TENTH ITEM ON THE AGENDA

Report of the Building Subcommittee

1. The Building Subcommittee of the Programme, Financial and Administrative Committee (PFAC) met in Geneva on 10 March 2008. The Officers of the Subcommittee were: Mr S. Paixão Pardo (Government member, Brazil), Chairperson and Reporter; Mr D. Lima Godoy (Employer member), Vice-Chairperson; Mr Khurshid Ahmed (Worker member), Vice-Chairperson.

Financing the renovation and modernization of the ILO headquarters building

2. The Subcommittee had before it a paper [1] providing updated estimates of the cost of the renovation and modernization project, together with details of specific proposals for the partial financing of the project and options for financing the unfunded balance.

3. The Treasurer and Financial Comptroller introduced the document, highlighting the main points raised as well as the financing proposals included in the points for decision. He drew attention to two documents [2] submitted to the PFAC. While those papers were not before the Building Subcommittee, the support of the Building Subcommittee for those proposals would be important.

4. The Employer Vice-Chairperson thanked the Office for a clear and comprehensive document. The Subcommittee was now at a crucial stage in an important project. In the new figures put forward by the Office, an annual inflation rate of 4 per cent had been retained, based on an average increase of the construction price index in Geneva between 1999 and 2007. That assumption could well turn out to be an optimistic forecast, in light of global construction price increases in recent years. The Employers fully supported the Office's proposal in paragraph 6 of the document to set up an internal project management team, headed by a specialist who would lead the project through to its conclusion. The project manager leading that team would have to deal with complex legal and technical questions and would also be a key interlocutor for the members of the Building Subcommittee. As on other occasions, the Employer Vice-Chairperson urged the Office to

[1] GB.301/PFA/BS/1.

[2] GB.301/PFA/1/2 and GB.301/PFA/1/3.

demonstrate its capacity to enhance productivity by reallocating existing staff resources to absorb the cost of the team. He endorsed the proposal in paragraph 9 of the document to recommend a transfer to the Building and Accommodation Fund (BAF) of 32 million Swiss francs through the "net premium" mechanism. Furthermore, the total income surplus for the 2006–07 biennium should be transferred to the BAF, rather than the 50 per cent proposed by the Office. He said that he was pleasantly surprised to note the estimated value of 40–60 million Swiss francs for the sale of the ILO's leasehold and requested clarification on the revised estimated value. He asked why the Office had not included in the document the option of selling other plots of land. The idea of temporary additional assessments of member States' contributions was a question to be debated essentially by governments. The Employer Vice-Chairperson reiterated the view expressed by them at past sessions that a commercial loan should be envisaged only as a last resort.

5. As a general comment, the Worker Vice-Chairperson pointed out that delays in decision-making would lead inevitably to further increases in cost. The ILO should make efforts to reduce the duration of the renovation project with a view to lowering costs. The experience of the major renovation projects at the United Nations in New York and UNESCO in Paris would be helpful in that regard. The Worker Vice-Chairperson requested more information on the additional environmentally friendly and energy-efficient options, amounting to 21 million Swiss francs, proposed in paragraph 3 of the document. The estimated savings made as a result of those new energy efficiencies should have been indicated. The Workers strongly supported the idea of finding solutions to reduce the duration of the project. The Worker Vice-Chairperson agreed that the net premium earned during 2006–07 could usefully be transferred to the BAF and supported the Office's proposal to allocate 50 per cent of the income surplus from 2006–07 to the BAF. In normal circumstances, the Workers would have requested that the full amount be allocated for programme priorities but they fully recognized the urgent need to set the renovation process on course. Although reluctant to envisage a sale of any ILO land, the Workers recognized that the present situation was exceptional. All the implications of a possible sale of ILO land should be fully assessed in view of legal and other complexities. He regretted that a number of options discussed in the past had not been included in the document. He reiterated the idea expressed at previous sessions that an informal tripartite group should be created to provide guidance to the Office on a number of issues relating to the renovation project, including the voluntary public or private contributions or not-for-profit partnerships and contributions in kind mentioned in subparagraph 11(d) of the document. He noted that the document failed to mention past proposals relating to the role of Switzerland as the host country in obtaining an interest-free loan or other preferential conditions. The Workers asked member States to contribute to the project as they had made contributions for the United Nations headquarters building in New York. The involvement of the Staff Union in every aspect of planning and execution was crucial.

6. The representative of the Government of South Africa indicated support for the renovation of the building as part of a process contributing to a sound working environment but said that more clarity was needed on certain issues before informed decisions could be made. He asked the Office to specify if the environmentally friendly measures mentioned in paragraph 3 of the document were already included in the initial renovation plan. Additional information was needed on the specific amount that member States would forego if the PFAC agreed to recommend the transfer to the BAF of their share of the "net premium" earned for 2006–07. Furthermore, he asked the Office to confirm that the allocation of 50 per cent of the income surplus from the 2006–07 financial period would not weaken field programmes.

