



Governing Body

309th Session, Geneva, November 2010

GB.309/PFA/BS/2(&Corr.)

Building Subcommittee

PFA/BS

FOR DECISION

SECOND ITEM ON THE AGENDA

Status report on future renovation activities

Overview

Issues covered

This paper consists of three main parts: a description of the headquarters building renovation project, including a time frame and cost estimates; a proposal for the financing of the project; and options for future maintenance and renovation of ILO buildings and properties. The first two parts are for decision whereas the third part (paragraphs 60–70) is for debate and guidance.

Policy implications

None.

Financial implications

Approval to proceed with the next phase of the renovation of the headquarters within the framework of the comprehensive plan at an estimated cost of 89.1 million Swiss francs.

Decision required

Paragraph 59.

References to other Governing Body documents and ILO instruments

GB.291/PFA/BS/4, GB.297/PFA/BS/3(&Corr.), GB.300/PFA/BS/2, GB.301/PFA/BS/1, GB.303/PFA/BS/1, GB.303/PFA/4, GB.304/PFA/BS/2, GB.306/PFA/BS/1, GB.306/PFA/10, GB.307/PFA/BS/1, GB.307/PFA/7/1, GB.309/PFA/11/1.

ILO Financial Regulations.

Executive summary

This paper consists of three main parts. Part I is a description of the headquarters building renovation project, including a time frame and cost estimates. Part II contains a proposal for the financing of the project. Part III presents long-term proposals and options for future maintenance and renovation of ILO buildings and properties.

The renovation project will cover the following works: asbestos survey; renovation of the kitchens; renovation of floors 1 to 11; replacement of two “Gerber supports” along the sides of the building; installation of sprinklers in the car parks; treatment of exposed concrete; modernization of three electrical substations; refurbishment of the remaining conference rooms; renovation of office and service areas on lower floors; double glazing of the colonnade; modernization of the remaining elevators; renovation of the remaining roofs; triple glazing of office areas; and using the “Genève-Lac-Nations” project for heating.

The renovation project will be undertaken in two phases. The first phase will last from 2011 to 2015. It has an estimated cost of 89.1 million Swiss francs (CHF), 90 per cent of which can be covered from funds available in the Building and Accommodation Fund (BAF). The project will be completed during the period 2016–18, at an estimated cost of CHF114.2 million. Completion is dependent on securing funding through a number of different sources, including most likely the sale of lands and a loan to be reimbursed from future rental income.

Long-term proposals and options that may be considered to ensure that sufficient funds become available in the BAF for future maintenance and renovation of ILO buildings and properties include: a one-off increase in the regular budget, establishing a new baseline for transfers to the BAF in future biennia; a transfer of resources from other regular budget programmes; rental income; interest earned on the balance of funds in the BAF; partial transfers of net premia; and (partial) transfer of regular budget surpluses.

Introduction

1. The Subcommittee has regularly discussed the need for renovation of the headquarters building to bring it into line with current construction, safety and health standards and improve energy efficiency. The main elements of the necessary renovation works were identified in 2004.¹ A technical study undertaken in 2006 proposed a renovation plan consisting of three phases: urgent repairs and works; medium-term renovation works; and long-term works. The study estimated the total cost of the three phases together at some CHF120 million.² The initial estimate was subsequently adjusted to account for the impact of inflation, further environmental measures and to provide for a project management team, resulting in a revised estimate of CHF181.7 million.³
2. In the meantime, the Governing Body has approved funding from the BAF for the most urgent works, including repairs to the car parks, the roof and terraces of the central part of the building, sealing the pond in front of the building, refurbishing the service lifts, replacement of two boilers and replacement of smoke detectors. Most of these urgent works have been completed. At its current session, the Governing Body is being requested to approve funding of the replacement of the 16 main elevators in the building, which is now urgent and cannot be postponed until the start of the comprehensive renovation project.⁴
3. The Governing Body also approved funding for a number of less urgent but important works, all now completed, such as the installation of a lift for persons with disabilities, renovation of four conference rooms (including refurbishment of the corresponding interpreter booths) and connecting the building to the “Genève-Lac-Nations” project, which has enabled the Office to reduce its energy bills for the headquarters building cooling system and use the lake water to water the grounds and fill the pond.
4. In 2008 and 2010, upon recommendation of the Governing Body, the International Labour Conference adopted resolutions concerning treatment of the net premium earned in 2006–07 and 2008–09 transferring, respectively, CHF32,270,415 and CHF14,869,967 to the BAF to partially finance the renovation works. The resolution adopted in 2010 called upon the Office to prepare, by March 2011, a comprehensive plan for the renovation of the headquarters building and develop a long-term strategy for the financing of future maintenance and renovation of ILO buildings and properties. This paper provides such a comprehensive plan and long-term strategy.

Part I. Comprehensive plan for the renovation of the headquarters building

5. While the headquarters building, which was constructed in the early 1970s, is still structurally sound, renovation is needed for a number of reasons. Most importantly, some of the technical installations, equipment and materials have come to the end of their useful lives and are very expensive or impossible to maintain while others require replacement for

¹ GB.291/PFA/BS/4, para. 5.

² GB.297/PFA/BS/3(&Corr.).

³ GB.301/PFA/BS/1, para. 7.

