



SECOND ITEM ON THE AGENDA

Proposals for future work at headquarters

Introduction

1. At the 301st Session (March 2008) of the Governing Body, the Office was requested to develop a master plan for the renovation of the ILO headquarters building, including a comprehensive financing plan. At the 303rd Session (November 2008) of the Governing Body, some preliminary options for the headquarters project were considered. Further options are developed below to allow the Governing Body to take a decision and provide further guidance regarding the way forward with the ILO headquarters project.

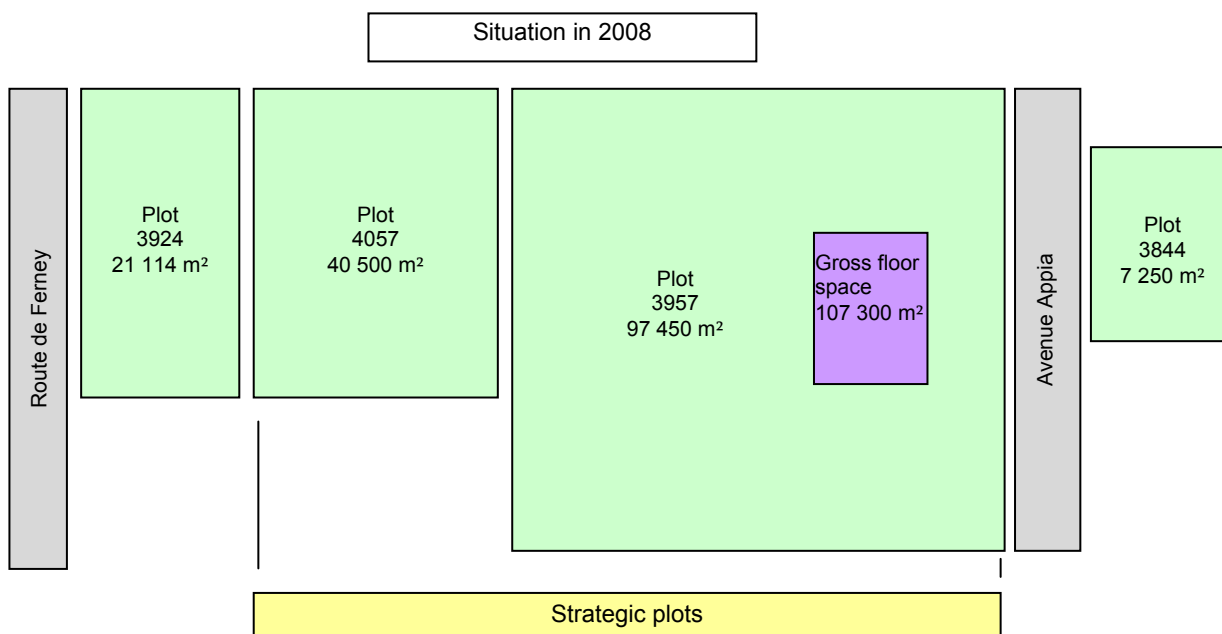
Work carried out by the ILO since March 2008

2. The ILO has proceeded to advertise for, screen and interview candidates for the position of manager of the ILO headquarters project.
3. The focus of the Office's efforts has been to explore adequate ways of financing the project. Members of the Governing Body have previously stated that no further work on the project should commence until a fully funded proposal has been approved. The ILO contracted an expert to carry out consultations and advise on the financial and technical feasibility of the options set out in the present document.
4. The ILO has held a series of meetings with the authorities of the State and City of Geneva, facilitated by the Permanent Mission of Switzerland to the United Nations in Geneva and the Building Foundation for International Organisations (FIPOI). The host Government has requested its Permanent Mission in Geneva to facilitate informal contacts between the ILO and the authorities of the State and City of Geneva in order to find common ground on the conditions under which the ILO land could be developed.
5. These discussions have enabled the Office to present a number of more detailed options and considerations to the Governing Body.

Strategic and non-strategic ILO-held land in Geneva

6. In Geneva, the ILO holds four plots of land, as presented schematically in figure 1 and in the appendix. The proposal developed here stems from the consideration that two ILO plots (referenced as plot 3844, of 7,250 m², and plot 3924, of 21,114 m², the latter held under leasehold until 2074) are not strategic in terms of the Organization's future interests and development. The development and/or sale of these two plots in one form or another would not jeopardize in any way the long-term interests of the Organization. More importantly, they represent an important potential resource which can contribute towards investment in the headquarters building project.

