**Expenditure of Income Accrued from Cost Recovery**

**General Principles**

1. Income earned from cost recovery, such as GMS fee from non-core programme projects (refer to POPP ), implementation support services to UN Agencies based on UPL or LPL (refer to POPP [**UN Agency Services**](https://popp.undp.org/node/11671)), administrative agent fee for joint programme and other adhoc service fees to external parties, together constitute a major funding source for institutional budget to fund management activities.
2. From 2017 onwards, the institutional revenue component essential for financing of the organization’s institutional budget is formulated through aggregating all core and non-core institutional budget resources, including income from GMS, agency services, Government Local Office Contribution (GLOC) and other extra budgetary income, to ensure that when the Executive Group makes decisions on the institutional budget of cost centers (CCs), respective CCs neither penalized nor advantaged according to the particular source of their traditional funding, and to enable the leadership of the organization to make decisions on the use of all its institutional resources in the most effective way (Refer to [the Administrator’s letter, 23 August 2016, Improved Planning and Budgeting Approach](https://intranet.undp.org/unit/ofrm/_layouts/15/WopiFrame.aspx?sourcedoc=/unit/ofrm/Financial%20Resource%20Management%20Policies/Communication/Administrator%27s%202016%20Letter%20on%20%20Improved%20Planning%20and%20Budgeting%20Approach%20-23-08-16.pdf&action=default).
3. In light of the above, the EG makes its decisions on the institutional budget at the overall, macro level (e.g. approval of a single amount for the institutional budget for a cost center CC). Noting that, from formal reporting perspectives (Financial statements, Executive Board etc.), resource utilization needs to be tracked across more detailed funding lines (core, XB and other funding sources), differentiated funding codes are used for tracking allocation, revenue, and expenditure on core as well as non-core institutional funding lines.

**Quantum setup for annual allocations**

1. From commitment control perspective, from 2017 onwards, all institutional budget funding lines are managed as ‘allocation controlled’ fund codes in Quantum, are no longer ‘cash controlled’. Nevertheless, for transparency purposes, and in order to facilitate tracking of institutional revenue generated by a cost center with planning figures, in principle, all cost recovery income will be coded to the department code that is responsible for generating such cost recovery income. This is clarified in more detail as follows:

* Except for Vertical Funds, GMS income will be recorded fully in XB fund (11300) against each project’s managing department code through daily GMS batch process in Quantum. GMS XB income is not made available immediately to each Unit in Quantum, however, it will fund the institutional budget for which allocations will be provided by each cost center.
* GMS income from Vertical Funds ( Global Fund, GEF, Green Climate Fund and Montreal Protocol) will continue to be distributed to different units through monthly GMS batch process based on the pre-2017 management decision. GMS income accruing to the respective Vertical Fund Management Units that have been identified as special programme, will continue to receive XB allocations and spend against their respective designated XB funds(11315, 62050, 63002, 63042 etc.). GMS income accruing to Regional Cost Centers will be credited to GMS XB fund (11300) which will constitute a major funding source for a cost center.

1. From 2017 onwards, agency services fees (based on UPL/LPL, UNV and UNDSS) will be recorded separately to a new fund (11302) whilst administrative agent fees will continue to be recorded under the existing fund (11950). Annual allocations from XB fund (11300) to each cost center will include these revenues based on estimates of the respective offices in their IWPs.

**Spending of the ASLs issued from cost recovery income**

1. Offices should follow annual guidelines of the Internal Resources Allocations of the institutional budget when allocating and utilizing ASLs from non-core institutional budget for the year. These guidelines are issued annually reflecting the latest management decisions on budgetary matters.

1. Although the scope of the annual institutional budget allocation may differ slightly from one year to another, in general, cost recovery income should cover the following categories of costs:
   1. Personnel costs for those involved in the management and related activities of Other Resources-funded projects or in providing transactional services to UN agencies;
   2. Operating expenditures attributable to personnel listed above; and
   3. Capital investments to enhance organizational effectiveness and capacity to execute current as well as future programmes. This category of costs may include expenditure unequivocally linked to enhancements in the service provision and delivery ability of an office and/or the latter’s ability to implement effectively those activities from which the XB income is generated.
2. By contrast, XB income may **not** be employed to fund Other Resources programme and/or project expenditures, and should only be used for the purposes as per the issued ASL. The following is an illustrative ***listing of activities not eligible to be funded from XB income:***
   * Non-core Institutional budget ASLs may **not** be utilized as bridge-gap funding or replacement for Other Resources contributions that were either cancelled or not provided in a timely fashion by donors;
   * Non-core Institutional budget ASLs may **not** be utilized as ‘seed money’ when no other programming funds are available, with the exception of the pre-funding for DPC stand-alone project (Refer to POPP DPC implementation via a stand-alone project).
   * Non-core Institutional budget ASLs may not be transferred or used other than the management activities as approved in the annual IWP.

**Accountability**

1. Each Unit is responsible for ensuring that its support requirements are clearly identified in their IWP, and that its management projects are also clearly defined with detail plans for utilization of XB allocations.
2. The bureaus are responsible for clearing XB income projections by the units as a part of annual IWP and further allocating the XB resources from their resource envelope.
3. The bureaus and respective unit remain responsible for ensuring that funds are expended in accordance with principles identified in the policy section above.