⁴ GB.309/PFA/11/1.

safety reasons or to improve energy efficiency and compliance with current environmental standards. Over the last few months, the same firm of surveyors that undertook the technical study in 2006 has reviewed its findings to take account of the urgent works already undertaken and those under way as well as of new building standards, particularly in the areas of safety and health and energy efficiency.

6. The review found that the findings of the 2006 study were still relevant and provided updated cost estimates for the different works that need to be undertaken. The Office also commissioned a study of the kitchen areas, which are in need of repairs and refurbishment but were not covered by the 2006 study. In addition, on the basis of the actual cost of the renovation of the four conference rooms referred to above, the Office has made an estimate of the cost of renovating the remaining conference rooms, including the Governing Body room. The Office has also estimated the cost of renovating the three electrical substations in the building, which were not included in the 2006 study. The current comprehensive plan reflects the recommendations of these studies and cost estimates. It covers the following works (in order of priority):

- asbestos survey;
- renovation of the kitchens;
- renovation of floors 1 to 11;
- replacement of two “Gerber supports” along the sides of the building;
- installation of sprinklers in the car parks;
- treatment of exposed concrete;
- modernization of three electrical substations;
- refurbishment of the remaining conference rooms;
- renovation of office and service areas on lower floors;
- double glazing of the colonnade;
- modernization of the remaining elevators;
- renovation of the remaining roofs;
- triple glazing office areas; and
- using the “Genève-Lac-Nations” project for heating.

Asbestos

7. During the 2006 study and this year’s review, asbestos was discovered in a number of areas of the building.⁵ While analyses of the air in the affected areas have shown that there is no health risk, a complete asbestos survey, as required by current regulations, will start as soon as the comprehensive plan is approved so that the asbestos-affected materials that represent a health hazard can be removed before the actual renovation works start. Any

⁵ GB.297/PFA/BS/3(&Corr.).

asbestos removal will be undertaken by a specialized company in line with existing local regulations and international guidelines, as was done on earlier occasions.

Kitchens

8. The concrete floors in the R2 kitchen area show serious signs of deterioration. In fact, as a result of chloride infiltration, they have deteriorated to such an extent that water is leaking between floors. This poses important safety risks for the staff working in the kitchens. In addition to the structural repairs to the floors, the ventilation, plumbing and electrical installations need to be replaced in all kitchen areas (R1 and R2) and the kitchen layout adapted to modern catering techniques and current hygiene standards. Since modern kitchen equipment needs much less space, the latter will result in some 250 square metres becoming available for storage on R1.

Floors 1 to 11

9. The 2006 study found that the building needed to be better compartmentalized to effectively impede the spread of fire and facilitate the safe evacuation of its occupants. It recommended that fire barriers, emergency lighting, signage and fire detectors be either upgraded or replaced. It also recommended the installation of a sprinkler system throughout the building and measures to protect certain steel supporting beams. The installation of a sprinkler system, which requires the replacement of the false ceilings, would eliminate the need for additional stairwells and insulation of the concrete layers between floors. It should be noted that, as approved by the Governing Body in March 2010,⁶ upgrading of the smoke detectors is already under way.
10. The entire plumbing system needs replacement since it has deteriorated due to age and corrosion. A new system could also facilitate greater water conservation.
11. This year's review of the 2006 study recommends replacement of the existing heating and ventilation system, which uses induction units placed against the building facade, with a more energy efficient ceiling-based system. Since the asbestos that has been found in the insulation of the facade and the insulation materials of the heating and ventilation ducts, while not dangerous, will be removed, the additional cost of removing the induction units themselves is minimal. A ceiling-based heating and ventilation system with thermostatic controls has the advantage of gaining additional floor space. Such a system, which can be managed remotely, would also help reduce energy consumption and regulate and maintain a constant temperature throughout the building.
12. The IT cabling, lighting and electrical systems are obsolete and need to be replaced. Since the existing false ceilings will need to be removed for the installation of the sprinklers and the ceiling-based heating and ventilation system, the electrical cables and distribution boards, as well as IT cabling, will be replaced at the same time. Lighting will no longer be installed in the ceiling but rather floor lamps with presence detectors will be provided for each office. This will also contribute to the reduction of energy consumption in the building.
13. The 2006 study found that the joints between the window frames and the concrete facade were ineffective in terms of insulation. The windows themselves also need to be replaced since the double glazing has reached the end of its useful life and presents a number of

⁶ GB.307/PV, para. 209.

problems, including defective seals, a low insulation coefficient, and no protection in the event of an explosion. In addition, safety should be improved by ensuring that windows only open partially at the top by tilting. The external blinds on the windows are regularly damaged by storms and high winds and have to be constantly repaired or replaced. This will be addressed by fitting the windows with larger blinds, manufactured specifically for exterior use. To solve these different issues in one go, prefabricated, fully insulated floor-to-ceiling aluminium frames will be installed that incorporate a 1-metre high closed panel and triple-glazed laminated windows.