Figure 1. ILO-held plots



7. The two other plots of land held by the Organization (plot 4057, of 40,500 m², and plot 3957, of 97,450 m², on which the current headquarters building stands) are considered strategic for the current and future development of the Organization.
8. The proposal is to develop the two non-strategic plots (referenced as 3844 and 3924 above) in such a way as to obtain the highest possible return to the Organization in order to finance the headquarters building project. This requires further contacts with the Geneva authorities to understand and incorporate their concerns and local regulations, in order to enable the ILO to maximize the value of these two plots. Specifically, the following topics need to be clarified: zoning regulations regarding building density, use of the land (residential, office or commercial) and environmental regulations (preservation of trees and forest zones). Preliminary indications are that some arrangement could be found within the current regulations to enhance the development potential and therefore the value of the land, whilst at the same time ensuring that the requirements of the Swiss local and federal authorities are met.
9. At the same time, the ILO needs to secure the future development of its strategic land holdings. This would imply retaining plot 4057 as a future reserve. It also implies further consultations with the State and City of Geneva on the building regulations affecting plot 3957, in order to enable the Organization eventually to construct a new building on

this plot and/or extend its current headquarters building in accordance with its needs. Development of these plots could also support the financing of the headquarters project.

10. In March 2008, the Governing Body approved, in principle, the “renunciation and sale of the leasehold [on plot 3924] [...] on terms to be negotiated by the Director-General”.¹ The Office proposes that this authorization be extended to include plot 3844.

Host country regulations and international organizations

11. The Agreement between the Swiss Federal Council and the ILO concerning the legal status of this Organization in Switzerland, which entered into force on 27 May 1946, states that “[t]he Swiss Federal Council guarantees to the International Labour Organisation the independence and freedom of action belonging to it as an international institution”. It also sets out the extraterritoriality of the grounds and buildings of the ILO. Consequently, the ILO is not subject to Swiss law. However, as the ILO does not have its own regulations on some matters, it can decide to waive its immunity in order to allow agents from the host country to act in accordance with Swiss law in matters regarding the ILO’s property. The ILO may also agree, by contractual means, to limit its own freedom of action in order to meet the requirements of the host country. When it acquired the land for the current headquarters, through a contract concluded in 1967 between the ILO and FIPOI, the ILO simply agreed to respect, in the construction of its buildings, the prescribed standards for the safety of air traffic. Beyond that, the ILO agreed only to endeavour to take into account the wishes of the State of Geneva in terms of the architecture and layout of the buildings. The ILO consequently did not seek authorization for the construction of the headquarters building.
12. Nevertheless, it should be recalled that the ILO, whilst maintaining its position of principle, has always cooperated with the Swiss authorities, in particular with regard to the “Jardin des Nations” plan. This is why, if the host country’s considerations do not affect its independence and do not restrict its freedom of action, the ILO remains willing to take them into account and to continue cooperating with the Swiss authorities, in particular the Geneva authorities.

Three options

13. Three options are developed below concerning the ILO headquarters project. The following aspects are common to all three options:
 - (i) Development and possible transfer (in a manner to be defined) of plot 3844, generating a potential inflow of 25 million Swiss francs (CHF) in 2011.
 - (ii) Development and possible transfer (in a manner to be defined) of plot 3924 (leasehold), generating a potential inflow of CHF25 million in 2012.
 - (iii) Plot 4057: to be kept in reserve until a specific requirement is identified.
 - (iv) Plot 3957: potential building rights are available.

¹ GB.301/PFA/10.

- (v) Improved use of office space to reduce the total number of square metres required by the Office.
- (vi) A 50 per cent share in the conference facilities would be sold to third parties. Income from this sale would be used to renovate and/or expand the facilities and finance the renovation of the headquarters building. Although not factored into the financing plan, this could reduce reliance on the Palais des Nations for space for the International Labour Conference.