7. The representative of the Government of the United Kingdom, speaking on behalf of the 38 industrialized market economy countries (IMEC), welcomed the document but expressed regret that the Office had not arranged for inter-sessional consultations as requested by IMEC. The late publication date of the Office document meant that it had been available only three working days prior to the present meeting. That was unacceptable, all the more so in light of the important amounts involved. IMEC had not been able to reach an agreed position on all points in the paper since some of the Government representatives concerned were still in the process of seeking advice from their capitals. IMEC felt that the renovation of the headquarters building was the ILO's most important ongoing project, the largest risk facing the Organization. IMEC therefore supported amending the point for decision to transfer up to 100 per cent of the income surplus into the BAF. IMEC supported the sale of the leasehold at a later date but queried whether the estimated value was realistic. She asked whether the Office had investigated other options to finance the remaining shortfall, such as rental of office space. Consideration should be given to loans but more details were needed on lenders, interest rates, repayment terms, etc. IMEC supported the proposal to examine voluntary public–private partnerships and encouraged the Office to consult member States that had positive experience and expertise in the field. She requested additional information regarding the proposed project team, including contractual arrangements, the reason why the team needed to be internal ILO staff, a breakdown of the 6.1 million Swiss francs mentioned in paragraph 6 of the document, the terms of reference and time scales of the project team, estimates of all additional consultation costs and the non-staff costs. IMEC also wanted more information about the environmentally friendly measures, estimated at 21 million Swiss francs, and their impact on carbon emissions and contribution to a carbon-neutral building. She concluded by stating that IMEC was not in a position to agree the point for decision in paragraph 16 of the document but was ready to continue consultations on the matter.

8. The Treasurer and Financial Comptroller responded to questions on the value of the leasehold as compared to previous estimates. Independent assessments had reached different conclusions based on current and planned zoning of the land. The Office had indicated a median range from the expert estimates received. The sale of the leasehold was possible with the agreement of the owner. The sale of the other plots of land fully owned by the ILO had not been eliminated as a possible source of financing, although that option had not received strong support from the Building Subcommittee in the past. Other options, including assistance from the host country, were still being explored. Should the proposed transfers of resources and sale of leasehold land be approved, additional financing would not be required before 2012. With regard to the additional environmentally friendly measures, he pointed out that they were more advanced proposals than those contained in the original study. It was estimated that, with the energy efficiencies resulting from the additional measures, the initial investment would be paid back within ten years. He also provided a breakdown of the estimated cost of 6 million Swiss francs for the development of the master plan and the project management team. He advised that some elements of the estimate of 6.3 million Swiss francs provided in the earlier study communicated to the Subcommittee in November 2006 had been partially covered during the preparation of Phase I of the project.

9. The Treasurer provided an explanation to the Subcommittee on the calculation and distribution of the net premium and its relationship with the incentive scheme. He explained that 60 per cent of the interest earned on temporary surplus regular budget funds was transferred to the incentive scheme on an annual basis while the 50 per cent share of the net premium was only transferred biennially. The Office's proposal was to maintain the distribution of interest earned through the incentive scheme but to transfer the full amount of the net premium to the BAF. With respect to the net premium, 50 per cent was credited to all member States in accordance with the scale of assessments once the member State had paid in full its contributions for the biennium during which the net premium was earned. The 50 per cent of the net premium transferred to the incentive scheme would normally be credited to the member State in the second year of the following biennium.

10. The Executive Director of the Management and Administration Sector apologized for the late delivery to Subcommittee members of the document, on the basis of which key decisions were to be taken. The proposals put forward in the paper had been the subject, in one form or another, of past discussions and consultations in the Subcommittee. Phase I of the renovation works had been initiated and it was now crucial for the Office to proceed with the master plan and to be able to give authoritative and definitive responses to the questions being raised by members. The Office needed resources to proceed to the next stage. One of the lessons learned from the first phase – as well as through detailed presentations by the renovation project leaders at the United Nations and UNESCO – was that it was absolutely essential to have staff with construction and project management expertise who were accountable to the ILO and not to an independent or external entity. The Building Subcommittee would play an important role in the governance of the project but the day-to-day operations were the responsibility of the Office.

11. In light of the range of views expressed during the discussion, the Chairperson proposed that informal consultations be undertaken with a view to finding a consensus on the point for decision. Further to those consultations, consensus was reached on the following point for decision.

12. ***The Building Subcommittee proposes that the Programme, Financial and Administrative Committee recommend to the Governing Body that:***

(a) taking into account the range of views expressed by the members of the Building Subcommittee, it support, in principle, a balanced treatment of the net premium earned during the 70th financial period (2006–07) and of resources in the Special Programme Account arising from the income surplus from the same period, as may be recommended by the Programme, Financial and Administrative Committee on the basis of the relevant documents submitted to it, including the report of the Building Subcommittee;

(b) it approve the renunciation and sale of the leasehold on the parcel of land identified in the appendix [3] (parcel 3924) on terms to be negotiated by the Director-General;

(c) subject to the approval of the transfer of resources from the net premium earned and/or the Special Programme Account, the Director-General be authorized to charge expenditure of up to 6 million Swiss francs to the Building and Accommodation Fund to cover the costs of an expert team for the development of the master plan and the bidding and contract administration processes for Phase II.

Status report on ongoing renovation activities at the headquarters building

13. The Subcommittee had before it a paper [4] submitted for information on the status of the ongoing renovation activities.

[3] GB.301/PFA/BS/1.

[4] GB.301/PFA/BS/2/1.

14. The Employer Vice-Chairperson thanked the Office for the document and the work undertaken.

15. The Worker Vice-Chairperson expressed his thanks and hoped that the Office could complete the renovation of all the meeting rooms, including a friendly environment for the use of high-technology equipment. He expressed regret that the document submitted to them did not contain information on all the renovation work in the pipeline. Insufficient information had been presented on the lift for persons with disabilities and no mention had been made of the partial refurbishment of the kitchens and restaurants or of the two service lifts. He also commented on the cleaning arrangements for the headquarters building.

Geneva, 12 March 2008.

Point for decision: Paragraph 12.