14. In conjunction with the replacement of the false ceilings, the inter-office wall partitions will be removed since they consist of two panels of agglomerated wood with an internal insulation panel containing asbestos cement (the recommended standard fire-retardant material at the time of the construction of the building). Existing carpets will be removed and replaced by anti-static carpets or linoleum. The 2006 study contained a range of proposals on better use of space including the introduction of more open-plan areas, common service areas, improved archiving and storage areas, and fire-barrier safety zones. The recommendations on better design and layout of space were intended to improve the working environment and to facilitate better communication and more collaborative working arrangements in the Office. Final plans for the new office layout will be developed in consultation with staff representatives. Better use of the available space will also create an opportunity to rent out space in the building to third parties.

Replacement of two “Gerber supports”

15. As recommended by the 2006 study, all “Gerber supports” in the car park areas have already been replaced as part of the urgent works in 2008–09. Two such supports along the sides of the building, which are difficult to access, still need to be replaced however.

Sprinklers in the car parks

16. Installation of sprinklers in the car parks is essential for obvious fire safety reasons. It has been repeatedly recommended by insurance underwriters and building consultants in the past but was not included in earlier proposals due to budgetary constraints.

Treatment of exposed concrete

17. The lower concrete parts of the building facade and the exterior car park walls suffer from carbonation and need to be repaired.

Electrical substations

18. The three substations that distribute electricity throughout the building date from the original construction. Since then, the standards concerned have changed considerably and spare parts are no longer available. It is therefore imperative to modernize them.

Conference rooms

19. As indicated earlier, four conference rooms have already been renovated. The remaining seven conference rooms need to be brought up to the same standard, particularly as concerns audio-visual installations, interpreter cabins and installation of sprinklers.

Lower floors

20. All office and service areas located on the lower floors (S2 to M3) will undergo the same renovation as the offices located on floors 1 to 11.

Colonnade

21. The current single glazing in the colonnade will be replaced by laminated double glazing. This will considerably improve its insulation, thus reducing the need to heat or cool the colonnade, and protect against breakage.

Elevators

22. While the two main service lifts have already been renovated and the Governing Body is requested to approve renovation of the 16 main elevators at its current session, the remaining elevators in the building are still in relatively good working order. They will however reach the end of their normal useful lives in the second half of this decade. Their renovation is therefore included in the current comprehensive plan and will avoid substantial increases in maintenance costs later on.

Roofs

23. The roof of the main building was renovated in 2008–09. The remaining roofs at the north and south ends of the building need to be waterproofed and insulated. The latter will also help to further improve the energy efficiency of the building.

Greening of the building

24. The renovation works proposed under this comprehensive plan would have a considerable positive impact on the energy efficiency of the building. This year's review of the 2006 study includes two proposals to achieve even greater energy efficiency and reduce the building's carbon footprint by half. The first involves installing triple glazing (instead of double glazing) in all office areas. The second consists of using the "Genève-Lac-Nations" project also for heating the building. Both have been included in the renovation project since they are in line with the Strategic Policy Framework target of achieving climate neutrality and would reduce the need to buy carbon offsets to reach this goal.

Time frame

25. For technical, financial and safety reasons, it is proposed to undertake the renovation in two phases. The first phase, from 2011 to 2015, includes a preparatory period to undertake the complete asbestos survey, prepare detailed technical specifications and workplans, arrange for temporary office accommodation and complete the necessary public procurement and international bidding processes. The actual works would start as soon as possible with the kitchens, followed by the renovation of two-thirds of floors 1 to 11 between 2013 and 2015. Renovation of floors 1 to 11 is considered urgent for safety and health reasons and because most of the equipment and installations on these floors are obsolete. It is proposed to start with two-thirds of the floors rather than the whole building since moving all staff out of the building at the same time presents serious logistical

problems and would considerably increase the cost of temporary accommodation (see also paragraphs 28–33 below).

26. The final phase, from 2016 to 2018, would complete the renovation of the remaining one third of floors 1 to 11 and then involve all other works in the order indicated in paragraph 6 above. The renovation of the remaining one third of floors 1 to 11 is based on a rolling plan and could be brought forward should sufficient funds become available earlier. Appendix I shows the planned timing of the different works in more detail.

Cost estimate

27. Appendix II provides the estimated costs of the renovation activities to be undertaken during the two phases at an estimated total cost of CHF203.3 million. This amount includes not only the estimated cost of the renovation works but also all preparatory work, construction of temporary offices, project management, a provision for inflation, as well as provisions for insurance and unforeseen and miscellaneous expenses. The figures are based on the cost estimates of the different studies, the advice of consultants and the experience gained with the urgent renovation works undertaken over the last few years, both in terms of the actual cost as compared to the original estimates and the way the Office has managed them. The cost estimates will be further refined during the preparatory period (2011–12) when competitive procurement processes will be undertaken.

