

31. ICT and its recoveries is expected to net zero for 2025 at EUR 4.86 million (net of EUR 5.02 million and Facilities FCR of EUR 0.15 million), showing a slight increase from EUR 4.80 million in the revised 2024 budget. The Housing Unit and Canteen, which operate as fully self-funded entities, are expected to be covered by their respective funding sources. These operations are reported separately, as they maintain their own reserves.

Capital expenditure

32. Chapter 12 – Capital expenditure (CAPEX) outlines the capital expenditure budgets for Facilities in Suva and Noumea, housing and other areas. Depreciation of CAPEX is accounted for within the relevant budget as set out in Table 2. The CAPEX budgets for Facilities in Suva and Noumea include construction and renovation work necessary to maintain physical assets such as buildings, fixtures and fittings, electrical systems and security infrastructure, as well as to accommodate the growing need for office space and housing due to the increasing number of staff. Other CAPEX covers the acquisition of equipment for conference rooms and the redevelopment of the SPC website. Overall CAPEX, including Housing, totals EUR 3.85 million in the 2024 revised budget and is projected to increase to EUR 10.02 million in 2025, primarily due to the construction of a new building in Nabua, Suva.

Table 2: *Capital expenditure 2024R and 2025P*

EUR million	Revised 2024	Proposed 2025	Key CAPEX
Facilities - Suva	1.72	6.02	**New 3 Storey Office Building Nabua Campus: 6.55m:** = 0.69m (*2024R*), 4.73m (*2025P*), 0.56m (*2026P*), 0.57m (*2027P*) **Funding:** DFAT 1.13m, SPC 3.02m and Fiji Gov 2.40m
Facilities - Noumea	0.68	1.06	
Others	1.25	2.42	**SPC website:** **400k** = 150k (*2024R*) & 250k (*2025P*) **Business Central upgrade:** **930k** (*2025P*)
Total	**3.64**	**9.50**	
Housing	0.21	0.51	
Overall Total	**3.85**	**10.02**	

33. The construction of a new three-storey office building at the Nabua campus, Suva, planned since 2022, will proceed with an updated cost of EUR 6.64 million (EUR 6.55 million is provided in the CAPEX budget, with EUR 0.09 million already spent on preliminary costs), up from the original estimate of EUR 2.5 million due to increased construction costs and additional furniture costs. Funding will come from Australia's Department of Foreign Affairs and Trade (DFAT) (EUR 1.1 million), SPC (EUR 3.2 million), and a funding request has been made to the Government of Fiji (EUR 2.4 million). Construction is expected to begin in late 2024 and finish by early 2026. SPC will use its liquid reserves to fund the project, with depreciation costs to be included in the 2026 budget and beyond.

Overview of proposed 2025 budget (alternative presentation format)

34. Table 3 offers a new presentation format for the proposed 2025 budget, focusing on core income and expenditures. Noting also the exclusion of Facilities FCR from core budgets in 2025 and onwards, except for specialised areas, such as laboratories.

Table 3: *Summary of 2024 revised and 2025 proposed budgets*

	Original 2024	Revised 2024	Proposed 2025	Var. 24R / 24O	Var %	Var. 25P / 24R	Var %
Unrestricted Income	**16.83**	**19.17**	**18.77**	**2.34**	**14%**	**(0.40)**	**(2%)**
Total income	**16.83**	**19.17**	**18.77**	**2.34**	**14%**	**-0.40**	**(2%)**
Programme core	**11.02**	**12.18**	**10.58**	**1.16**	**11%**	**(1.60)**	**(13%)**
Other social mission costs	**4.60**	**5.00**	**4.82**	0.40	**9%**	(0.17)	**(3%)**
Social mission costs	**15.62**	**17.18**	**15.41**	**1.56**	**10%**	**(1.77)**	**(10%)**
Support functions	8.13	9.35	10.45	1.22	**15%**	1.11	**12%**
Recoveries	*-4.99*	*-5.97*	*-7.20*	*-0.98*	**20%**	*-1.23*	**21%**
Net support function	**3.14**	**3.38**	**3.26**	**0.24**	**8%**	**(0.12)**	**(4%)**
Resource Mobilisation costs	**0.83**	**0.83**	**0.85**	**0.00**	**0%**	**0.02**	**3%**
Total Management costs	**9.47**	**9.05**	**12.04**	**(0.42)**	**(4%)**	**2.99**	**33%**
Management fees recoveries	*-10.95*	*-11.68*	*-11.78*	(0.73)	**7%**	(0.10)	**1%**
Net Management costs inc. res mob	**-0.65**	**-1.80**	**1.11**	**(1.15)**	**176%**	**2.91**	**(162%)**
Total expenditure	**18.11**	**18.76**	**19.78**	**0.65**	**4%**	**1.02**	**5%**
Net result of the year	**(1.28)**	**0.42**	**(1.00)**	**1.70**	**(132%)**	**(1.42)**	**(341%)**

35. Table 3 sets out the categories of income and recoveries and their relation to the respective cost categories. Unrestricted income, which includes membership and voluntary contributions, and other income is offset against the social mission, which comprise programme costs and other social mission costs.

36. The cost of support functions such as ICT, travel, recruitment, procurement and grants, and others that are charged out to Programme and Projects is offset against its recoveries as these costs form part of Programme and Project costs. There are new FCRs to be rolled out by 2025, for example Procurement and Grants, and it is not expected that these costs will be fully recovered in the first year. There are also existing support costs that will be reviewed in the coming year to raise their level of recoveries to offset much of their cost. As noted already, Facilities FCR will cease to be charged to the core budget, except for specialised areas, such as laboratories, and so Facilities will be part of Management costs.

37. The last category of costs are the resource mobilisation and management (overhead) costs offset against the management fee recoveries. There is a shortfall of EUR 1.11 million against the management fees of EUR 11.78 million projected for 2025.

38. Overall, the above table provides an analysis of income sources, including recoveries work and management fees, and matches them against their respective expenditures. This will assist with the formulation of strategic financial decisions on the funding of internal support and management costs. Finance will continue to fine tune this reporting and analysis for future budget submissions.

Recommendations

39. CRGA is requested to:

    i. approve the proposed 2025 budget, inclusive of a market increase of 1.5%; and

    ii. encourage all development partners to adopt multi-year restricted programme funding and 15% management fees.