Option 1: Construction of a new permanent headquarters building of 40,000 m² (to the north of plot 3957 if possible)

14. The ILO would continue to partially own and use the conference facilities in the existing headquarters building. The existing headquarters building, except the conference facilities, would be sold. The new owner would lease the land it stands on. The ILO would rent space in the existing building during the construction of the new headquarters building.
15. Existing headquarters building: (value as is: CHF275 million, including land).
 - (i) Sale in 2010 of the current headquarters building, in principle on a leasehold basis, for CHF175 million (value of the building “as is”).
 - (ii) Rental costs to be met by the ILO from 2011 to 2013 inclusive: CHF15 million per year. Ground rent to be collected by the ILO from 2011: 4 per cent of the total land value of CHF100 million or CHF4 million per year.
 - (iii) Service and conference facilities: transfer, sale or other arrangements in order to establish joint ownership of 50 per cent of these facilities at their price as new, of CHF20 million. Ten million Swiss francs must be deducted for renovation/expansion, giving a net revenue of CHF10 million. The use of the facilities would be shared with the purchasers of the other 50 per cent.
 - (iv) Construction of a new building of 40,000 m² (not including conference areas) on plot 3957, at an estimated cost of CHF200 million; work beginning in 2012, finishing in December 2014.
 - (v) The Organization will move almost all its staff into the new building in January 2015.
 - (vi) The renovation works on the existing headquarters building, undertaken by the investor, will start in February 2015 and should be completed at the end of 2016.

Financial flow of option 1

Option 1: New headquarters (HQ) building	0	1	2	3	4	5	6	7	8
Year (31.12)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current headquarters building									
Sale of HQ building under leasehold, works undertaken by purchaser			175 000 000						
Ground rents/land value (CHF100 million)				4 000 000	4 000 000	4 000 000	4 000 000	4 000 000	4 000 000
Rent paid by the ILO				-15 000 000	-15 000 000	-15 000 000			
Conference facilities undivided 50% sale (value before works)			20 000 000						
Works (up to 50% retained)				-10 000 000					
Sale of building rights 3957 (HQ)	-200 000 000	-500 000	-500 000	-50 000 000	-99 000 000	-50 000 000			
Construction of new HQ									
Building rights 3844				25 000 000					
Sale to third party									
Building rights 3924 (leasehold)					25 000 000				
Sale to third party or the State									
Building rights 4057 (for reference)									
Projected cash flow	0	-500 000	194 500 000	-46 000 000	-85 000 000	-61 000 000	4 000 000	4 000 000	4 000 000
Accumulated cash flow		-500 000	194 000 000	148 000 000	63 000 000	2 000 000	6 000 000	10 000	

Option 2: Renovation of the current headquarters building with partial temporary relocation to a rented building

16. The technical review has concluded that it would be possible to significantly reduce the duration of the renovation work through the use of “swing space”. This would reduce the total cost (now estimated at CHF160 million) and the inconvenience to the Office and constituents.
- (i) The Organization moves, partially and temporarily, at the end of 2009 or in early 2010. The renovation works take three years (2010 to 2012 inclusive), and cost an estimated CHF160 million.
 - (ii) A lift shaft needed to carry out the renovation is allocated exclusively for the renovation work. This does not interfere with the Organization’s regular activities.
 - (iii) The Organization temporarily concentrates half of its facilities and staff in the existing building in 40–45 per cent of the building (20,000 m²), in order to free one wing and the central zone.
 - (iv) Half of the Organization’s Geneva-based staff (650 people) are transferred for 18 months to a “swing space” rented in the city of Geneva (approximately 15,000 m²).
 - (v) At the end of the first 18 months of the works, 1,000 staff members are assigned to the renovated wing, and no more than 500 staff (requiring less than 10,000 m²) remain in the “swing space” building for the final 18 months of the project.
 - (vi) The works are completed at the end of 2012 and the Organization can move in during January 2013.
 - (vii) After the renovations, a maximum of three floors of the headquarters building can be rented out to third parties, generating up to CHF75 million (which would become available during the renovation project, if necessary).