Temporary accommodation

28. Undertaking the renovation of floors 1 to 11 concurrently over a period of some three years limits the duration of the disruption that the renovation will cause. It does, however, make it necessary to completely close off two-thirds of the floors during most of the period 2013–15 and one third during the latter part of 2015 and all of 2016. This implies moving at least some 600 officials to temporary accommodation, with a surface area of approximately 8,000 square metres, and reducing the space available to the officials that will remain in the building. Three options were considered for temporary accommodation: rental of commercial office space in Geneva; buying pre-fabricated buildings to be equipped as offices; and construction of a building on plot 3844 (see Appendix III for location of this plot).
29. According to a study commissioned by the Office, the first option, renting commercial office space on the open market, would have an approximate total cost of CHF13.5 million, including moving and the operation of a shuttle service for the duration of the works. In addition to its considerable cost, this option has the disadvantage of the logistical problems, and the resulting diminished productivity, that would be the consequence of operating in two physically separate locations during an extended period. Moreover, while according to the study sufficient space is currently available in the Geneva market, availability at an uncertain future date when the works may commence cannot be assured. In addition, it may be difficult to negotiate a contract at a reasonable rate for a period of about three years since most office leases in Geneva are signed for longer periods, usually with a minimum of five years.
30. The second option consists of installing pre-fabricated temporary office buildings that would be placed on the headquarters grounds. This would have the advantage of maintaining all staff in one physical location with easy access to all common services and infrastructure on the lower floors of the headquarters building. Additionally, given the modular nature of pre-fabricated buildings, this option would enable the ILO to adapt the timing, number, layout and equipment of the buildings to its specific needs.

31. Purchasing the pre-fabricated buildings required would cost some CHF8 million, including preparation of the terrain, moving costs and connecting the pre-fabricated buildings to the ILO's water, electricity and IT infrastructure. Once the renovation of floors 1 to 11 is completed, the pre-fabricated buildings could be sold. The income from the sale (expected to be around CHF1.7 million) would revert to the BAF.
32. The third option, construction of a building on plot 3844, seems less appropriate given the fact that construction could only start once new zoning for this plot comes into effect, possibly under the type of construction/lease-back arrangement discussed by the Subcommittee in 2008.⁷ Both the rezoning and the construction are time-consuming processes, involving a large number of different parties. It is in fact impossible to predict how many years these processes would take to complete, which makes it difficult to undertake a realistic cost-benefit analysis. Account also needs to be taken of the fact that the expected delays in realizing this option would result in higher regular maintenance expenses (because of the obsolescence of many of the installations) and further increases in the cost of the renovation works as a result of inflation.
33. For the reasons outlined above, the second option (pre-fabricated buildings) is the one retained in the comprehensive plan and its cost is reflected in Appendix II.

Management aspects

34. The recently created Department of Facilities Management (FACILITIES) will be responsible for the management and supervision of the renovation works. It will be guided by a steering committee made up of the Executive Director of the Management and Administration Sector, the Treasurer and Financial Comptroller, a representative of the Director-General's Office, a representative of the Legal Adviser and (ex officio) the Director of FACILITIES. The Office will set up a special project team for the planning and implementation of the renovation, similar to the one responsible for the execution of the urgent works in 2008-09. The team, which will be supported by external experts in construction management, will be led by the Director of FACILITIES. It will include colleagues from the different services concerned, including the Department of Central Services, Security and Protocol, the Procurement Bureau, the Office of Legal Services, the Health Services Unit, the Chairperson of the Advisory Committee on Occupational Safety and Health and a number of construction specialists such as an engineer, a safety expert and other technical staff to be recruited as may be required on a short-term basis. The Office will also set up an internal consultation mechanism to ensure that staff are kept fully informed of developments and consulted, as appropriate.
35. It is proposed that an overall contract for the execution of the renovation works will be awarded to a general contractor on the basis of a competitive bidding process as was done for the urgent works undertaken earlier. The general contractor will work under the supervision of the project management team.

Risks and assumptions

36. Appendix IV contains a high-level risk register. A more detailed risk register will be developed during the preparatory period. The plan assumes that the time required for the asbestos survey, drawing up detailed technical specifications and completion of the bidding process will not exceed two years. It further assumes that the installation of the

⁷ See GB.303/PFA/4.

temporary offices can be completed by the end of 2012 and that inflation rates during the renovation period (2011–18) will remain stable.

37. A potentially more important risk is that asbestos is found in places other than those which have already been identified. This would result in higher than foreseen removal and isolation costs and implementation delays, which in turn would have a cost impact. Unforeseen technical issues may also arise during the execution of the works that could result in delays and higher costs.
38. To mitigate the above risks, the cost estimates in Appendix II include a provision for unforeseen expenses.

Part II. Financing

First phase

39. As indicated in Appendix II, the first phase of the renovation would require CHF89.1 million. An amount of CHF68.3 million has been set aside in the BAF for its initial financing⁸ and is available for immediate use. In addition, a further CHF3.3 million could be allocated from the BAF long-term financing reserve which, together with a portion of existing regular budget provisions and interest earned on the funds in the BAF, would cover 90 per cent of the estimated cost for the first phase.
40. As discussed in Part III of this paper, the BAF long-term financing reserve has been funded through regular budget contributions from Part IV of the budget since 2008–09. The provision for future renovations of the headquarters building need only commence once the current renovation project is completed. As such, this reserve should contain an amount equivalent to 1 per cent per annum of the insured value of non-headquarters property calculated since the date of the property's acquisition. At the end of the current biennium, the reserve will contain some CHF3.3 million in excess of this notionally required balance and could be transferred from this reserve towards the headquarters renovation project. Furthermore, of the current biennial provision of CHF2.9 million (US\$2.9 million) in the regular budget for this reserve, only CHF360,000 is required for external offices leaving CHF2.5 million per biennium as a further contribution towards the current project.
41. In summary, funding available for the first phase of the headquarters renovation project comprises:

Table 1. Available funding

Funding source	Million CHF
Headquarters renovation works (BAF)	68.3
Transfer from long-term reserve (BAF)	3.3
Part IV provisions 2012–15 (projected)	5.0
Interest earned	2.5
Total	79.1

⁸ After providing for the renovations of the elevators proposed in GB.309/PFA/11/1.

