Governing Body

310th Session, Geneva, March 2011 **GB.310/PFA/BS/2**

Building Subcommittee **PFA/BS**

FOR DECISION

SECOND ITEM ON THE AGENDA

Long-term strategy for the financing of future periodic refurbishment and renovation of ILO buildings

Overview

Issues covered

This paper provides information on the long-term strategy for the financing of future periodic refurbishment and renovation of ILO buildings.

Policy implications

None.

Financial implications

The paper sets out a strategy which would require the Governing Body to consider additional financing as part of its consideration of future programmes and budgets.

Decision required

The Subcommittee may wish to propose that the Programme, Financial and Administrative Committee recommend to the Governing Body that it endorse the long-term strategy for the financing of periodic refurbishment and renovation of all ILO buildings as proposed in paragraph 9 of this document.

References to other Governing Body documents and ILO instruments

GB.309/PFA/BS/2(&Corr.); ILO Financial Regulations, article 11(3); ILO *Provisional Records* No. 11 and No. 19, International Labour Conference (99th Session, Geneva, June 2010).

1. At its 99th Session (June 2010), the International Labour Conference approved the transfer of one half of the net premium earned in 2008–09 to the Building and Accommodation Fund (BAF) to finance partially the renovation of the headquarters building subject to, inter alia, the development by the Office of a long-term strategy for the financing of future periodic refurbishment and renovation of ILO buildings and properties. At its 309th Session (November 2010), the Governing Body provided further guidance to the Office on the content of this strategy. The current document proposes a strategy for endorsement by the Governing Body.

2. By its nature, the maintenance of buildings requires irregular investments to address their ageing and use. While standard and routine maintenance is accommodated out of ongoing costs, structural and other major refurbishment requirements can be significant and irregular. Financing should be accumulated to meet the costs as they fall due. In order to provide the financial resources for timely periodic refurbishment and major structural works, a long-term reserve fund should be established and funded on a consistent and regular basis.

3. 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 periodic refurbishment and renovation. Such a provision would be additional to the regular operating costs of the buildings and routine maintenance, and any exceptional renovation work not attributable to wear and tear.

4. Based on current insurance valuations of all ILO-owned properties (2010), a provision of 1 per cent would amount to US$4.3 million per annum (or $8.6 million per biennium).

Table 1. Valuations and provisions (US$'000)

	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 non-headquarters	**17 979**	**180**
Total	**428 659**	**4 287**

5. The current renovation project for the headquarters building, once completed (forecast for 2018), will result in a fully renovated building for which provision of a reserve for this building should then commence. Table 1 above shows that the annual provision currently required for the headquarters building is $4.1 million ($8.2 million per biennium). The annual provision for non-headquarters properties is $180,000 ($360,000 per biennium). Once the headquarters renovation is completed, it is only then that the full annual provision of $4.287 million ($8.574 million per biennium) would be required.

6. In 2008–09, a provision of $2.54 million was included in Part IV of the regular budget for long-term building maintenance. In 2010–11, a further $2.92 million was provided. After accounting for exchange gains and interest, a total of $6.3 million is available in the BAF for this purpose. Based on the age and length of ownership of non-headquarters properties, the application of the 1 per cent standard would result in a desirable level of $2.96 million as at 31 December 2011. As the total available in the BAF for this purpose exceeds the desirable level, the Governing Body, at its 309th Session (November 2010), approved the use of $3.3 million as part of the financing plan for the first phase of the headquarters building renovation. [1]

7. On the assumption that the current level of the regular budget provision for future periodic refurbishment and renovation will be maintained, the approved financing plan for the first phase of the headquarters renovation also includes the use of the portion of the provision that exceeds the rate of accumulation required for the non-headquarters properties. This amounts to $2.5 million per biennium (i.e. $2.92 million less $360,000) during the period 2012–15.

8. Maintaining the Part IV provision at its current level in real terms would ensure adequate provision for the future refurbishment and renovation of non-headquarters properties. To provide a secure annual provision of $4.3 million for all ILO buildings, including headquarters once the renovations are completed in 2018, the current provision within Part IV of the regular budget would have to be increased by a further $2.8 million per year ($5.6 million per biennium). This can be achieved through the following mechanisms:

(a) Rental income: The Financial Regulations provide for net rental income to be transferred to the BAF. [2] Any net income generated from leasing surplus office space in the headquarters building or any other ILO buildings, and not required to finance borrowings for the headquarters renovation, would be transferred to the long-term reserve in the BAF. The current standard annual rental rate is 450 Swiss francs (CHF) per square metre. If the equivalent of an entire floor were leased at this rate, some CHF1.8 million of gross rent would be generated (net CHF 1.2 million). The financial plan for the headquarters renovation envisages a commercial loan that would have servicing costs at current interest rates of CHF1.8 million, or 1.5 floors. The full rental capacity of the renovated offices will be known once detailed planning and drawings have been completed over the next 18 months, but current estimates range from one to three floors. The opportunity to lease surplus office space will arise once the renovation project has been completed in 2018.

(b) Interest earned on temporarily surplus funds in the BAF would continue to be retained in the BAF and apportioned to the accounts from which it derives. In 2008–09, the funds in the long-term reserve accrued $84,316 in interest. As the balance available in the BAF increased, interest earnings should similarly increase.

(c) An increase in the amount provided under Part IV of the regular budget to complement rental and interest income. The Governing Body will consider the use of savings and efficiency gains identified elsewhere within the budget, together with opportunities to rationalize and prioritize resource usage in order to increase the current provision, and achieve the targeted level of 1 per cent. Given the decisions taken on the use of part of the current regular budget contribution as part of the financing plan for the first phase of the headquarters renovation (paragraph 6 above), an advance accumulation in the reserve in respect of headquarters would begin in

[1] GB.309/PFA/BS/2(&Corr.).

[2] ILO Financial Regulations, article 11(3).

2016–17. An opportunity to increase this accumulation would exist in the 2018–19 biennium with the full provision planned for the Programme and Budget for 2020–21 (the first full biennium following completion of the headquarters renovation). Within the context of its consideration of each programme and budget, it will be for the Governing Body to make recommendations to the International Labour Conference on the level of the provision within the regular budget each biennium, based on the Director-General’s proposals.

(d) Other unforeseen sources of additional income could also be considered by the Governing Body for transfer to the long-term reserve. Should any income surpluses or net premiums arise, the Governing Body may, on an exceptional basis, consider recommending the allocation of all or a proportion of such funds to the long-term reserve of the BAF. Such a decision would be subject to the Governing Body’s consideration of other priorities at that future date.

9. ***The Subcommittee may wish to propose that the Programme, Financial and Administrative Committee recommend to the Governing Body that it endorse the long-term strategy for the financing of periodic refurbishment and renovation of all ILO buildings as proposed in paragraph 8 of this document.***

Geneva, 31 January 2011

Point for decision: Paragraph 9