Financial flow of option 2

Option 2: Conservation/renovation of current HQ building	0	1	2	3	4	5	6	7	8
Year (31.12)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current headquarters building									
Renovation of current headquarters building	-160 000 000	-500 000	-50 000 000	-59 500 000	-50 000 000				
Leasing of two empty floors (CHF5.4 million per year), self-finance loan						for info. only	for info. only	for info. only	for info. only
Self-financed loan				25 000 000	25 000 000	25 000 000			
"Swing space", rental of "swing space" 1 - 10,000 m ² , 3 years			-4 500 000	-4 500 000	-4 500 000				
Rental of "swing space" 2 - 5,000 m ² , 18 months			-2 250 000	-1 125 000					
Conference facilities, undivided 50% sale (value before works)			20 000 000						
Works (up to 50% retained)				-10 000 000					
Sale of building rights 3957 (HQ) (for reference, not used)									
Building rights 3844 Sale to third party				25 000 000					
Building rights 3924 (leasehold) Sale to third party or the State					25 000 000				
Building rights 4057 (for reference)									
Projected cash flow		-500 000	-36 750 000	-25 125 000	-4 500 000	25 000 000	0	0	0
Accumulated cash flow		-500 000	-37 250 000	-62 375 000					

Option 3: Renovation of the current headquarters building with partial temporary relocation to a building to be constructed on ILO land (plot 3957)

17. Owing to the construction time for a new office building, the renovation of the headquarters building would be completed in 2015.
- (i) The renovation work takes three years (2013 to 2015 inclusive), and costs an estimated CHF160 million (taking into account current estimates of cost increases).
 - (ii) A lift shaft needed to carry out the renovation is allocated exclusively to the renovation work. This does not interfere with the Organization's regular activities.
 - (iii) The Organization temporarily concentrates half its facilities and staff in 40–45 per cent of the building (20,000 m²), in order to free one wing and the central zone.
 - (iv) Half of the Organization's Geneva-based staff (650 people) are transferred for 18 months to a "swing space" built on the site (approximately 15,000 m²).
 - (v) At the end of the first 18 months of the work, 1,000 staff members are assigned to the renovated wing, and no more than 500 staff (requiring less than 10,000 m²) remain in the "swing space" building for the final 18 months of the project.
 - (vi) After the renovations, three floors of the headquarters building can be rented out to third parties, generating up to CHF75 million (which would become available during the renovation project, if necessary).
18. Option 3 is similar to option 2. However, the "swing space" building of approximately 15,000 m², which can accommodate approximately 500 to 650 people, is not rented but built by the ILO in a public–private partnership (PPP) for its own use² on plot 3957. When the renovation works are completed and the Organization's staff return to the headquarters building, the building will be gradually rented to third parties or used by part of the Organization.
19. The estimated cost of this building is less than CHF75 million, made available through a PPP (not through ILO investment). It is assumed that the PPP will generate a net rental income of approximately CHF1 million per year for the Organization. The Organization will move, partially and temporarily, at the end of 2013 or in early 2014. The renovation work will be completed at the end of 2015, and the Organization will finish moving in to the renovated headquarters building in January 2016, which is when it will vacate the new building entirely.

² The legal terms remain to be clarified in due course. Here we have assumed that the ILO will transfer the land under leasehold of 30 or 50 years, and that the building will be constructed in a PPP. The (free) rent during the occupation by the ILO itself is included in the contract for the 18 and 36 months respectively.

Financial flow of option 3

Option 3: Conservation/renovation of current HQ building with “swing space” building involving PPP on 3957	0	1	2	3	4	5	6	7	8
Year (31.12)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current headquarters building									
Renovation of current headquarters building	-160 000 000	-500 000			-500 000	-50 000 000	-59 000 000	-50 000 000	
Leasing of two empty floors (CHF5.4 million per year), for information only, self-finance loan							for info. only	for info. only	for info. only
Self-financed loan						25 000 000	25 000 000	25 000 000	
“Swing space”, partial transfer of leasehold of 3957 for “swing space” construction, ground rent									1 000 000
Rental of “swing space” 1 - 10,000 m², 3 years				0	0	0			
Rental of “swing space” 1a - 5,000 m², 18 months				0	0				
Conference facilities, undivided 50% sale (value before works)			20 000 000						
Works (up to 50% retained)					-10 000 000				
Sale of building rights 3957 (HQ) transferred (leasehold-PPP) and used									
Building rights 3844 Sale to third party			25 000 000						
Building rights 3924 (leasehold) sale to third party or the State					25 000 00				