42. To complete the first phase of the project, a further CHF10 million would be required. Should funding from other sources not become available prior to the end of this phase of the project, this shortfall could be temporarily funded from the Working Capital Fund,⁹ through a loan or through a combination of these two sources.
43. The Working Capital Fund can, subject to prior authorization of the Governing Body, be used to provide advances to meet contingencies.¹⁰ The Fund would be reimbursed as soon as income from the sale of land or other sources became available.¹¹ In the event that a commercial loan be required, a one-year loan of CHF10 million would incur annual interest costs of CHF80,000 (at current interest rates). Such a loan would only be required if savings in the estimated costs of the works were not realized; or if the sale of lands had not materialized by 2015 or if other sources of income had not become available and the Working Capital Fund had been exhausted due to the late payment of assessed contributions by member States. The use of the Working Capital Fund is proposed as a contingency measure to cover any potential financing shortfall in the first phase of the renovation project.

Completion of the renovation project

44. The completion of the renovation is estimated to cost CHF114.2 million. The Governing Body has previously considered different options for financing the renovation project.¹² Leaving aside the possibilities of transfers from future unforeseen surpluses, a contribution from the host country and direct contributions from member States, the following two possibilities have been retained for the purpose of this comprehensive plan: sale of two non-strategic plots of land and use of rental income to service a commercial loan.

Sale of land

45. The Office has been engaged in extensive consultations with the Swiss authorities on opportunities to develop for sale two non-strategic plots (3844 and 3924 in Appendix III). The value of these two plots relates directly to the applicable planning regulations. The table below presents different valuation scenarios at each phase of development of the plots. Notwithstanding the considerable work undertaken to prepare the land for potential sale and development, until the Swiss authorities complete the necessary legal changes and administrative procedures, significant uncertainty remains as to the timing and final development potential, and consequently the valuation, of the lands. While the estimated values reported in this section have been provided by property management and construction experts and represent best estimates to date, they can only be indicative given the uncertainties. Explanations of the development phases are provided following table 2.

⁹ ILO Financial Regulations, Chapter V.

¹⁰ ILO Financial Regulations, article 19.

¹¹ ILO Financial Regulations, article 21.

¹² GB.300/PFA/BS/2; GB.301/PFA/BS/1 and GB.304/PFA/BS/2.

Table 2. Estimated valuation scenarios (in million CHF)

	Current value	Zone 3 and local development plan	Construction permit
<i>Avenue Appia</i> , Plot 3844 7,250 square metres	8.4		
Outcome 1		26.3	36.8
Outcome 2		48.3	66.5
<i>Route de Ferney</i> , Plot 3924 21,109 square metres	15.5	50.5	64.5

46. The development potential of the *Avenue Appia* plot ranges from 14,000 square metres to 24,000 square metres of office space. At present, possible opposition to maximizing the development potential has not been resolved and official approval can therefore not be assumed. For this reason, the lower square metres estimate has been retained for planning purposes. As opposition to the *Route de Ferney* development is considered less likely, no alternative estimates are incorporated in the plan.
47. The current estimated values are based on an independent professional valuation, which was reviewed by the External Auditor. They are based on the current legal status of the plots as well as existing land use and planning regulations. The Office has leasehold rights on plot 3924, with 64 years remaining of a 99-year lease, while plot 3844 is held in freehold.
48. The local authorities have prepared a draft law which would rezone, inter alia, all four plots of ILO land to “Zone 3 development” designating it as being of priority use for international organizations. This would immediately increase the construction potential of the land. The ILO has expressed reservations as to certain conditions imposed in the draft law but is currently discussing a solution with the Swiss authorities.
49. In order to develop the land and offer it for sale, a local development plan (PLQ) must be approved by the local authorities. The Office has, in collaboration with the local authorities, been working on an overall development plan for the ILO site which would provide for broader use of the land and significantly increased construction densities while satisfying local planning requirements. A PLQ has been drafted for the *Avenue Appia* site which, if approved, would allow between 14,000 and 24,000 square metres of office space to be built on the plot.
50. Whilst a similar process would be followed for the *Route de Ferney*, this development is more complex due to the ILO having only leasehold title of the land. Discussions continue with the local authorities on a revision to the terms of this lease so that a PLQ for this plot may be drafted, optimizing its valuation for the ILO.
51. The value of the land increases significantly if it is offered for sale with an approved construction permit. This phase would require the preparation of architectural drawings, bills of quantity and engineering studies. It would not include the bidding or actual construction work.
52. The amounts presented in the table above are net of professional fees that would be required to achieve the different stages of development. In all cases, the estimated values should be considered indicative as it is difficult to accurately predict market values at an unknown future date.
53. In addition to market volatility and uncertainty about timing, the final value of the constructed floor space will vary depending on decisions relating to, inter alia, the final

purchaser and any requirements which may be agreed for social housing. For the purposes of the comprehensive plan, a mid-point of current market prices has been applied to estimate possible income flows for the sale of both plots.

Rental income

54. Following the renovation of the building, it is anticipated that additional space will be available for rent. The Office estimates that improved space management, including greater use of open space, will make it possible to lease between one and two floors to third parties.
55. For the purposes of this comprehensive plan, it is assumed that the equivalent of one floor and a half could be leased once the renovation has been completed. Lease income would provide sufficient financing for a CHF50 million commercial loan.¹³ Should additional space be available for lease, any income earned would, in accordance with the Financial Regulations, be credited to the BAF.

Conclusion

56. The total estimated cost of the project is CHF203.4 million. Since the project concerns the renovation of an existing building, the construction consultants and experts who prepared the cost estimates indicate that the actual cost may vary by plus or minus 20 per cent, which is the industry standard for this type of project. In this context it should be noted that the project budget includes a provision to cover unforeseen expenses.
57. Available and estimated resources are summarized in the following table:

Table 3. Available and anticipated resources

	Million CHF
Available (see table 1 above)	79.1
Estimated	
Sale of <i>Avenue Appia</i> plot	26.3
Sale of <i>Route de Ferney</i> plot	50.5
Rental financing	50.0
Total	205.9

58. As outlined in this document, sufficient resources should be available to complete the renovation project following the development and sale of the two plots of land. The timing of these transactions remains uncertain due to the complexity of the ongoing consultations with the Swiss authorities at different levels. Therefore, contractual arrangements would be restricted initially to the first phase of the project. Governing Body authorization would be sought for financing the final phase, should the necessary resources not have materialized from the sale of lands or other sources. Furthermore, the approval of the Conference on the recommendation of the Governing Body would be sought for any long-term lending required to finance the completion of the renovation. Should other sources of funding materialize, or the sale of lands occur earlier than the completion of the first phase, the implementation plan would be revised to accelerate the completion of the renovation of floors 1 to 11 and the remaining works accordingly.

¹³ Loan amortization 50 years; interest rate 2.5 per cent.

59. *The Subcommittee may wish to propose that the Programme, Financial and Administrative Committee recommend to the Governing Body that it:*

- (a) approve the comprehensive plan for the renovation of the headquarters building as set down in this paper;*
- (b) authorize the Director-General to commence the first phase of the renovation project immediately at an estimated cost of CHF89.1 million; and*
- (c) authorize the use of the Working Capital Fund and/or a loan should this be necessary to complete the first phase of the renovation project.*

Part III. Long-term strategy for the financing of future maintenance and renovation of ILO buildings

- 60.** By its nature, the maintenance of buildings requires irregular investments to address their ageing and use. Over the medium-term, this maintenance requirement can be significant and financing should be accumulated to meet the costs as they fall due. In order to provide the financial resources for timely, quality periodic refurbishment and major maintenance, a refurbishment fund should be established and funded on a consistent and regular basis from the biennial regular budget.
- 61.** Industry professionals have advised that an annual amount of 1 per cent of the insurance valuation of the buildings should be set aside for non-routine maintenance. Such a provision is additional to the regular operating costs of the buildings and any exceptional renovation work not attributable to wear and tear.
- 62.** Based on current insurance valuations of ILO properties, a provision of 1 per cent would amount to \$4.3 million per annum (or \$8.6 million per biennium). As reflected in the table below, of this amount, \$4.1 million relates to the headquarters building and some \$180,000 to external offices.

Table 4. Valuations and provisions (in thousand US\$)

	Insurance value	Annual provision (1 per cent)
Headquarters – Geneva	410 680	4 107
Lima	2 400	24
Brasilia	2 841	28
Abidjan	4 800	48
Dar es Salaam	1 500	15
Buenos Aires	381	4
Islamabad	1 670	17
Santiago	2 547	25
Brussels	677	7
New Delhi	1 163	12
Total	428 659	4 287

63. Based on the age and period of ownership of the ILO properties, the application of the 1 per cent standard would normally have resulted in a desirable level for the reserve fund of \$150.4 million as at 31 December 2009. Excluding the headquarters building, the desirable level would have been \$2.6 million. Given that the planned renovation of the headquarters building is intended to be financed from other sources, it is appropriate to exclude it from the calculation of the targeted theoretical level as at 31 December 2009.
64. The ILO has a BAF¹⁴ to partially address major building maintenance needs. Resources within this fund, and those transferred to it from the biennial budget, are inadequate to meet the short-term and long-term needs of the Organization. Currently, \$177,000 (CHF190,000) per annum is transferred from Part I of the budget to the BAF. A further \$1.46 million (CHF1.56 million) is transferred from Part IV of the budget each year to meet future long-term renovation or refurbishment needs. In addition, net rental income of some \$250,000 per annum is credited to the BAF. Consequently, the average total annual inflow is \$1.89 million.
65. As at 30 September 2010, the BAF consisted of the following uncommitted balances:

Table 5. BAF balances

	Million US\$
Regular account	3.6
Long-term financing ¹	3.2
Sub-total	6.8
Headquarters renovation	72.6

¹ Prior to the transfer of \$2.9 million from Part IV of the Programme and Budget for 2010–11.