Financial flow of option 3

	0	1	2	3	4	5	6	7	8
Option 3:									
Conservation/renovation of									
current HQ building with “swing									
space” building in PPP on 3957									
Year (31.12)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Building rights 4057									
For information only									
Projected cash flow	0	-500 000	0	45 000 000	14 500 000	-25 000 000	-34 000 000	-25 000 000	1 000 000
Accumulated cash flow		-500 000	-500 000	44 500 000	59 000 000	34 000 000	0	-25 000 000	-24 000 000
Accumulated cash flow + CHF60 million funding		59 500 000	59 500 000	104 500 000	119 000 000	94 000 000	60 000 000	35 000 000	36 000 000

Advantages and disadvantages of each of the three options

	Advantages	Disadvantages
Option 1 Construction of a new ILO headquarters building on ILO-held land	Better cost control, building meets latest environmental and energy consumption standards, modern premises, lower maintenance costs, only one move for ILO staff. The ILO continues to use the common premises, including the conference facilities in the current headquarters building.	There is a financial risk in the sale value of the current ILO building owing to the difficulty of assessing future demand in Geneva for approximately 50,000 m ² of office space upon vacation of the offices by the ILO. The ILO uses two buildings. A new building would inevitably be smaller and less prestigious.
Option 2 Renovation of the current headquarters building	The structural soundness of the ILO headquarters building makes a renovation feasible. A reduced duration of works (three years instead of six) would lower the total cost. Surplus office space in a renovated building could generate additional income for the Office that could contribute to the renovation.	The cost estimate for the renovation of a building is, by its nature, less precise, even though the overall financial risk is lower. In order to reduce the duration of the renovation works there would be a need to rent office space in the city of Geneva, combined with a temporary reconfiguration of floor space to accommodate movements of staff within the building. This would imply more than one move, which will have cost implications apart from the disruption to the operational work of the Office. The environmental and energy efficiency standards of a renovated building would be less than those of a new building, although significantly better than at present.
Option 3 Combining construction and renovation	A new building of a reduced size (15,000 m ²) would provide needed "swing space" during the renovation works. After the renovation, the new building would be rented out by the promoter and the ILO would receive an annual lease payment to finance the Building and Accommodation Fund or existing loan repayments. Alternatively, the building would be used by the ILO to offset space rented out in the current building. A new building could include conference facilities which could be used by the ILO and by other, nearby organizations. Additional conference space could expand options for the ILO during the annual conference (especially the committee week) and reduce reliance on rented space at the Palais des Nations.	Inevitably, there is a delay in constructing a new building. This is estimated, as a minimum, at around 36 months before it can be used as a "swing space" for the renovation of the current building. As in option 2, moving of offices and staff implies costs.

Financial flows and risks

20. A first observation is that under all three options, the net financial flows remain positive, except for a two-year period under option 2. All three options are financially viable for the Organization on the basis of current assumptions and within the guidelines provided by the Governing Body.

21. It is recalled that the Governing Body and the Conference have approved the allocation of some CHF60 million to the Building and Accommodation Fund, a sum generated by the ILO's net premium and the surplus from the 2006–07 financial period.
22. The three options bear different degrees and categories of risks. All three options assume that the use of non-strategic plots of land can be negotiated on terms favourable to the ILO. Options 2 and 3 assume that office space can be rearranged in order to free up space that could be rented out following the renovation. Option 1 also assumes more efficient use of floor space.
23. Option 1 presents a financial risk in terms of the conditions under which the office space of the current building can be sold, as it depends on market conditions and the demand for office space in Geneva at the time of sale.
24. Option 2 assumes that the work can be carried out over three years with the renting of additional "swing space" during that period.
25. Option 3 assumes that a new construction can be built within 36 months, that a promoter will be identified to undertake this development, and that renovation works can be carried out within the following three years.
26. *The Subcommittee may wish to propose to the Programme, Financial and Administrative Committee that it recommend to the Governing Body that it:*
 - (a) *approve the sale of the plot of land referenced as 3844 in the appendix, on terms to be negotiated by the Director-General; and*
 - (b) *express its view on the preferred option (including any amended combination of options) and request the Director-General to develop a complete master plan accordingly.*

Geneva, 24 February 2009.

Point for decision: Paragraph 26.