66. The possible use and management of the regular BAF account is prescribed in the Financial Regulations. Combined, the regular account and the long-term financing provision showed an available balance of \$6.8 million as at 30 September 2010, which exceeds the theoretically required level of \$2.6 million, referred to in paragraph 63 above, on the assumption that the planned headquarters renovation is financed from other sources.
67. The currently available resources for headquarters renovation (\$68.3 million) have been accumulated following transfers from prior biennia net premia and income surpluses that were approved in 2008 and 2010 by the International Labour Conference upon recommendation by the Governing Body. These transfers were fortuitous and have enabled a significant sum to be reserved for the headquarters renovation.
68. To provide an adequate and secure annual provision of \$4.3 million, a further \$2.4 million would be required from the regular budget. This could be provided by a one-off increase in the budget, establishing a new baseline for future biennia; a transfer of resources from other regular budget programmes to the BAF; or a mixture of the two options.
69. Other sources of funding which could reduce the charge on the regular budget but would not necessarily be as predictable could include:
- (a) rental income: any increase in net rental income that was not required to finance borrowings for the headquarters renovation could be transferred equally to the long-term financing reserve of the BAF and the regular BAF account;

¹⁴ ILO Financial Regulations, article 11(3) and Financial Rule 3.32.

- (b) interest earned on the balance in the BAF would continue to be retained in the BAF. As the balance available in the BAF increased, interest earnings should similarly increase;
- (c) net premia: the 50 per cent of the net premia currently distributed to all member States could, in future, be transferred to the BAF. The remaining balance of any net premium would continue to be available to the Incentive Fund to encourage the early payment of assessed contributions. Table 6 below shows the amount that would have been transferred to the BAF since the introduction of the Swiss franc assessments and the net premium account, if this approach had been applied; and
- (d) surpluses: regular budget surpluses, or a percentage thereof, could be transferred to the BAF rather than being returned to member States¹⁵ or, since the 2002–03 biennium, the Special Programme Account.¹⁶ Table 7 shows separately budgetary and income surpluses that could have been transferred over the past ten biennia should this option have been implemented.

Table 6. Notional transfers

Biennium	US dollars
1990–91	3 742 774
1992–93	623 537
1994–95	2 355 345
1996–97	628 105
1998–99	7 177 159
2000–01	3 887 889
2002–03	248 459
2004–05	1 625 063
2006–07	14 153 691
2008–09	14 436 861

¹⁵ ILO Financial Regulations, article 18(2).

¹⁶ ILO Financial Regulations, article 18(3).

Table 7. Budgetary and income surpluses (in thousand US\$) ¹⁷

Biennium	Budgetary surplus	Income surplus/(deficit)	Total surplus/(deficit)
1990–91	–	–	11 068
1992–93	–	–	15 632
1994–95	–	–	(35 380)
1996–97	–	–	16 777
1998–99	12 493	13 741	26 234
2000–01	268	60 899	61 167
2002–03	150	(11 661)	(11 511)
2004–05	532	(36 570)	(36 038)
2006–07	785	31 433	32 218
2008–09	1 255	18 570	19 825

- 70.** The Subcommittee may wish to express its views on the different possibilities outlined above and provide guidance to the Programme, Financial and Administrative Committee concerning the long-term strategy for the financing of future maintenance and renovation of ILO buildings.

Geneva, 28 October 2010

Point for decision: Paragraph 59

¹⁷ Different financial policies prior to the 1998–99 biennium do not provide separate identification of the two surplus components.

Appendix I

Time frame for the renovation of the headquarters building

	2011	2012	2013	2014	2015	2016	2017	2018
Preparatory work	■							
Renovation of the kitchens		■						
Renovation of two-thirds of floors 1 to 11			■					
Renovation of the remaining one third of floors 1 to 11						■		
Replacement of two "Gerber supports"						■		
Installation of sprinklers in the car parks						■		
Treatment of exposed concrete							■	
Modernization of three electrical substations							■	
Refurbishment of remaining conference rooms							■	
Renovation of office and service areas on lower floors							■	
Double glazing of the colonnade								■
Modernization of the remaining elevators							■	
Renovation of the remaining roofs								■

Appendix II

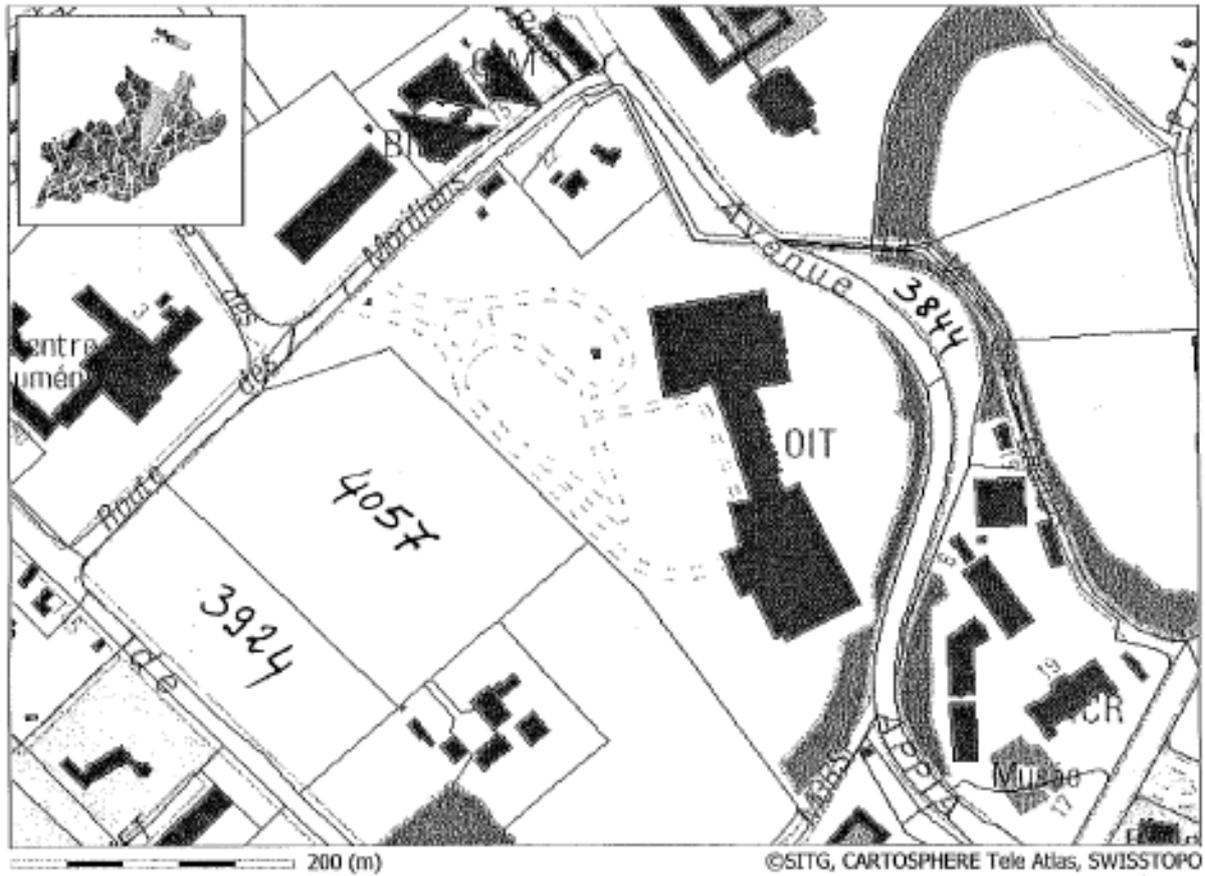
Cost estimate for the headquarters building renovation project (in thousand CHF)

	2011–15	2016–18	Total
Direct costs			
Asbestos survey	336		336
Kitchens	4 144		4 144
Floors 1 to 11	55 776	29 904	85 680
Replacement of "Gerber supports"		1 792	1 792
Sprinklers in car parks		1 568	1 568
Treatment of exposed concrete		2 688	2 688
Electrical substations		2 240	2 240
Conference rooms		8 960	8 960
Lower floors		22 064	22 064
Double glazing colonnade		3 584	3 584
Remaining elevators		1 792	1 792
Remaining roofs		4 032	4 032
Triple glazing office windows	672	336	1 008
Use of "Genève-Lac-Nations" project for heating		9 184	9 184
Subtotal	60 928	88 144	149 072
Other costs			
Temporary offices	7 500		7 500
Moving costs	1 500	500	2 000
Project management	6 000	3 000	9 000
Unforeseen	7 100	10 200	17 300
Insurance and miscellaneous	400	500	900
Subtotal	22 500	14 200	36 700
Inflation	5 700	11 900	17 600
Grand total	89 128	114 244	203 372

Appendix III

Plots 4057, 3844, 3924

Scale: 1:4771



Date: 29.09.2006

Key:

- Buildings above ground
- Plots
- ◆ City plan, general

Coordinates:

 Xmin=498856

 Xmax=499696

 Ymin=120318

 Ymax=120918

Appendix IV

Risk Register

Risk	Consequences	Likelihood	Action to be taken
1. Asbestos survey shows more asbestos than expected	Higher cost of removal and/or isolation	Medium	Adjust budget
2. Preparing specifications takes longer than expected	Start of works delayed Cost increase possible	Low	Adjust time frame and budget
3. Bidding processes take longer than expected	Start of works delayed Cost increase possible	Low	Adjust time frame and budget
4. Inflation is higher than expected	Cost increase	Low	Adjust budget
5. Construction of temporary offices takes longer than expected	Start of works delayed	Low	Penalty clauses in contract to compensate for delay
6. Unforeseen technical problems during implementation	Cost increase	Medium	Adjust time frame and budget
7. Cost increases resulting from above risks exceed provision for unforeseen expenditure	Renovation cannot be completed as planned	Low	Delay part of the works until fresh funds available and adjust budget accordingly
8. Quality of renovation works below standard	Repair works needed	Low	Retain 10 per cent of contract price until works formally accepted
9. Sale of two plots of land not realized by end 2015	Renovation cannot be completed as planned	Low	Reduce scope of final phase or consider bridging finance
10. Income from sale of land lower than expected	Renovation cannot be completed as planned	Medium	Reduce scope of final phase
11. Space available after renovation of floors 1 to 11 cannot be let or only partially let	Expected income not (or not fully) realized	Low	Reduce scope of final phase
12. Borrowing costs increased due to higher interest rates	Reduced borrowing potential	Medium	Revise lease arrangements to finance loan; seek alternative financing; reduce scope of final phase
13. Safety and health standards not respected by contractors	ILO reputation at risk and possible litigation	Low	Ensure safety and health expertise on-site as part of project management team